# Annual Report 05/06

**GOLDEN MEDITECH COMPANY LIMITED**

**金衛醫療科技有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8180)


Your life's blood
is our life's work

# Contents

# CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the GEM website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

# Corporate Profile

**Golden Meditech Company Limited** ("the Company" or "Golden Meditech"; stock code: 8180.HK), together with its subsidiaries (collectively referred to as "the Group"), is a leading hi-tech integrated medical group in China. Golden Meditech has expanded with tremendous success and its subsidiaries are now engaged in the following business areas in China: 1) the research, development, manufacture and sale of medical devices and personal healthcare products; 2) blood stem cell storage and applications; and 3) the research, development and manufacture of Chinese herbal medicines. The Group's mission is to contribute to people's health and welfare through the development and application of outstanding medical technology, and to create value for its shareholders.

**Medical Device Segment** is primarily engaged in the development, manufacture, sale and distribution of medical devices and personal healthcare monitoring products. It also provides consulting services. For many years, this Segment has focused on developing and commercialising for blood recovery, purification, treatment and preservation technologies. The Segment's flagship product, the Autologous Blood Recovery System, is the first product of its kind to obtain the approval of China's State Food and Drug Administration ("SFDA") for its manufacture in the PRC. Golden Meditech is also collaborating with a number of research institutes to develop medical equipment, and several pioneering new devices and a series of personal healthcare products will soon be launched, with the goal of ensuring the Company remains at the forefront of developments in medical technology.

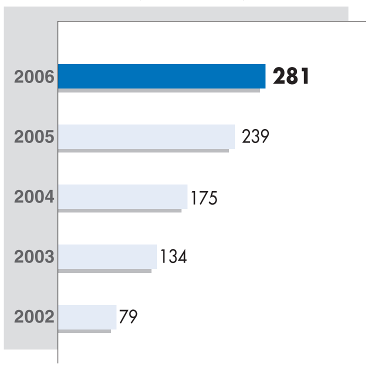
**Cord Blood Bank Segment** provides examination, separation, processing and storage services for umbilical cord blood stem cells. It is currently one of the only two government-authorised private cord blood bank operators. It also conducts research into the clinical applications of blood stem cells. Blood stem cells are currently used in treatments for life-threatening blood diseases and offer enormous promise for treating many other illnesses. Through this service and the related applications, Golden Meditech aims to provide people with long-term health protection.

**Chinese Herbal Medicine Segment** is involved in the development and manufacture of natural herbal medicines. Its TangHerb® product has proven, after stringent clinical trials, to effectively boost the immune systems of people infected with HIV, suppress and alleviate some common symptoms of AIDS. In 2004, TangHerb® became the first, and so far the only, proprietary Chinese medicine of its kind to be granted a New Medicine Certificate by China's SFDA. Golden Meditech hopes to develop other natural herbal remedies to treat AIDS and other diseases, and to promote Chinese herbal medicine to the world.

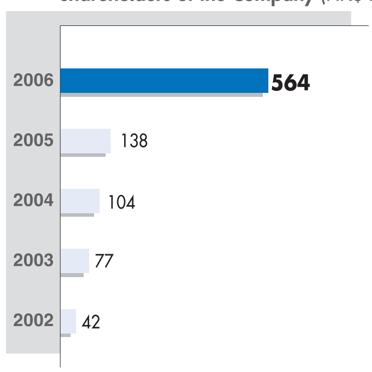
Golden Meditech has a strong commitment to expanding its businesses. Through research and development, expansion of its distribution network, and investment and acquisition, the Group aims to become the world's leading hi-tech integrated medical group.

# Performance Highlights

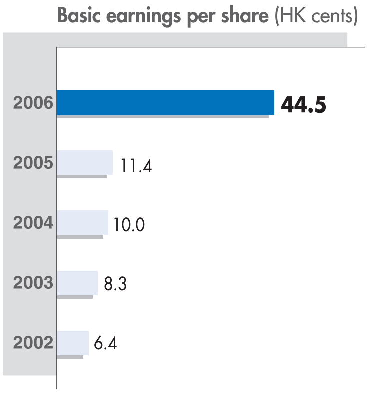
**Turnover** (HK$'million)



