

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 of the Stock Exchange (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.

CORPORATE INFORMATION

Executive Directors

Mr. KAM Yuen (*Chairman*)

Mr. LU Tian Long

Ms. JIN Lu

Ms. ZHENG Ting

Independent Non-executive Directors

Prof. CAO Gang

Mr. GAO Zong Ze

Prof. GU Qiao

Registered Office

Appleby Corporate Services (Cayman) Limited

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Principal Place of Business in Hong Kong

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Stock Code

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Qualified Accountant and Company Secretary

Mr. KONG Kam Yu, ACA, AHKSA

Compliance Officer

Mr. KAM Yuen

Audit Committee Members

Prof. CAO Gang (*Chairman*)

Mr. GAO Zong Ze

Prof. GU Qiao

Remuneration Committee Members

Mr. GAO Zong Ze (*Chairman*)

Prof. CAO Gang

Prof. GU Qiao

Authorised Representatives

Mr. KAM Yuen

Ms. ZHENG Ting

Legal Advisers to the Company

as to Hong Kong law

Jones Day

Auditors

KPMG

Principal Share Registrar and Transfer Office in the Cayman Islands

Appleby Corporate Services (Cayman) Limited

Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited

Principal Bankers

China Construction Bank - Beijing Branch

Sumitomo Mitsui Banking Corporation

CITIC Ka Wah Bank Limited

Bank of China (Hong Kong) Limited

Public Relations Consultant

A-World Consulting Limited

CORPORATE PROFILE

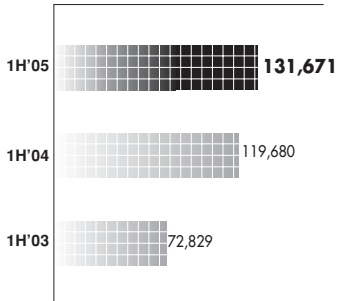
Golden Meditech Company Limited (“Golden Meditech”) is a leading hi-tech integrated medical group in China. Its operations include medical devices, haematopoietic stem cell storage and applications, Chinese herbal medicines and tumour treatment.

Golden Meditech’s flagship product, the Autologous Blood Recovery System, is the first of its kind to receive State Food and Drug Administration (“SFDA”) approval for manufacture in China. The Group also holds one of the only two Umbilical Cord Stem Cell Storage Permits issued by China’s Ministry of Health. The Group has also expanded into Chinese herbal medicine production, and its TangHerb® is the first proprietary Chinese medicine approved by the SFDA for alleviating AIDS symptoms.

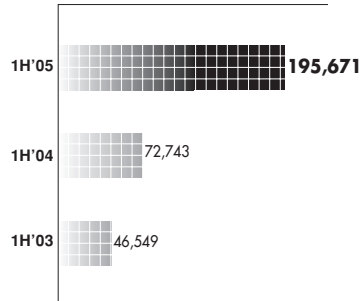
Golden Meditech has a strong commitment to expanding its businesses. Through research and development, expansion of its distribution network, investments and acquisitions, the Group aims to become the world’s leading hi-tech integrated medical group.

PERFORMANCE HIGHLIGHTS

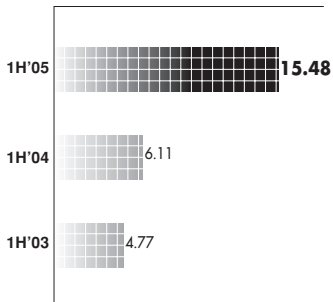
Turnover (HK\$'000)



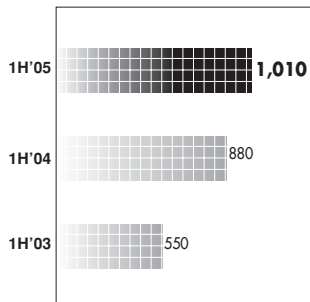
Profit attributable to equity holders of the Company (HK'000)



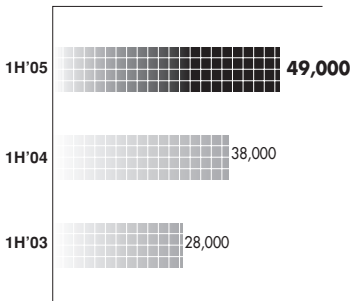
Basic earnings per share (HK cents)



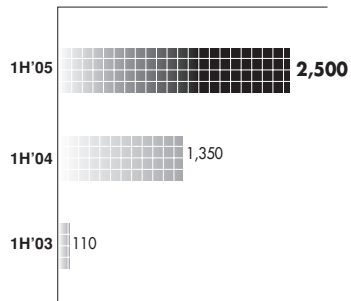
ABRs Machines and Portable ABRs Machines (units)



Disposable Chamber (sets)



New customer sign-ups for Cord Blood Bank service (units)



Notes:

1. The accounting policies on share based payments and financial instruments were changed in 2005 and the figures prior to 2004 have not been restated to reflect the changes.
2. The basic earnings per share of previous years have been restated for bonus issue.

