





**Your life's blood is our life's work**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors (the “Directors”) of Golden Meditech Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- This is the fourth consecutive year the Group reported satisfactory growth in turnover and earnings.
  - Total turnover for the three months ended 30 June 2005 increased to HK\$60,895,000, representing an increase of 8% as compared with the corresponding period last year.
  - Profit attributable to equity holders of the Company for the three months ended 30 June 2005 was HK\$37,218,000, representing an increase of 14% as compared with the same period last year.
  - Basic earnings per share were HK2.94 cents for the three months ended 30 June 2005.
- The shares of China Medical Technologies, Inc., our tumour treatment associate, were listed on the Nasdaq National Market of the U.S. on 10 August 2005 (U.S. time). As a result, the Group's indirect interest in China Medical Technologies, Inc. has been diluted from 25% to 18.9%. However, the Group expects to recognise approximately HK\$100,000,000 exceptional gain in the interim report as a result from the deemed disposal.
- The Directors do not recommend an interim dividend for the three months ended 30 June 2005.

## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 June 2005 together with the comparative unaudited figures for the corresponding period in 2004 as follows:

### CONSOLIDATED INCOME STATEMENT

		<b>Unaudited</b>	
		<b>For the three months</b>	
		<b>ended 30 June</b>	
	<i>Note</i>	<b>2005</b>	2004
		<b>HK\$'000</b>	<i>HK\$'000</i>
			<i>(Restated)</i>
Turnover	2	<b>60,895</b>	56,464
Cost of sales		<b>(17,291)</b>	(15,525)
Gross profit		<b>43,604</b>	40,939
Other revenue	4	<b>3,997</b>	3,956
Selling expenses		<b>(2,702)</b>	(2,256)
Administrative expenses		<b>(9,645)</b>	(9,604)
Profit from operations		<b>35,254</b>	33,035
Finance costs		<b>(3,098)</b>	(698)
Share of profits of associates		<b>8,534</b>	3,453
Profit before taxation		<b>40,690</b>	35,790
Taxation	5	<b>(3,795)</b>	(2,742)
Profit for the period		<b>36,895</b>	33,048
Attributable to:			
Equity holders of the Company		<b>37,218</b>	32,604
Minority interests		<b>(323)</b>	444
		<b>36,895</b>	33,048
Earnings per share			
- Basic	7	<b>2.94 cents</b>	2.74 cents*
- Diluted	7	<b>2.86 cents</b>	2.71 cents*

\* As adjusted for the bonus issue of shares on the basis of 10 new shares for every 10 existing shares (the "Bonus Issue") approved by the shareholders of the Company at the annual general meeting held on 23 September 2004.

The notes on pages 4 to 11 form part of this first quarterly report.

# NOTES TO THE FIRST QUARTERLY REPORT

## 1. Basis of preparation

The unaudited consolidated results of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited consolidated results have been prepared under historical cost convention. All intra-group transactions and balances have been eliminated in preparing these results. The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those adopted in the preparation of the annual financial consolidated statements of the Group for the year ended 31 March 2005, except for those mentioned below.

In the three months ended 30 June 2005, the Group has adopted, for the first time, a number of new and revised HKFRSs and HKASs (herein collectively referred to as the “new HKFRSs”) which are effective for the accounting periods beginning on or after 1 January 2005.

The major effects of the new HKFRSs, which have had a material impact on the unaudited consolidated results, are set out below:

The adoption of HKFRS 2 “Share-Based Payment” requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The main impact of HKFRS 2 on the unaudited consolidated results is the expensing of directors’ and employees’ share options by using an option-pricing model. Prior to this, the provision of share options to directors and employees did not result in a charge to the income statement. The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested as at 1 January 2005.