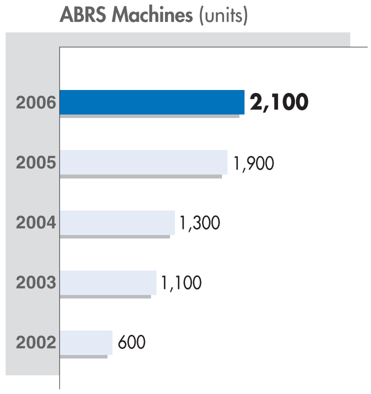

**Profit attributable to equity shareholders of the Company** (HK$'million)



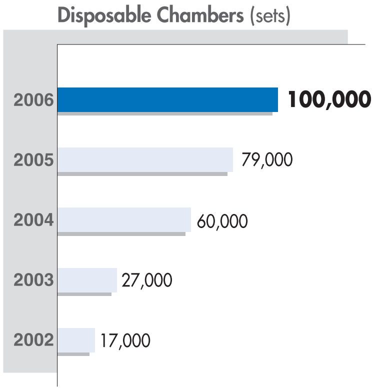

**Basic earnings per share** (HK cents)



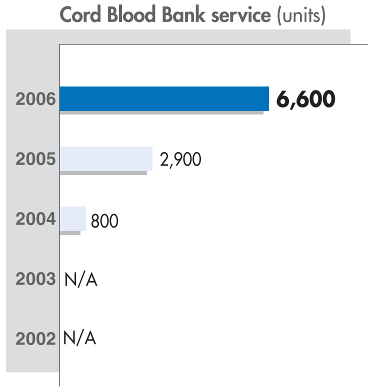

**ABRS Machines** (units)




**Disposable Chambers** (sets)




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




*Notes:*

1. New accounting polices on share based payments and financial instruments were adopted in 2006. Figures for previous years have been restated to reflect the new accounting policies.

2. The basic earnings per share of previous years have been restated as the result of the 2004 Bonus Issue.

# Summary of Financial Information

| | | 2006 HK$'000 | 2005 HK$'000 | % Change |
|---|---|---|---|---|
| **Operating results** | Turnover | 280,578 | 238,991 | 17% |
| | Gross profit | 188,137 | 168,458 | 12% |
| | Profit attributable to equity shareholders of the Company | 563,824 | 138,263 | 308% |
| | Gross profit margin | 67% | 70% | (3%pts) |
| | Net profit margin | 201% | 58% | 143%pts |
| | Basic earnings per share | HK44.5 cents | HK11.4 cents | 290% |
| | Final dividend per share | N/A | HK2.1 cents | N/A |
| **Financial position** | Total assets | 2,526,813 | 1,490,302 | 70% |
| | Cash and bank balances | 481,666 | 156,045 | 209% |
| | Total equity | 2,105,047 | 1,006,484 | 109% |
| **Financial ratios** | Gearing ratio (excluding the convertible bonds) | 5% | 10% | (5%pts) |
| | Current ratio (x) | 4.8 | 2.7 | 78% |
| **Key operating data** | Medical Device Segment | | | |
| | ABRS Machines (rounded to the nearest 100) | 2,100 units | 1,900 units | 11% |
| | Disposable Chambers (rounded to the nearest 1,000) | 100,000 sets | 79,000 sets | 27% |
| | Cord Blood Bank Segment | | | |
| | New customer sign-ups (rounded to the nearest 100) | 6,600 units | 2,900 units | 128% |

# Chairman's Statement

# Chairman's Statement

I am very proud to report that Golden Meditech again achieved impressive results this financial year. The Group recorded spectacular growth, with net profit rising by 308% to HK$563,824,000. The core net earnings increased 27.2%, while the gross profit margin remained at a high level of 67%.

It has always been Golden Meditech's goal to enhance returns for shareholders and I am delighted that this year our successful development strategy has created a one-off net exceptional gain of HK$387,989,000.

The market has also recognised our efforts. In December 2005, the "Deloitte Technology Fast 500 Asia Pacific" ranked Golden Meditech as one of the 500 Technology, Media and Telecommunications companies with the fastest annual revenue growth in the Asia-Pacific region.

## Successful Development Strategy — generating remarkable returns

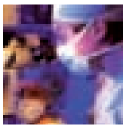
To maintain the Group's competitiveness and high growth rate, we are committed to pursuing innovation, maximising opportunities in the medical industry, and being alert to changes in both the market environment and our own businesses. We have adopted strategies appropriate to the development stage of the Company and, as a result, the Group has expanded rapidly through organic growth as well as strategic acquisitions and mergers.