HALF-YEARLY 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 six months ended 30 September 2005 together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

| | | Unaudited For the three months ended 30 September | | Unaudited For the six months ended 30 September | |
|--|------|---|--------------------------------|---|--------------------------------|
| | Note | 2005 HK\$'000 | 2004 HK\$'000 (Restated) | 2005 HK\$'000 | 2004 HK\$'000 (Restated) |
| Turnover | 2 | 70,776 | 63,216 | 131,671 | 119,680 |
| Cost of sales | | (19,559) | (17,086) | (36,850) | (32,611) |
| Gross profit | | 51,217 | 46,130 | 94,821 | 87,069 |
| Other revenue | 4 | 4,631 | 4,399 | 8,628 | 8,355 |
| Selling expenses | | (3,018) | (1,724) | (5,720) | (3,980) |
| Administrative expenses | | (14,027) | (10,869) | (23,672) | (20,473) |
| Profit from operations | | 38,803 | 37,936 | 74,057 | 70,971 |
| Finance costs | 5(a) | (3,009) | (1,414) | (6,107) | (2,112) |
| Gain on deemed disposal of an associate | 10 | 116,571 | — | 116,571 | — |
| Share of profits of associates | | 10,337 | 7,511 | 18,871 | 10,964 |
| Profit before taxation | 5 | 162,702 | 44,033 | 203,392 | 79,823 |
| Taxation | 6 | (4,555) | (3,850) | (8,350) | (6,592) |
| Profit for the period | | 158,147 | 40,183 | 195,042 | 73,231 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 158,453 | 40,139 | 195,671 | 72,743 |
| Minority interests | | (306) | 44 | (629) | 488 |
| | | 158,147 | 40,183 | 195,042 | 73,231 |
| Earnings per share | | | | | |
| - Basic | 8 | 12.54 cents | 3.37 cents | 15.48 cents | 6.11 cents |
| - Diluted | 8 | 11.95 cents | 3.28 cents | 14.82 cents | 5.99 cents |

The notes on pages 11 to 26 form part of this interim report.

CONSOLIDATED BALANCE SHEET

| | Note | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 (Restated) |
|--|------|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Fixed assets | 9 | 163,196 | 161,537 |
| Construction in progress | 9 | 184,306 | 183,397 |
| Interests in associates | 10 | 214,057 | 79,964 |
| Intangible assets | | 466,566 | 466,259 |
| Goodwill | | 74,450 | 74,450 |
| | | 1,102,575 | 965,607 |
| Current assets | | | |
| Investment | | 576 | 565 |
| Inventories | 11 | 84,454 | 82,484 |
| Trade receivables | 12 | 151,608 | 129,065 |
| Other receivables, deposits and prepayments | 13 | 72,889 | 156,536 |
| Cash and bank balances | 14 | 307,832 | 156,045 |
| | | 617,359 | 524,695 |
| Total assets | | 1,719,934 | 1,490,302 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| attributable to equity | | | |
| holders of the Company | | | |
| Share capital | 15 | 126,413 | 126,413 |
| Reserves | | 1,013,943 | 828,675 |
| | | 1,140,356 | 955,088 |
| Minority interests | | 50,675 | 50,343 |
| Total equity | | 1,191,031 | 1,005,431 |

CONSOLIDATED BALANCE SHEET *(continued)*

| | <i>Note</i> | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 <i>(Restated)</i> |
|-------------------------------------|-------------|---|--|
| Non-current liabilities | | | |
| Deferred income | | 10,030 | 5,645 |
| Government grant | | 733 | 719 |
| Other payable | | — | 90,400 |
| Bank loan | 16 | 95,997 | 94,189 |
| Convertible bonds | 17 | 119,385 | 118,222 |
| | | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
| | | 226,145 | 309,175 |
| | | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Current liabilities | | | |
| Trade payables | 18 | 51,916 | 51,218 |
| Other payables and accruals | 19 | 155,343 | 64,224 |
| Bank loans | 16 | 65,752 | 57,169 |
| Current taxation | | 3,200 | 3,085 |
| Dividend payable | | 26,547 | — |
| | | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
| | | 302,758 | 175,696 |
| | | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Total liabilities | | 528,903 | 484,871 |
| | | <hr style="border-top: 1px solid black;"/> | <hr style="border-top: 1px solid black;"/> |
| Total equity and liabilities | | 1,719,934 | 1,490,302 |
| | | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |

The notes on pages 11 to 26 form part of this interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Unaudited | | | | | | | | Total |
|--|---|-------------------------------------|--------------------------------------|--|---------------------------------------|---------------------------------------|--|--|------------------|
| | Attributable to equity holders of the Company | | | | | | | | |
| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Surplus reserve <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Minority interests <i>HK\$'000</i> | |
| As at 1 April 2005 as previously reported | 126,413 | 433,469 | 54,193 | (1,287) | 29,487 | — | 307,035 | 50,343 | 999,653 |
| Effect of changes in accounting policies (<i>note 1</i>) | — | 2,797 | — | — | — | 7,801 | (4,820) | — | 5,778 |
| As restated | 126,413 | 436,266 | 54,193 | (1,287) | 29,487 | 7,801 | 302,215 | 50,343 | 1,005,431 |
| Exchange differences | — | — | — | 13,299 | — | — | — | 961 | 14,260 |
| Accounted for employee's share option expenses | — | — | — | — | — | 2,845 | — | — | 2,845 |
| Profit/(loss) for the period | — | — | — | — | — | — | 195,671 | (629) | 195,042 |
| Dividend (<i>note 7</i>) | — | — | — | — | — | — | (26,547) | — | (26,547) |
| As at 30 Sept. 2005 | <u>126,413</u> | <u>436,266</u> | <u>54,193</u> | <u>12,012</u> | <u>29,487</u> | <u>10,646</u> | <u>471,339</u> | <u>50,675</u> | <u>1,191,031</u> |
| As at 1 April 2004 as previously reported | 58,919 | 376,406 | 54,193 | 727 | 17,322 | — | 199,925 | 44,297 | 751,789 |
| Effect of changes in accounting policies (<i>note 1</i>) | — | 777 | — | — | — | 1,496 | (2,273) | — | — |
| As restated | 58,919 | 377,183 | 54,193 | 727 | 17,322 | 1,496 | 197,652 | 44,297 | 751,789 |
| Bonus issue of shares | 59,637 | (59,637) | — | — | — | — | — | — | — |
| Shares issued under share option scheme | 718 | 8,321 | — | — | — | (777) | — | — | 8,262 |
| Accounted for employee's share option expenses | — | — | — | — | — | 388 | — | — | 388 |
| Issuance of convertible bonds | — | — | — | — | — | 12,884 | — | — | 12,884 |
| Capital contribution from minority interests | — | — | — | — | — | — | — | 11,987 | 11,987 |
| Profit for the period | — | — | — | — | — | — | 72,743 | 488 | 73,231 |
| Dividend (<i>note 7</i>) | — | — | — | — | — | — | (21,469) | — | (21,469) |
| As at 30 Sept. 2004 | <u>119,274</u> | <u>325,867</u> | <u>54,193</u> | <u>727</u> | <u>17,322</u> | <u>13,991</u> | <u>248,926</u> | <u>56,772</u> | <u>837,072</u> |