## 1. **Basis of preparation** *(continued)*

The adoption of HKFRS 3 “Business Combination” and HKAS 36 “Impairment of Assets” has resulted in ceasing goodwill amortisation and testing for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 April 2005. The transitional provisions of HKFRS 3 require the Group to eliminate the carrying amount of accumulated amortisation with a corresponding decrease in goodwill.

The adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. The principal impact of HKAS 32 on the Group relates to the convertible bonds issued by the Company that contain both liability and equity components.

Both HKFRS 2 and HKAS 32 require retrospective application. Based on the Group’s latest assessment, the effect of adopting HKFRS 2 and HKAS 32 have decreased consolidated retained profits as at 1 April 2005 by HK\$4,820,000. In addition, the profit for the three months ended 30 June 2005 was decreased by HK\$2,001,000 (2004: HK\$194,000).

Due to the adoption of new HKFRSs during the period under review, the accounting treatment and presentation of certain items and balances in the unaudited consolidated results of the Group have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative figures have been reclassified/restated to conform with the current period’s presentation.

## 2. Turnover

The Group is principally engaged in the manufacture and sale of autologous blood recovery machines ("ABRS Machines"), Portable ABRS Machines and disposable blood processing chambers and related accessories ("Disposable Chambers"), provision of storage and accessory services for haematopoietic stem cells, or blood stem cells, extracted from the umbilical cords of newborn babies ("Cord Blood Bank"), and research and development, manufacture and sale of proprietary Chinese medicines.

Turnover represents the amounts received and receivable for goods sold and services rendered to customers, less returns, allowances, value added tax, business tax and other sales tax.

Turnover recognised during the period may be analysed as follows:

	<b>Unaudited</b>	
	<b>For the three months</b>	
	<b>ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Sales of ABRS Machines and Portable ABRS Machines	<b>44,817</b>	45,276
Sales of Disposable Chambers	<b>10,259</b>	7,661
Cord Blood Bank services	<b>5,815</b>	3,527
Others	<b>4</b>	—
	<hr/>	<hr/>
	<b>60,895</b>	56,464
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### 3. Segment information

(i) *Primary reporting format - business segments*

The Group comprises the following main business segments:

Medical Device Segment - the development, manufacture and sale of medical devices;

Cord Blood Bank Segment - the provision of blood stem cell storage facilities and accessory services; and

Chinese Herbal Medicine Segment - the research and development, manufacture and sale of proprietary Chinese medicines.

The following tables present turnover, expenditure and profit from operations information for the Group's business segments.

	Unaudited			
	For the three months ended			
	30 June 2005			
	HK\$'000			
	Medical Device Segment	Cord Blood Bank Segment	Chinese Herbal Medicine Segment	Consolidated
Turnover	<u>55,076</u>	<u>5,815</u>	<u>4</u>	<u>60,895</u>
Segment results	<u>41,180</u>	<u>1,893</u>	<u>(2,396)</u>	<u>40,677</u>
Unallocated costs				<u>(5,423)</u>
Profit from operations				<u>35,254</u>
Finance costs				<u>(3,098)</u>
Share of profits of associates				<u>8,534</u>
Profit before taxation				<u>40,690</u>
Taxation				<u>(3,795)</u>
Profit for the period				<u>36,895</u>
Attributable to:				
Equity holders of the Company				<u>37,218</u>
Minority interests				<u>(323)</u>
				<u>36,895</u>

### 3. Segment information (continued)

(i) Primary reporting format - business segments (continued)

	Unaudited			
	For the three months ended			
	30 June 2004			
	(Restated)			
	HK\$'000			
	Medical Device Segment	Cord Blood Bank Segment	Chinese Herbal Medicine Segment	Consolidated
Turnover	52,937	3,527	—	56,464
Segment results	36,470	1,308	—	37,778
Unallocated costs				(4,743)
Profit from operations				33,035
Finance costs				(698)
Share of profits of associate				3,453
Profit before taxation				35,790
Taxation				(2,742)
Profit for the period				33,048
Attributable to:				
Equity holders of the Company				32,604
Minority interests				444
				33,048

(ii) Secondary reporting format - geographical segments

In view of the fact that the Group operates mainly in the People's Republic of China (the "PRC"), no geographical segment information is presented.