The research and development of hi-tech medical devices is often time-consuming and requires considerable investment. To minimise the risks, we have expanded our business areas prudently by investing in hi-tech medical projects that have substantial growth potential, high entry barriers, manageable risk and the ability to create synergy effects with our existing businesses. The success of our investments in the tumour treatment and cord blood banking businesses is proof of the effectiveness of this strategy.

The Group invested in the tumour treatment business in 2003. As well as reaping synergy benefits from the close interaction between the two teams, the Group recouped the costs of its investment in only two years. In addition, the Group sold part of its stake in this associate after it listed on the NASDAQ in 2005 resulting in a substantial gain for shareholders of HK$322,218,000.

The Group entered the cord blood banking sector two years ago. Thanks to superb leadership skills and outstanding marketing and sales strategies, the new management team was able to turn the business around in the first year. Turnover and new customer sign-ups have risen impressively by over 125% year-on-year since we started operations. Under the direction of the current management team, we believe this business will become a crucial driver of future profit growth for the Group.

The management is delighted that its strategy has succeeded in demonstrating our commitment to shareholders by creating value and generating substantial returns in a short period of time, and is confident that its track record has strengthened investors' confidence in Golden Meditech's development.



## Personal Healthcare Products and Services — fuelling future growth

The management's ability to identify the best investment timing is one of the keys to our success. As China's economy rockets, and people become increasingly health-conscious, they are willing to spend more on personal healthcare products. Also the population is ageing. At the end of 2005 the number of Chinese aged 65 and above had exceeded 100 million — a figure expected to double by 2014.

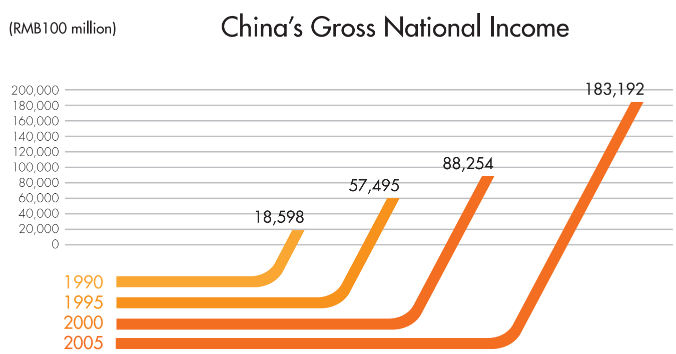
The Group is therefore planning to launch a series of personal health monitoring devices over the next few years. The first product, to be launched soon, targets Bluetooth handset users in China. The device is equipped with an advanced sensor and users can send the health data it records through Bluetooth to their handsets for reading and onward transmission.

To ensure effective marketing and distribution of the health monitoring devices, we decided to acquire a 50% equity interest in Beijing Pypo Technology Group Company Limited. This acquisition was approved at the extraordinary general meeting held on 19 April 2006 and was subsequently granted business licence by the relevant PRC regulatory authority on 2 June 2006.

The management believes that now is the right time to begin developing this market. We are confident our advanced devices will be popular with our target customers and will fuel the Group's future growth.

## Good Corporate Governance — protecting shareholders' interests

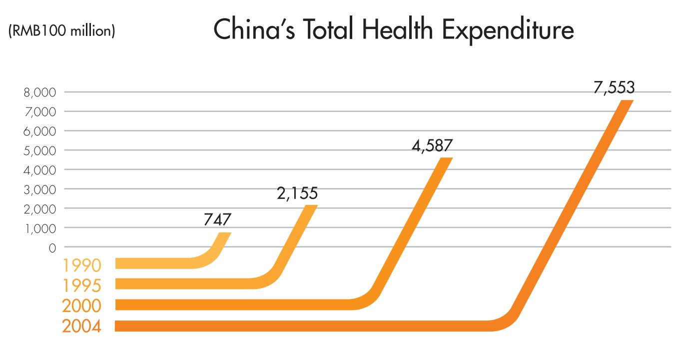
To further improve the performance of the Group as well as to protect the interests of our shareholders and other stakeholders, we maintain international standards of corporate governance. Good corporate governance ultimately depends on individual ethics and the company culture. Therefore, we emphasise staff development, and require the management to serve as role models in upholding core principles. In this way we ensure a healthy and responsible company culture.




## Prospects — reaching new heights

A solid foundation has already been laid for the future development of the core businesses.

The Medical Device Segment plans to launch new products in the coming year. Its flagship product — the Autologous Blood Recovery System — is expected to maintain its market dominance as its usage rate has increased by over 25% for five consecutive years.