The notes on pages 11 to 26 form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Unaudited
For the six months
ended 30 September

| | 2005 | 2004 |
|--|------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash inflow from operating activities | 148,680 | 52,616 |
| Net cash outflow from investing activities | (3,392) | (138,308) |
| Net cash inflow/(outflow) before financing | 145,288 | (85,692) |
| Net cash inflow from financing | 3,108 | 47,647 |
| Net increase/(decrease) in cash and cash equivalents | 148,396 | (38,045) |
| Cash and cash equivalents as at 1 April | 117,847 | 156,939 |
| Effect of foreign exchange rates changes | 3,391 | — |
| Cash and cash equivalents as at 30 September | <u>269,634</u> | <u>118,894</u> |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank balances | 307,832 | 157,250 |
| Short-term deposit maturing beyond 3 months | (38,198) | (38,356) |
| | <u>269,634</u> | <u>118,894</u> |

The notes on pages 11 to 26 form part of this interim report.

NOTES TO THE INTERIM REPORT

1. Basis of preparation and accounting policies

The interim report has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) 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 six months ended 30 September 2005, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) which also include HKAS and Interpretations, (herein collectively referred to as the “new HKFRSs”). The new HKFRSs are effective for the accounting periods beginning on or after 1 January 2005.

The major effects of the adoption of the new HKFRSs on the unaudited consolidated results are set out below:

The adoption of HKFRS 2 “Share-Based Payment” requires an expense to be recognised when 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 and accounting policies** *(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 profits for the three months and six months ended 30 September 2005 were decreased by HK\$2,008,000 (2004: HK\$479,000) and HK\$4,009,000 (2004: HK\$673,000) respectively.

Due to the adoption of the 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"), the 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:

| | Unaudited | | Unaudited | |
|--|-----------------------------|----------|---------------------------|----------|
| | For the three months | | For the six months | |
| | ended 30 September | | ended 30 September | |
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sales of ABRS Machines and Portable ABRS Machines | 52,362 | 51,041 | 97,179 | 96,317 |
| Sales of Disposable Chambers | 11,337 | 9,138 | 21,596 | 16,799 |
| Cord Blood Bank services | 7,077 | 3,037 | 12,892 | 6,564 |
| Others | — | — | 4 | — |
| | 70,776 | 63,216 | 131,671 | 119,680 |

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/(loss) from operations information for the Group's business segments.

| | Unaudited | | | |
|--|---------------------------------------|--|--|---------------------|
| | For the six months ended | | | |
| | 30 September 2005 | | | |
| | <i>HK\$'000</i> | | | |
| | Medical Device Segment | Cord Blood Bank Segment | Chinese Herbal Medicine Segment | Consolidated |
| Turnover | <u>118,775</u> | <u>12,892</u> | <u>4</u> | <u>131,671</u> |
| Segment results | <u>85,694</u> | <u>3,762</u> | <u>(4,823)</u> | <u>84,633</u> |
| Unallocated costs | | | | <u>(10,576)</u> |
| Profit from operations | | | | <u>74,057</u> |
| Finance costs | | | | <u>(6,107)</u> |
| Gain on deemed disposal of an associate | | | | <u>116,571</u> |
| Share of profits of associates | | | | <u>18,871</u> |
| Profit before taxation | | | | <u>203,392</u> |
| Taxation | | | | <u>(8,350)</u> |
| Profit for the period | | | | <u>195,042</u> |
| Attributable to: | | | | |
| Equity holders of the Company | | | | <u>195,671</u> |
| Minority interests | | | | <u>(629)</u> |
| | | | | <u>195,042</u> |

3. Segment information (continued)

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

| | Unaudited For the six months ended 30 September 2004 HK\$'000 (Restated) | | | |
|-------------------------------------|--|----------------------------------|--|--------------|
| | Medical Device Segment | Cord Blood Bank Segment | Chinese Herbal Medicine Segment | Consolidated |
| Turnover | 113,116 | 6,564 | — | 119,680 |
| Segment results | 81,074 | 1,997 | (164) | 82,907 |
| Unallocated costs | | | | (11,936) |
| Profit from operations | | | | 70,971 |
| Finance costs | | | | (2,112) |
| Share of profits of an associate | | | | 10,964 |
| Profit before taxation | | | | 79,823 |
| Taxation | | | | (6,592) |
| Profit for the period | | | | 73,231 |
| Attributable to: | | | | |
| Equity holders of the Company | | | | 72,743 |
| Minority interests | | | | 488 |
| | | | | 73,231 |