#### 4. Other revenue

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Interest income	271	228
VAT refund ( <i>Note</i> )	3,726	3,728
	<hr/>	<hr/>
	<b>3,997</b>	3,956
	<hr/> <hr/>	<hr/> <hr/>

*Note:*

Pursuant to the relevant PRC government policies and approval document from the local government authorities dated 1 July 2002, one of the Group's PRC subsidiaries is entitled to a VAT refund which is calculated at approximately 14% of sales of software products embedded in the ABRs Machines and Portable ABRs Machines for a period expiring in December 2006.

#### 5. Taxation

Taxation charged to the consolidated income statement represents:

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
<b>Current tax - Outside Hong Kong</b>		
PRC income tax for the period	2,540	2,501
Share of associate's taxation	1,255	241
	<hr/>	<hr/>
	<b>3,795</b>	2,742
	<hr/> <hr/>	<hr/> <hr/>

## 5. Taxation (continued)

### (i) PRC income tax

The Group's subsidiaries in the PRC are subject to PRC income tax, at 33% or a reduced rate of 15%.

In accordance with the relevant tax rules and regulations in the PRC, one of the subsidiaries is fully exempted from PRC income tax until 31 December 2005. Thereafter, this subsidiary will be entitled to a 50% reduction of PRC income tax for the next three years until 31 December 2008.

Another subsidiary of the Group is entitled to a 50% reduction of PRC income tax until 31 December 2006 after full exemption from PRC income tax until 31 December 2003.

### (ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax was made for the three months ended 30 June 2005 (2004: Nil) as the Group did not have any profits assessable to Hong Kong Profits Tax during the period.

## 6. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2005 (2004: Nil).

## 7. Earnings per share

### (i) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2005 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$37,218,000 (2004: HK\$32,604,000 (restated)) divided by the weighted average number of 1,264,124,909 (2004: 1,188,318,462\*) shares in issue during the period.

### (ii) Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 30 June 2005 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$38,106,000 (2004: HK\$32,604,000 (restated)) as adjusted for the interest on convertible bonds of HK\$888,000 (2004: Nil) divided by the weighted average number of 1,332,977,675 (2004: 1,203,976,240\*) shares in issue during the period after adjusting for the effect of all dilutive potential shares.

\* Adjusted for the effect of the Bonus Issue.

## 8. Reserves

	Unaudited						Total HK\$'000
	Share premium	Merger reserve	Exchange reserve	Surplus reserve	Capital reserve	Retained profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 April 2005 as previously reported	433,469	54,193	(1,287)	29,487	—	307,035	822,897
Effect of changes in accounting policies ( <i>note 1</i> )	2,797	—	—	—	7,801	(4,820)	5,778
As restated	436,266	54,193	(1,287)	29,487	7,801	302,215	828,675
Exchange differences	—	—	151	—	—	—	151
Share option benefits	—	—	—	—	1,423	—	1,423
Profit for the period	—	—	—	—	—	37,218	37,218
As at 30 June 2005	<u>436,266</u>	<u>54,193</u>	<u>(1,136)</u>	<u>29,487</u>	<u>9,224</u>	<u>339,433</u>	<u>867,467</u>
As at 1 April 2004 as previously reported	376,406	54,193	727	17,322	—	199,925	648,573
Effect of changes in accounting policies ( <i>note 1</i> )	777	—	—	—	1,496	(2,273)	—
As restated	377,183	54,193	727	17,322	1,496	197,652	648,573
Issuance of shares	8,321	—	—	—	(777)	—	7,544
Share option benefits	—	—	—	—	194	—	194
Profit for the period	—	—	—	—	—	32,604	32,604
As at 30 June 2004	<u>385,504</u>	<u>54,193</u>	<u>727</u>	<u>17,322</u>	<u>913</u>	<u>230,256</u>	<u>688,915</u>