In addition, we believe the number of customer sign-ups for the Cord Blood Bank Segment will continue to increase substantially. Despite the one-child policy, around 16 million babies are born in China every year. The increasing acceptance of blood stem cell storage and the intensification of our marketing campaign will boost sales, and the Segment is certain to continue generating strong cash earnings for the Group.

We also expect our Chinese Herbal Medicine Segment to grow significantly. Its key product, TangHerb® lessens the pain and discomfort that AIDS sufferers experience, making it easier for them to resume normal activity.

The Chinese government is committed to fighting the spread of HIV/AIDS. Mr. SUN Xin Hua, head of the AIDS Division of the Chinese Department of Disease Control announced in May 2006 that the government plans to spend RMB850 million on prevention and treatment, including free medication. The Group hopes that TangHerb® will form part of these efforts, as, by allowing AIDS sufferers to continue to make their own living, it can help reduce their dependence on state help.

TangHerb® also received encouraging support this year when the Clinical Trials Centre of the University of Hong Kong endorsed the reliability of the clinical trial results after conducting a stringent audit. This provides us with an authoritative reference when expanding both the domestic and overseas markets of TangHerb®.

Each of the medical projects the Group has undertaken has generated impressive returns. In the coming year, Golden Meditech will continue to expand the core businesses to enhance the Company's overall value. We have listened closely to our shareholders and other investors, who have been giving us valuable advice on the Group's development. The management is now studying various proposals, which include listing the Group overseas, spinning off subsidiaries and associates and listing them individually as a way of demonstrating their intrinsic value.

As the management is still actively considering options, the Board of Directors does not recommend the payment of a final dividend for this financial year. The management believes that to achieve the ultimate goal of enhancing company value, sufficient financial resources are needed to support the Group's long-term development. Given our excellent record of producing first-rate products and generating substantial returns, I know our investors are as confident as we are that Golden Meditech will continue to progress in a way that benefits customers, employees and shareholders alike.

## APPRECIATION

I would like to express my deepest gratitude, on behalf of the Board and the shareholders, to the management team and all our staff members for their dedicated efforts in achieving such outstanding results in the past year.

**KAM Yuen**
*Chairman*
Hong Kong, 14 June 2006

# GOLDEN MEDITECH

Stock Code: 8180

## Medical Device Segment

- Blood-related medical equipment
- Personal healthcare products
- Nationwide sales network
- Research and development

## Cord Blood Bank Segment

- Blood stem cell storage
- Matching services for transplants
- Research on stem cell clinical applications

## Chinese Herbal Medicine Segment

- TangHerb® – First SFDA-approved proprietary Chinese herbal medicine for AIDS treatment
- Research on natural herbal medicines

### *Executive Directors*

Mr. KAM Yuen *(Chairman)*
Ms. JIN Lu
Mr. LU Tian Long
Ms. ZHENG Ting

### *Independent Non-executive Directors*

Prof. CAO Gang
Mr. GAO Zong Ze
Prof. GU Qiao

### *Registered Office*

Appleby Corporate Services (Cayman) Limited
P.O. Box 1350 GT
Clifton House
75 Fort Street, George Town
Grand Cayman, Cayman Islands
British West Indies

### *Head Office and Principal Place of Business in the PRC*

Room 11, 7/F
Tower E1, Beijing Oriental Plaza
No. 1 East Chang An Ave.
Dong Cheng District
Beijing, 100738 China

### *Principal Place of Business in Hong Kong*

Suite A, 36/F
Bank of China Tower
1 Garden Road
Central
Hong Kong

### *Stock Code*

8180

### *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
Credit Suisse
CITIC Ka Wah Bank Limited
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited

### *Public Relations Consultant*

A-World Consulting Limited

### *Website*

www.goldenmeditech.com

## DIRECTORS

### *Executive Directors*

Mr. KAM Yuen (甘源), aged 44, is the Chairman, Chief Executive Officer and Compliance Officer of the Company, and the founder of the Group. Mr. Kam is also a Director of several subsidiaries of the Company. He is responsible for the Group's overall strategic planning. Mr. Kam graduated from the Beijing Second Foreign Languages Institute, the PRC (北京第二外國語學院) in 1985 and has over 19 years of management experience in international business. Mr. Kam is the sole director of Bio Garden Inc., which has an interest in the share capital of the Company as disclosed under the provisions of Part XV of the Securities and Futures Ordinance.