(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

| | Unaudited For the three months ended 30 September | | Unaudited For the six months ended 30 September | |
|----------------------------|---|-------------------------|---|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Interest income | 283 | 196 | 554 | 424 |
| VAT refund (<i>Note</i>) | 4,348 | 4,203 | 8,074 | 7,931 |
| | <u>4,631</u> | <u>4,399</u> | <u>8,628</u> | <u>8,355</u> |

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. Profit before taxation

Profit before taxation is arrived at after crediting and charging:

| | Unaudited For the three months ended 30 September | | Unaudited For the six months ended 30 September | |
|---|---|--------------------------------|---|--------------------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 (Restated) | 2005 HK\$'000 | 2004 HK\$'000 (Restated) |
| Crediting: | | | | |
| Gain on deemed disposal of an associate | 116,571 | — | 116,571 | — |
| Charging: | | | | |
| (a) Finance costs: | | | | |
| Interest on bank loans wholly repayable within five years | 2,109 | 974 | 4,268 | 1,672 |
| Interest on convertible bonds | 897 | 440 | 1,785 | 440 |
| Other borrowing costs | 3 | — | 54 | — |
| (b) Staff costs: | | | | |
| Salaries, wages and other benefits | 3,926 | 2,706 | 7,576 | 5,336 |
| Contributions to defined contribution plans | 267 | 221 | 535 | 350 |
| Share option cost | 1,423 | 194 | 2,845 | 388 |
| (c) Other items: | | | | |
| Cost of inventories | 17,799 | 16,043 | 33,479 | 30,849 |
| Cost of services | 1,760 | 1,043 | 3,371 | 1,762 |
| Amortisation of goodwill | — | 2,786 | — | 3,711 |
| Amortisation of goodwill included in share of profits of associates | — | 190 | — | 381 |
| Depreciation | 4,209 | 2,853 | 7,927 | 5,593 |
| Operating lease charges | | | | |
| - in respect of properties | 661 | 1,002 | 1,373 | 1,831 |
| - in respect of other assets | 123 | 83 | 232 | 164 |
| Research and development costs (Note) | 1,150 | 544 | 2,168 | 1,301 |

Note:

Research and development costs included the salary costs of technical staff, which are also included in staff costs.

6. Taxation

Taxation charged to the consolidated income statement represents:

| | Unaudited For the three months ended 30 September | | Unaudited For the six months ended 30 September | |
|--|---|------------------|---|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Current tax - Outside Hong Kong | | | | |
| PRC income tax for the period | 3,130 | 3,069 | 5,670 | 5,570 |
| Share of associates' taxation | 1,425 | 781 | 2,680 | 1,022 |
| | <u>4,555</u> | <u>3,850</u> | <u>8,350</u> | <u>6,592</u> |

(i) PRC income tax

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

In accordance with the relevant rules and regulations in the PRC, one of the subsidiaries is fully exempted from PRC income tax until 31 December 2005. For the next three years, this subsidiary is entitled to a 50% reduction, allowing it to pay PRC income tax at 7.5% until 31 December 2008.

Another subsidiary of the Group is entitled to a 50% reduction, allowing it to pay PRC income tax at 7.5% until 31 December 2006.

(ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2005 (2004: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

7. Dividend

| | Unaudited For the three months ended 30 September | | Unaudited For the six months ended 30 September | |
|---|---|------------------|---|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 |
| Dividend attributable to the previous financial year | | | | |
| Final dividend declared during the period, of HK2.1 cents per share (2004: HK1.8 cents per share) | <u>26,547</u> | <u>21,469</u> | <u>26,547</u> | <u>21,469</u> |

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

8. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the three months and six months ended 30 September 2005 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$158,453,000 and HK\$195,671,000 respectively divided by the weighted average number of 1,264,124,909 and 1,264,124,909 shares respectively in issue during the periods.

The calculation of basic earnings per share for the three months and six months ended 30 September 2004 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$40,139,000 (restated) and HK\$72,743,000 (restated) respectively divided by the weighted average number of 1,192,740,000 and 1,190,541,311 shares respectively in issue during the periods.

8. Earnings per share (continued)

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the three months and six months ended 30 September 2005 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$159,350,000 and HK\$197,456,000 respectively, which are the profit attributable to equity holders of the Company for the periods adjusted for the accrued interest expense related to the convertible bonds of HK\$897,000 and HK\$1,785,000 respectively, divided by the weighted average number of 1,332,975,864 and 1,332,766,711 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.

The calculation of diluted earnings per share for the three months and six months ended 30 September 2004 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$40,579,000 (restated) and HK\$73,183,000 (restated) respectively, which are the profit attributable to equity holders of the Company for the periods adjusted for the accrued interest expense related to the convertible bonds of HK\$440,000 (restated) and HK\$440,000 (restated) respectively, divided by the weighted average number of 1,237,472,279 and 1,220,754,520 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.