## 9. Subsequent event

The shares of China Medical Technologies, Inc. ("CMED"), one of the Group's associates, were listed on the National Market of National Automated Systems Dealership and Quotation ("Nasdaq"), United States of America ("U.S.") by the issuance of new shares (the "Initial Public Offering" or "IPO") on 10 August 2005 (U.S. time). As a result of the Initial Public Offering, the Group's interest in CMED has been diluted from 25% to 18.9% (assuming no exercise of over-allotment option). However, based on the IPO price of CMED, the Group expects to recognise approximately HK\$100,000,000 exceptional gain in the interim report for the six months ending 30 September 2005 as a result from the deemed disposal.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Overview

This is the fourth consecutive year the Group reported satisfactory growth in turnover and earnings. The increases mainly came from the organic growth of our existing operations as contribution from the Group's recent expansion programme has not yet reflected in this reporting period.

We believe the commencement of new developments in the forthcoming quarters will enable our shareholders to see the fruits of the management's previous hardwork.

Set out below are the financial highlights of the Group's operations for the period under review:

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	Change %
<b>Turnover</b>			
Medical Device	<b>55,076</b>	52,937	4%
Cord Blood Bank	<b>5,815</b>	3,527	65%
Others	<b>4</b>	—	N/A
	<b>60,895</b>	56,464	8%
<b>Profit/(Loss) Contributions</b>			
Medical Device	<b>41,180</b>	36,470	13%
Cord Blood Bank	<b>1,893</b>	1,308	45%
Tumour Treatment	<b>8,366</b>	3,453	142%
Medical Device Distribution	<b>168</b>	—	N/A
Chinese Herbal Medicine	<b>(2,396)</b>	—	N/A
	<b>49,211</b>	41,231	19%
Less: Unallocated costs	<b>(5,423)</b>	(4,743)	14%
Finance costs	<b>(3,098)</b>	(698)	344%
Profit before taxation	<b>40,690</b>	35,790	14%
<b>Key Operating Data:</b>			
<b>Medical Device</b>			
ABRS Machines and Portable			
ABRS Machines (Units)	<b>470</b>	410	15%
Disposable Chambers (Sets)	<b>23,000</b>	17,000	35%
<b>Cord Blood Bank</b>			
New customer sign-ups (Units)	<b>1,150</b>	690	67%

## **Turnover**

For the three months ended 30 June 2005, the Group recorded a turnover of HK\$60,895,000, representing an increase of approximately 8% as compared with that for the same period last year. The Medical Device Segment accounted for 90% of total turnover, and the rest was mainly service income derived from the Cord Blood Bank Segment. Both segments have reported satisfactory growth in turnover for the period under review.

## **Gross profit margin**

The Group's gross profit margin for the this quarter remained at around 72%. The gross profit margins for both of the Medical Device Segment and the Cord Blood Bank Segment remained fairly stable for the period under review.

## **Selling and administrative expenses**

Selling and administrative expenses for this quarter were HK\$12,347,000. Share option cost of HK\$1,423,000 was included as a result of adopting the new accounting policies. However, as the Group has always been prudent in controlling costs and expenditures, selling and administrative expenses for this quarter only increased slightly by HK\$487,000, as compared to the same period last year.

## **Profit attributable to equity holders of the Company**

The Group's overall performance under review was in line with the management's anticipation despite the adverse effect of new accounting policies adopted since 1 April 2005. The Group recorded profit attributable to equity holders of the Company of HK\$37,218,000 for the three months ended 30 June 2005, representing an increase of approximately 14% over the corresponding period in 2004.

Based on the historical accounting policies, profit attributable to equity holders of the Company for the period under review was HK\$39,219,000, representing approximately 20% over the corresponding period in 2004.