Ms. JIN Lu (金路), aged 40, is an Executive Director of the Company and a Director of several of its subsidiaries. She joined the Group in June 2000 and is in charge of the general administration and daily operations of the Group. Ms. Jin received her EMBA degree from Peking University's Guanghua School of Management, the PRC (北京大學光華管理學院) in 2005, and received her Bachelor's degree from the Beijing Second Foreign Languages Institute, the PRC, (北京第二外國語學院) in 1987.

Mr. LU Tian Long (魯天龍), aged 54, has been an Executive Director of the Company since September 2001. He is a Director and the General Manager of Jingjing. He is responsible for the production, operations and management of Jingjing.

Ms. ZHENG Ting (鄭汀), aged 33, is an Executive Director of the Company and a Director of several of its subsidiaries. She is responsible for the Group's financial and internal control systems. Ms. Zheng joined the Group in September 2001. She graduated from the Chinese People's University, the PRC (中國人民大學) in 1996.

### *Independent Non-executive Directors*

Prof. CAO Gang (曹岡), aged 61, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee. He joined the Group in September 2004. Prof. Cao is a professor of Accountancy. He qualified as one of the first group of registered accountants in the PRC in 1983 and is currently the Vice-president of the Beijing Society of Accountants.

Mr. GAO Zong Ze (高宗澤), aged 66, is an Independent Non-executive Director, a member of the Audit Committee and the Chairman of the Remuneration Committee. He joined the Group in September 2001. Mr. Gao is a qualified lawyer in the PRC and is also a National Committee member of China's Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會). Mr. Gao graduated from the Graduate School of the China Academy of Social Sciences, the PRC, (中國社會科學院) in 1981.

Prof. GU Qiao (顧樵), aged 59, is an Independent Non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee. He joined the Group in September 2001. Prof. Gu is a scientist in quantum-optics, biophysics and biological photonics and an Associate Professor of the Northwest University, the PRC (中國西北大學). He is also a member of the International Institute of Biophysics, Germany. Prof. Gu received his doctoral degree from the Northwest University, the PRC, in 1989.

## TECHNOLOGY DEVELOPMENT ADVISORY BOARD

The Group established a technology development advisory board (the "Technology Board") in 2000. As at 31 March 2006, the Technology Board comprised more than 40 experienced medical officers. The primary responsibilities of the Technology Board are (i) to develop the Group's key technical strategies; (ii) to monitor the progress of major technical programmes; and (iii) to review proposals for the development of new products and production techniques. The five core members of the Technology Board are Prof. ZHANG Ming Li, Chairman of the Technology Board, Prof. PEI Xue Tao, Prof. WANG Bao Guo, Prof. TIAN Ming and Prof. LU Dao Pei.

Prof. ZHANG Ming Li (張明禮) is the Chairman of the Technology Board. He graduated from Peking University, the PRC and is a cardiac and thoracic specialist. Prof. Zhang received the "Beijing Municipal Technology Progress Award" in 1986 for his invention of an external circulation pump monitoring equipment, the controlling automatic pressure releasing equipment, and the blood level monitoring and controlling equipment. He is currently the Chief Practitioner at the Faculty of Cardiac and Thoracic Surgery of Peking University Hospital, supervisor to doctoral candidates at the Faculty of Medicine of Peking University, an evaluation specialist on the Medical Equipment Evaluation Committee, a medical project evaluation specialist for the National Invention Foundation (國家創新基金醫療項目), and Instructor-in-charge of the "National Autologous Blood Recovery Technology Course", a national medical continuous-learning project.

Prof. PEI Xue Tao (裴雪濤) is the Director of the Field Blood Transfusion Research Institute of the Military Medical Science University (軍事醫學科學院野戰輸血研究所) and the Chief Practitioner of the Stem Cell Research Center (幹細胞研究中心). He is also the Deputy Chairman of the People's Liberation Army Medical Science Committee. He is a professor and supervisor to doctoral candidates of the Military Medical Science University. He received his doctoral degree from the Military Medical Science University in 1997.

Prof. WANG Bao Guo (王保國) is the Chief Practitioner of the Medical Affairs Department and Anaesthesiology Department of the Tiantan Hospital, Capital University of Medical Sciences (首都醫科大學天壇醫院). He is a supervisor to doctoral candidates in the Capital University of Medical Sciences and is on the editorial boards of three academic journals on Anaesthesiology. He is also the secretary of the Beijing Anaesthesiology Committee (北京麻醉專業委員會) and his research has earned him a number of technology awards granted by the Beijing Municipality.