9. Fixed assets and construction in progress

The changes in fixed assets and construction in progress for the six months ended 30 September 2005 are analysed as follows:

| | Unaudited | |
|--|--------------------------------------|--|
| | Fixed assets HK\$'000 | Construction in progress HK\$'000 |
| As at 1 April 2005 | 161,537 | 183,397 |
| Exchange adjustments | 3,027 | 3,521 |
| Additions | 3,489 | 458 |
| Transfer from construction in progress | 3,070 | (3,070) |
| Depreciation charge for the period | (7,927) | — |
| | <hr/> | <hr/> |
| As at 30 September 2005 | <u>163,196</u> | <u>184,306</u> |

10. Interests in associates

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|-------------------------------------|---|---|
| Share of net assets (<i>Note</i>) | 209,599 | 73,865 |
| Goodwill | 4,458 | 6,099 |
| | <hr/> 214,057 <hr/> <hr/> | <hr/> 79,964 <hr/> <hr/> |

Note:

The shares of China Medical Technologies, Inc. ("CMED"), our tumour treatment associate, were listed on the National Automated Systems Dealership and Quotation ("NASDAQ") market, in the United States of America ("U.S.") on 10 August 2005 (U.S. time) by the issuance of new shares at an initial public offering ("IPO"). As a result of the IPO, the Group's indirect interest in CMED has been diluted from 25% to 18.3%, which resulted in an exceptional gain on deemed disposal of HK\$116,571,000.

11. Inventories

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|------------------|---|---|
| Raw materials | 823 | 1,522 |
| Work in progress | 2,865 | 2,234 |
| Finished goods | 80,766 | 78,728 |
| | <hr/> 84,454 <hr/> <hr/> | <hr/> 82,484 <hr/> <hr/> |

Included in finished goods are stored blood stem cell products amounting to HK\$74,754,000 (31 March 2005: HK\$72,638,000).

All inventories are stated at cost.

12. Trade receivables

Details of the ageing analysis of trade receivables (net of specific allowances for bad and doubtful debts) are as follows:

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|------------------------|---|---|
| Within 6 months | 73,151 | 89,733 |
| Between 7 to 12 months | 70,861 | 30,063 |
| Over 1 year | 7,596 | 9,269 |
| | <hr/> 151,608 <hr/> | <hr/> 129,065 <hr/> |

All trade receivables are expected to be recovered within one year. The management closely monitors any overdue balances and takes recovery actions as appropriate.

13. Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments is earnest money totalled HK\$54,718,000 in connection with a proposed investment in a PRC entity. The proposed investment was still in the process of negotiation as at 30 September 2005.

14. Cash and bank balances

Included in cash and bank balances is a short-term deposit in the amount of HK\$38,198,000 (31 March 2005: HK\$38,198,000) which matures beyond 3 months.

15. Share capital

| | Unaudited 30 September 2005 | | Audited 31 March 2005 | |
|---|--------------------------------|----------------|--------------------------|----------|
| | No. of shares '000 | HK\$'000 | No. of shares '000 | HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.10 each | 2,000,000 | 200,000 | 2,000,000 | 200,000 |
| Issued and fully paid: | | | | |
| Beginning of period/year | 1,264,125 | 126,413 | 589,185 | 58,919 |
| Shares issued under share option scheme | — | — | 21,065 | 2,107 |
| Bonus issue of shares | — | — | 596,370 | 59,637 |
| Issue of shares upon conversion of convertible bonds | — | — | 53,895 | 5,389 |
| Issue of shares for scrip dividend | — | — | 3,610 | 361 |
| End of period/year | 1,264,125 | 126,413 | 1,264,125 | 126,413 |

16. Bank loans

As at 30 September 2005, the bank loans were repayable as follows:

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|----------------------------------|---|---|
| Within 1 year or on demand | 65,752 | 57,169 |
| After 1 year but within 2 years | 95,997 | — |
| After 2 years but within 5 years | — | 94,189 |
| After 5 years | — | — |
| | <u>95,997</u> | <u>94,189</u> |
| | <u>161,749</u> | <u>151,358</u> |

As at 30 September 2005, the bank loans were secured as follows:

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|---------------------|---|---|
| Secured bank loans | 123,836 | 122,445 |
| Unsecured bank loan | 37,913 | 28,913 |
| | <u>161,749</u> | <u>151,358</u> |

17. Convertible bonds

As at 30 September 2005, a principal amount of HK\$124,000,000 remained outstanding under the convertible bonds issued by the Company on 6 September 2004. The coupon interest rate of the convertible bonds is 1% per annum and the convertible bonds will mature on the last business day preceding the third anniversary of the date of issue. The outstanding principal amount may be converted into ordinary shares of the Company at HK\$1.90 per share at any time prior to the date of maturity, subject to adjustments in certain circumstances.

The conversion shares rank pari passu in all respects with the Company's existing shares in issue at the date of conversion.

18. Trade payables

The Group is normally granted with credit terms of 1 to 6 months by its suppliers.

Details of the ageing analysis of trade payables are as follows:

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|----------------------------------|---|---|
| Due within 6 months or on demand | <u><u>51,916</u></u> | <u><u>51,218</u></u> |

19. Other payables and accruals

Included in other payables and accruals is the remaining balance of consideration payable of HK\$90,400,000 in respect of the acquisition of a 51% equity interest in Qijieyuan. The balance, being unsecured, non-interest bearing and payable on or before 6 September 2006, was recorded as other payables and accruals under current liabilities.