Contributions of HK\$8,534,000 from both CMED and Union China Medical Equipment Company Limited, our newly established Medical Device Distribution Division, were included in profit attributable to equity holders of the Company for the quarter.

## **BUSINESS REVIEW**

The Group has seen stellar growth in recent years as a result of pursuing stable diversification as well as actively developing its existing businesses. The Group continued to generate satisfactory and sustainable returns for shareholders during the first quarter, with the benefits of diversification becoming evident. The new businesses are all on track and dominate their own markets, and investors can expect them to make significant profit contributions in the near future.

### **The Medical Device Segment**

Our Medical Device Segment maintains its leading position in the industry in China. Our flagship product, the Autologous Blood Recovery System (“ABRS”), remains a best-seller and we have fully optimised our first-mover advantage to expand our market coverage in China.

The turnover of the Medical Device Segment for the first quarter increased by 4% to HK\$55,076,000 compared to last year. As an immediate result of new sales strategies and effective cost control, operating result from this segment also increased satisfactorily to HK\$41,180,000, representing an increase of 13% compared to last year.

The Group sold approximately 470 units of the ABRS Machine and the Portable ABRS Machine during the quarter. Sales of Disposable Chambers increased by 35% compared to the same period in the previous year, to approximately 23,000 sets, demonstrating the increasing usage rate of the ABRS.

The Group will continue with its strategy of ensuring the ABRS Machines are widely used in all medium- to large-scale hospitals, as this is also the key to increasing sales of the Disposable Chambers. In the long run, this approach will produce significant, sustainable returns for the Group and our shareholders.

## **The Cord Blood Bank Segment**

The Cord Blood Bank Segment commenced operations less than two years ago, yet its growth has already outstripped that of its rival. This business provides separation, processing, examination and storage services for the umbilical cord blood stem cells of newborn babies.

During the first quarter, turnover increased significantly by 65% compared to that of the previous year, amounting to HK\$5,815,000. New customer sign-ups grew substantially from approximately 690 units in the first quarter last year to approximately 1,150 units this quarter, representing a growth rate of 67 % – an outstanding performance.

Worldwide medical breakthroughs in stem cell research are widely reported in China's media, strengthening public acceptance of and confidence in blood stem cell storage.

The Beijing cord blood bank alone already brings in impressive returns for the Group. The management is confident that, when all 11 planned banks are fully operational, Golden Meditech's pre-eminent position in the industry in China will be unassailable, and that this segment's contribution to the Group's earnings and cashflow will rocket.

## **The Chinese Herbal Medicine Segment**

The Chinese government is committed to fighting AIDS and containing the epidemic. Deputy Health Minister Wang Longde announced in June 2005 that the government was planning to spend RMB3,860,000,000 on a series of measures for preventing and treating AIDS from 2005 to 2007.

The Group's proprietary Chinese medicine, TangHerb®, is clinically proven to be effective in boosting the immune systems of AIDS sufferers. It lessens the pain and discomfort they experience, making it easier for them to resume normal activity and make their own living, thereby helping to reduce the financial burden on society and the government.

The Group has recently been issued key production certificates by China's State Food and Drug Administration ("SFDA") for the manufacture of TangHerb® in China and the management anticipates that sales of TangHerb® will begin in the second quarter.

## **The Tumour Treatment Division**

The performance of the Tumour Treatment Division remains outstanding. It produced a pre-tax profit of HK\$8,366,000 for the Group for the quarter.

This business is operated by our associate, China Medical Technologies, Inc. ("CMED"), which is the holding company of Beijing Yuande Bio-Medical Engineering Company Limited. On 15 July 2005 (U.S. time), CMED filed a registration statement with the Securities and Exchange Commission of the U.S. for a proposed IPO of its American Depositary Shares ("ADSs") and the listing of these ADSs on the NASDAQ National Market under the symbol "CMED." UBS AG acted as the sole bookrunner and the IPO was successfully completed on 10 August 2005 (U.S. time).