20. Commitments

(i) Capital commitments

Capital commitments in respect of the construction of storage facilities for blood stem cells and modification of the production facilities for proprietary Chinese medicines as at 30 September 2005 not provided for in the interim report are as follows:

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|----------------|---|---|
| Contracted for | 58,072 | 53,964 |

(ii) Operating lease commitments

As at 30 September 2005, total future minimum lease payments under non-cancelable operating leases are payable as follows:

| | Unaudited 30 September 2005 HK\$'000 | Audited 31 March 2005 HK\$'000 |
|---------------------------------|---|---|
| Within 1 year | 2,065 | 2,324 |
| After 1 year but within 5 years | 789 | 1,726 |
| | 2,854 | 4,050 |

The Group leases a number of properties under operating leases. The leases typically run for a period of one to three years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

21. Related party transactions

A related company controlled by a director of a subsidiary of the Group provided security against a bank loan granted to the subsidiary during the period under review.

MANAGEMENT DISCUSSION & ANALYSIS

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

| | 1H'2005 HK\$'000 | 1H'2004 HK\$'000 <i>(Restated)</i> | Change |
|---|-----------------------------------|--|--------|
| Turnover | | | |
| Medical Device | 118,775 | 113,116 | 5% |
| Cord Blood Bank | 12,892 | 6,564 | 96% |
| Chinese Herbal Medicine | 4 | — | N/A |
| | <u>131,671</u> | <u>119,680</u> | 10% |
| Operating profit/(loss) | | | |
| Medical Device | 85,694 | 81,074 | 6% |
| Cord Blood Bank | 3,762 | 1,997 | 88% |
| Tumour Treatment | 18,595 | 10,964 | 70% |
| Medical Device Distribution | 276 | — | N/A |
| Chinese Herbal Medicine | (4,823) | (164) | 2,841% |
| | <u>103,504</u> | <u>93,871</u> | 10% |
| Add: Gain on deemed disposal of an associate | 116,571 | — | N/A |
| Less: Unallocated costs | (10,576) | (11,936) | (11)% |
| Finance costs | (6,107) | (2,112) | 189% |
| Profit before taxation | <u>203,392</u> | <u>79,823</u> | 155% |
| Key operating data: | | | |
| Medical Device | | | |
| ABRS Machines and Portable | | | |
| ABRS Machines <i>(Units)</i> | 1,010 | 880 | 15% |
| Disposable Chambers <i>(Sets)</i> | 49,000 | 38,000 | 29% |
| Cord Blood Bank | | | |
| New customer sign-ups <i>(Units)</i> | 2,500 | 1,350 | 85% |

BUSINESS REVIEW

Overview

Creating value for our shareholders has always been our primary goal and the management has been working hard to achieve that by securing the long-term development of each of the Group's operations.

The robust growth in each of the Group's divisions in the first half of the financial year reflects the encouraging results from the operations of the core businesses and is an initial indication of the success of our investment strategies.

To maintain a balance between accelerating growth and ensuring this growth is sustainable, we have adopted strategic investment as our main development strategy. Since the hi-tech medical device industry requires substantial investment in research and development, and the operating risks are often high, we have expanded our businesses prudently, selecting only hi-tech projects with significant growth potential and high entry barriers. The new projects were also chosen because they are able to create synergy effects with the Group's core competences.

The investment in the Group's tumour treatment associate, China Medical Technologies, Inc. ("CMED"), is one illustration of the success of this strategy.

CMED's flagship product — the High Intensity Focused Ultrasonic tumour therapy device — is a pioneering tumour treatment. It destroys solid tumours directly, in a process that is non-invasive and painless. The management saw CMED's potential for creating long-term value for our shareholders, and therefore joined forces with GE Medical Systems, a division of the U.S.-based General Electric Company, to invest in CMED.

The Group subscribed for a 25% interest in CMED for a total consideration of HK\$38,730,000 in 2003. In two years, CMED has generated an aggregate pre-tax profit of HK\$44,729,000 for the Group — more than the initial investment.

In August 2005, CMED successfully listed on the NASDAQ in the United States and created a further benefit for the Group in the form of an exceptional gain of HK\$116,571,000.

The management is particularly pleased with the win-win situation that CMED represents because it illustrates the team's in-depth knowledge of the China market and proves the worth of the Group's long-term development strategy. The management is also confident that, in the coming two to three years, investors will witness similar developments in both the Cord Blood Bank and the Chinese Herbal Medicine segments, creating further long-term value for our shareholders.

The Medical Device Segment

Our Medical Device Segment maintains its leading position in the sector in China and saw sustained healthy growth in the reporting period. Its flagship product, the Autologous Blood Recovery System (“ABRS”), collects, purifies and recycles the blood a patient loses during surgery, replacing traditional blood transfusion methods. Its sales currently dominate the China market.

Turnover for the Medical Device Segment for the six months ended 30 September 2005 increased by 5% compared with last year to HK\$118,775,000. The Group sold approximately 1,010 units of the ABRS Machine and the Portable ABRS Machine (2004: 880 units), and 49,000 sets of Disposable Chambers (2004: 38,000 sets) during the period. The usage rate of this technology has been rising steadily since its launch — for 20 consecutive quarters, sales of Disposable Chambers have recorded double digit growth.

The Cord Blood Bank Segment

The success of the Cord Blood Bank business is further evidence of the success of the Group’s investment strategy. This business provides separation, processing, examination and storage services for the umbilical cord blood stem cells of newborn babies. The first private cord blood bank operator in China, it is still one of only two authorised operators.

Since it commenced operations in late 2003, the performance of the Cord Blood Bank business has been remarkable, easily outstripping that of its only rival. During the reporting period, turnover amounted to HK\$12,892,000, representing an impressive increase of 96% compared with last year. New customer sign-ups increased from approximately 1,350 in the first half of the previous financial year to approximately 2,500 for the same period this year, a growth rate of 85%.

The Chinese Herbal Medicine Segment

This segment’s flagship product — TangHerb® — a proprietary Chinese medicine effective in boosting the immune systems of AIDS sufferers, has been granted certificates for production by China’s SFDA. The Group has now begun commercial production and sales will be reflected in the income statement from the next quarter onward.

To maximise shareholder returns, the Group completes acquisitions and commercialises products within the shortest time possible. Since the acquisition of TangHerb® in September 2004, the Group has acquired a manufacturing complex, upgraded the facilities and added new equipment, obtained all necessary production certificates, and commenced production in the first half of this financial year as planned. The management is particularly proud that TangHerb® has commenced production in under one year as it reflects the Group’s dynamic approach to new projects and illustrates the management team’s extensive industry knowledge.

The Tumour Treatment Division

The performance of the Tumour Treatment Division remained impressive. It produced a pre-tax profit of HK\$18,595,000 for the Group during the period, despite the dilution of the Group's interest in CMED from 25% to 18.3% following its NASDAQ listing. CMED will remain an associate and management is confident that it will continue to perform superbly.

PROSPECTS

The management has full confidence in the Group's performance in the second half of the financial year. The Medical Device Segment is expected to maintain its pre-eminent position in the industry. The Cord Blood Bank Segment, which is already profitable, and the Chinese Herbal Medicine Segment, which has begun production, are certain to soon account for a larger share of the Group's total revenue.

The Group will continue delivering outstanding results and, by developing and expanding current businesses, and maximising our first-mover advantages, will continue to realise the Company's goals — to create value for our shareholders and to become the world's leading global integrated medical group.

FINANCIAL REVIEW

Overview

During the six months ended 30 September 2005, the Group reported remarkable growth in both turnover and earnings.

The increase in earnings achieved in the reporting period is mainly due to the organic growth of the Medical Device and the Cord Blood Bank segments. Since the Chinese Herbal Medicine Segment has only just commenced production, its performance has not been included in this report. However, the management is confident that the hard work put into this business will soon show results.

Turnover

The Group continued to demonstrate strong growth and generate sustainable returns for the reporting period, in line with management's expectations. The Group recorded a turnover of HK\$131,671,000, representing an increase of approximately 10% compared with last year. The Medical Device Segment, the Group's biggest revenue generator, accounted for 90% of total turnover. The remainder was mainly service income derived from the Cord Blood Bank Segment, the profit contribution of which is becoming more substantial. The management anticipates that the Cord Blood Bank Segment, along with the Chinese Herbal Medicine Segment, will account for a larger share of total turnover in the future.

Gross profit margin

The Group maintained a gross profit margin for the six months under review of around 72%.

However, each of the Group's divisions has its own gross profit margin, and when the Cord Blood Bank and the Chinese Herbal Medicine segments start to make a greater contribution to total revenue, the Group's overall gross profit margin will change accordingly.

The management anticipates that the gross profit margin of both the Medical Device and the Cord Blood Bank segments will continue to be satisfactory.

Selling and administrative expenses

Total selling and administrative expenses for the six months ended 30 September 2005 were HK\$29,392,000. The increase was mainly due to the expansion of the businesses as well as the adoption of new accounting policies, effective 1 April 2005, which require the inclusion of employees' share option expenses of HK\$2,845,000. The Group has always been prudent in controlling costs and will continue to ensure expenses are kept at a reasonable level.

Profit attributable to equity holders of the Company

During the reporting period, profit attributable to equity holders of the Company amounted to HK\$195,671,000. Despite the unfavourable effect of the new accounting policies, profit attributable to equity holders of the Company increased dramatically by 169%.

The sharp rise in earnings was due to the exceptional one-off gain of HK\$116,571,000 from the deemed disposal of the tumour treatment associate, CMED, following its successful listing on the NASDAQ in the United States.

The performance of all other divisions during the period under review met the management's expectations, and growth in earnings reached the Group's target.

Liquidity and financial resources

During the period under review, the Group maintained a sound financial position and generated an operating cash inflow of HK\$148,680,000. As at 30 September 2005, the Group's cash and bank balances amounted to HK\$307,832,000 (31 March 2005: HK\$156,045,000). Total interest-bearing liabilities stood at HK\$281,134,000 (31 March 2005: HK\$269,580,000), comprising bank borrowings and the three-year convertible bonds issued in September 2004.

The Group's total current assets and net assets as at 30 September 2005 totalled HK\$617,359,000 and HK\$1,140,356,000 respectively (31 March 2005: HK\$524,695,000 and HK\$955,088,000 respectively).

As at 30 September 2005, the total debt to total asset ratio, excluding the convertible bonds, was 9.4% (31 March 2005: 10.2%), and, including the convertible bonds, was 16.3% (31 March 2005: 18.1%).

The Group will continue to maintain an appropriate capital structure to maximise its efficiency.

Charges on group assets

As at 30 September 2005, the total book value of the assets charged for bank loans was HK\$98,243,000 (31 March 2005: HK\$98,992,000).

Exchange rate risk

The Group's sales and purchases are mainly transacted in Renminbi, and the majority of the Group's assets and liabilities are also denominated in Renminbi. The management believes the revaluation of the Renminbi in July 2005 will be beneficial to the Group in the long run. No hedging arrangements were made during the reporting period.