CMED offered 6,400,000 ADSs (each representing 10 ordinary CMED shares) priced at US\$15 per ADS. The proceed raised will be used for expanding and developing the existing businesses.

Following the IPO, the Group's CMED interest has been diluted to 18.9%. However, based on the IPO price of CMED, the Group expects to recognise approximately HK\$100,000,000 exceptional gain in the interim report as a result from the deemed disposal.

CMED has not only generated outstanding returns that have surpassed expectations, but also realised strong synergy effects with the core businesses of the Group. For example, its clinical database containing records of over 10,000 tumour treatment cases has provided valuable scientific data that has helped the Group in broadening the applications of existing products and developing new ones.

## **The Medical Device Distribution Division**

Union China National Medical Equipment Company Limited — a joint venture formed by the Group and the China National Medical Equipment Industry Corporation, China's largest distributor of medical devices — commenced operation in January 2005, and became the first Sino-foreign joint venture in the medical device distribution industry in China.

Although the Medical Device Distribution Division has not been in operation for long, it has already contributed profits of HK\$168,000. More importantly, it provides a sales network and a solid foundation for the Group's future expansion. It not only secures the Group's leading position in the medical device industry, but also poses a huge entry barrier to potential competitors.

## **PROSPECTS**

Given the potential for expansion of the Cord Blood Bank business, and the promising start of the Chinese Herbal Medicine and the Medical Device Distribution businesses have made, the Group anticipates these businesses will account for a larger share of the turnover and generate increasing profits in the near future.

The Group will continue to expand prudently and selectively, exploring hi-tech companies with significant growth potential, high entry barriers and the ability to create synergy effects with the Group's existing businesses. Our investment in CMED is one of the best illustrations of how successful this strategy can be.

Although all of the Group's businesses dominate their own market, their potential value is not yet fully evident. The management believes that one of the best ways to demonstrate the intrinsic value of our subsidiaries and associates is for them go public independently. We will therefore continue to work hard to secure the pre-eminent position in each of our business areas, as we move towards our goal of becoming a leading global integrated medical group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2005, the interests and short positions of the directors and chief executives of the Company in the shares and, in respect of equity derivatives, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Name of directors	Capacity and nature of interests	Number of ordinary shares of HK\$0.1 each				Number of underlying shares held under equity derivatives	Total interests (Long position)	Approximate percentage of the Company's issued share capital
		Personal interests	Family interests	Corporate interests				
Mr. KAM Yuen <sup>(1)</sup>	Interest of controlled corporation	—	—	433,916,000	63,206,245 <sup>(2)</sup>	497,122,245	39.33	
Mr. LU Tian Long	Beneficial owner	—	—	—	3,600,000 <sup>(2)</sup>	3,600,000	0.28	
Ms. ZHENG Ting	Beneficial owner	—	—	—	3,600,000 <sup>(2)</sup>	3,600,000	0.28	

### Notes:

- (1) Mr. KAM Yuen is the sole beneficial shareholder of the issued share capital of Bio Garden Inc. ("Bio Garden"), a company incorporated in the British Virgin Islands ("BVI") which owned 433,916,000 shares of the Company as at 30 June 2005.
- (2) These interests represent the directors' beneficial interests in the underlying shares in respect of share options granted by the Company to the directors as beneficial owners, details of which are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, as at 30 June 2005, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEMES

1. Principal terms of the share option schemes of the Company are set out in note 31 to the financial statements as included in the annual report of the Company for the year ended 31 March 2005.
2. A summary of movements of share options under the share option schemes of the Company for the three months ended 30 June 2005 is as follows:

Name of Directors and employees	Date of grant	Number of underlying shares in respect of which share options were outstanding as at	Number of underlying shares in respect of which share options were outstanding as at	Exercise price HK\$
		1 April 2005	30 June 2005	
Mr. KAM Yuen	30 March 2005 <sup>(2)</sup>	63,206,245	63,206,245	1.76
Mr. LU Tian Long	31 March 2003 <sup>(3)</sup>	3,200,000	3,200,000	0.575 <sup>(1)</sup>
	4 March 2005 <sup>(4)</sup>	400,000	400,000	1.60
Ms. ZHENG Ting	31 March 2003 <sup>(3)</sup>	1,600,000	1,600,000	0.575 <sup>(1)</sup>
	4 March 2005 <sup>(4)</sup>	2,000,000	2,000,000	1.60
Full-time employees (other than directors)	31 March 2003 <sup>(3)</sup>	1,080,000	1,080,000	0.575 <sup>(1)</sup>
	4 March 2005 <sup>(4)</sup>	11,970,000	11,970,000	1.60
		83,456,245	83,456,245	

*Notes:*

- (1) The exercise price has been adjusted from HK\$1.15 per share to HK\$0.575 per share due to the Bonus Issue.
- (2) The share options are exercisable as to:
  - (i) up to 20% after 6 months from 30 March 2005;
  - (ii) up to 60% after 18 months from 30 March 2005;
  - (iii) up to 100% after 30 months from 30 March 2005; and
  - (iv) the share options will expire at the close of business on 3 March 2015.
- (3) The share options are exercisable as to:
  - (i) up to 30% immediately after the date of grant;
  - (ii) up to 60% immediately after 12 months from the date of grant;
  - (iii) up to 100% immediately after 18 months from the date of grant; and
  - (iv) the share options will expire at the close of business on 16 March 2013.
- (4) The share options are exercisable in full immediately 3 months after the date of grant and will expire at the close of business on 28 February 2015.
- (5) No share options granted under the share option schemes adopted by the Company on 30 July 2002 and 30 March 2005 respectively were exercised, cancelled or lapsed during the period ended 30 June 2005.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Apart from the share option schemes described above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or in respect of equity derivatives, underlying shares in, or debentures of, the Company or any other body corporate and no directors or chief executives or their respective spouses or their children under the eighteen years of age, had been granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right during the period under review.

## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2005, the interests of the shareholders (not being directors or chief executives of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO are as follows:

### (i) Substantial shareholder (long position)

Name	Capacity and nature of interest	Number of issued shares	Approximate percentage of the Company's issued share capital
Bio Garden ( <i>Note</i> )	Beneficial owner	433,916,000	34.33

*Note:* Bio Garden is an investment holding company incorporated in the BVI. Mr. KAM Yuen was the sole beneficial shareholder of the entire issued share capital of Bio Garden as at 30 June 2005.

### (ii) Other persons who are required to disclose their interests (long position)

Name of other persons who have more than 5% interest	Capacity and nature of interest	Number of issued shares	Approximate percentage of the Company's issued share capital
Nordea Far Eastern Value Fund	Investment manager	96,653,846	7.65
The Capital Group Companies, Inc.	Investment manager	66,994,000	5.30
UBS AG	Investment manager	63,690,461	5.04

Save as disclosed above, as at 30 June 2005, the directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## **COMPETING INTERESTS**

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflicts of interest with the Group.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE CODE COMPLIANCE**

The Company is in the process of reviewing its corporate governance practices and will report in its half-year financial announcement on the compliance of the Code on Corporate Governance Practices.

## **AUDIT COMMITTEE**

The audit committee comprises three independent non-executive Directors of the Company, namely Prof. CAO Gang (chairman of the audit committee), Mr. GAO Zong Ze and Prof. GU Qiao.

The audit committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed accounting issues, internal control and financial reporting matters with the Directors, including a review of the unaudited first quarterly report for the three months ended 30 June 2005.

By order of the Board

**KAM Yuen**  
*CHAIRMAN*

HONG KONG, 12 August 2005