Treasury policies

The Group adopts prudent treasury policies. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of its customers. To manage liquidity risk, management closely monitors the position to ensure the liquidity structure of the Group meets its funding requirements.

Contingent liabilities

As at 30 September 2005, the Group had no contingent liabilities.

Employee information

As at 30 September 2005, the Group had 323 full-time employees in Hong Kong and the PRC. Remuneration is determined in accordance with government policies and by reference to market conditions and the performance, qualifications and experience of individual employees. The Group believes that its people are its most important asset. To express its gratitude for their contribution and to provide further incentives, staff members who demonstrate outstanding performance are rewarded with discretionary bonuses and share options.

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

As at 30 September 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 Long positions/(Short position) | | | | Number of underlying shares held under equity derivatives | Total interests (Short position) | Approximate percentage of the Company's issued share capital |
|-------------------|------------------------------------|--|------------------|---|---------------------------|---|----------------------------------|--|
| | | Personal interests | Family interests | Corporate interests | | | | |
| Mr. KAM Yuen | Interest of controlled corporation | — | — | 433,916,000 ⁽¹⁾ (32,128,000) ⁽²⁾ | — | 433,916,000 (32,128,000) | 34.33 (2.54) | |
| | Beneficial owner | — | — | — | 63,206,245 ⁽³⁾ | 63,206,245 | 5.00 | |
| Mr. LU Tian Long | Beneficial owner | — | — | — | 3,600,000 ⁽³⁾ | 3,600,000 | 0.28 | |
| Ms. ZHENG Ting | Beneficial owner | — | — | — | 3,600,000 ⁽³⁾ | 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 September 2005.
- (2) Mr. KAM Yuen was deemed under the SFO, to have a short position in the shares of the Company by virtue of his interest in Bio Garden.
- (3) 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 September 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 in, 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

- 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.
- A summary of movements of share options under the share option schemes of the Company for the six months ended 30 September 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 Sept. 2005 | |
| Mr. KAM Yuen | 30 March 2005 ⁽¹⁾ | 63,206,245 | 63,206,245 | 1.76 |
| Mr. LU Tian Long | 31 March 2003 ⁽²⁾ | 3,200,000 | 3,200,000 | 0.575 |
| | 4 March 2005 ⁽³⁾ | 400,000 | 400,000 | 1.60 |
| Ms. ZHENG Ting | 31 March 2003 ⁽²⁾ | 1,600,000 | 1,600,000 | 0.575 |
| | 4 March 2005 ⁽³⁾ | 2,000,000 | 2,000,000 | 1.60 |
| Full-time employees (other than Directors) | 31 March 2003 ⁽²⁾ | 1,080,000 | 1,080,000 | 0.575 |
| | 4 March 2005 ⁽³⁾ | 11,970,000 | 11,970,000 | 1.60 |
| | | 83,456,245 | 83,456,245 | |

Notes:

- (1) 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.
- (2) The share options are exercisable as to:
 - (i) up to 30% immediately after 31 March 2003;
 - (ii) up to 60% immediately after 12 months from 31 March 2003;
 - (iii) up to 100% immediately after 18 months from 31 March 2003; and
 - (iv) the share options will expire at the close of business on 16 March 2013.
- (3) The share options are exercisable in full immediately after 3 months from 4 March 2005 and will expire at the close of business on 28 February 2015.
- (4) 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 September 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 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 September 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/(short 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 (32,128,000) | 34.33 (2.54) |

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 September 2005.

(ii) **Other persons who are required to disclose their interests - long positions**

| 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 |
|---|--|--------------------------------|---|
| Kent C. McCarthy (Note) | Controlled corporation | 166,662,735 | 13.18 |
| Jayhawk China Fund (Cayman), Ltd. (Note) | Investment manager | 154,970,735 | 12.26 |
| Nordea Far Eastern Value Fund | Investment manager | 88,157,846 | 6.97 |

Note: The interest disclosed by Mr. Kent C. McCarthy includes the 154,970,735 shares of the Company held by Jayhawk China Fund (Cayman), Ltd.

Save as disclosed above, as at 30 September 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.

SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company has adopted the standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding the Directors' securities transactions in securities of the Company. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with, or they were not aware of any non-compliance with the required standards of dealings.

REPORT ON CORPORATE GOVERNANCE

In line with the increasing regulatory and investor focus on corporate governance standards, the Stock Exchange has issued a new Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code"). The Board is pleased to confirm that the Company has complied with the Code throughout the six months ended 30 September 2005, except for the following deviation:

Code A.2.1

Code Provision

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Deviation and Reasons

Mr. KAM Yuen is the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's businesses. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Kam and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group.

REMUNERATION COMMITTEE

Pursuant to Code provision B.1.1, the Board has established a remuneration committee with written terms of reference. The remuneration committee comprises three independent non-executive Directors, namely Mr. GAO Zong Ze (chairman of the remuneration committee), Prof. CAO Gang and Prof. GU Qiao.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference. The primary duties of the audit committee are to review the Company's annual report, interim report and quarterly reports, the Group's financial control, internal control and risk management systems and to provide advice and comments thereon to the Board.

The audit committee comprises three independent non-executive Directors, 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 interim report for the six months ended 30 September 2005.

By order of the Board

KAM Yuen
CHAIRMAN

HONG KONG, 11 November 2005