Prof. TIAN Ming (田鳴) is the Chief Practitioner of Anaesthesiology of the Beijing Friendship Hospital (北京友誼醫院). He graduated from the China Medical University with a doctoral degree in Anaesthesiology in 1996. He has a solid background in the field of Anaesthesiology and has cooperated on numerous occasions with cardiac surgeons from the U.S., the U.K., Japan and Italy. In addition to publishing articles on his specialty, he is also involved in research into autologous blood transfusions. Prof. Tian has substantial experience in teaching and received two outstanding teacher's awards in 2000.

Prof. LU Dao Pei (陸道培) is an haematologist and expert in bone marrow transplants. He is currently an elected member of the Chinese Academy of Engineering, Vice President of the Chinese Medical Association ("CMA") (中華醫學會), as well as Chairman of the CMA's Council of Haematology. He is considered to be the founder and the primary driving force of blood stem cell research in the PRC. Prof. Lu was also the first to prove to the international community that the independent application of the realgar herb could cure acute myelogenous leukemia. Prof. Lu has received the China Science and Technology Progress Award and a number of other top scientific awards.

## SENIOR MANAGEMENT

Mr. LU Shu Qi (路書奇), aged 58, Deputy General Manager of Jingjing, is responsible for the production, general management and daily operations of Jingjing. He graduated from Tsinghua University (清華大學) and has over 20 years of management experience in production.

Mr. KONG Kam Yu (江金裕), aged 37, is the Qualified Accountant and Company Secretary. He joined the Group in 2001, and is responsible for the Group's finances, corporate projects and company secretarial matters. Prior to joining the Group, Mr. Kong worked with a leading international accounting firm.

Mr. ZHANG Ji Hong (張積宏), aged 54, Deputy General Manager of Jingjing, is in charge of merchandise and supplies and subcontracting work. He has over 20 years of experience in the manufacturing industry. He studied Finance and Accounting at the Second Branch of Peking University, the PRC (北京大學二分院).

Ms. CUI Qi (崔琪), aged 53, Deputy General Manager and Finance Manager of Jingjing, is currently in charge of Jingjing's financial systems. She graduated from the Finance and Accounting Department of the Beijing Western District Employees' University, the PRC (北京西城區職工大學) and is a registered accountant in the PRC.

Mr. LIANG Bing Yue (梁冰岳), aged 41, is the Sales Manager of Jingjing. Mr. Liang graduated from the Fourth Military Medical University of the People's Liberation Army, the PRC (解放軍第四軍醫大學) in 1989. He has over 10 years of sales and marketing experience in the medical industry in the PRC and has a thorough understanding of the PRC's medical industry. He is highly experienced in designing sales and marketing strategies and opening up new sales channels.

Mr. GAO Guang Pu (高光譜), aged 43, is the Quality Control Manager of Jingjing. In addition to ensuring the quality of Jingjing's products, he is also responsible for various aspects of Jingjing's production technology, including product standards, production procedures and technological improvements.

Prof. LIU Kai Yan (劉開彥), aged 50, Chief Scientist of Jiachenhong, is in charge of research and development, and the formulation and implementation of technological standards. He received his doctoral degree in Medicine from Kyushu University, Japan (九州大學), and is the Chief Physician of the Department of Internal Medicine of the People's Hospital of Peking University, the Deputy Director of the Institute of Haematology of Peking University (北京大學血液病研究所) and a supervisor to doctoral candidates. Prof. Liu has over 20 years of experience in stem cell research and medical applications.

Mr. GAO Feng (高峰), aged 50, Chief Executive Officer of Jiachenhong, is responsible for the company's daily operations and management. Specialising in paediatrics, Mr. Gao graduated from the Capital University of Medical Sciences (首都醫科大學) and then worked at the Beijing Children's Hospital (北京市兒童醫院). He has also worked for several well-known multinational healthcare companies. Mr. Gao has over 20 years of marketing and managerial experience in the medical equipment industry.

Ms. XU Xin (徐欣), aged 52, Chief Technical Officer of Jiachenhong, is in charge of the daily operations and logistic control of the company's laboratories. Ms. Xu has over 20 years of solid experience in cytobiology research and has lectured in cytobiology at Beijing Medical University (北京醫科大學).

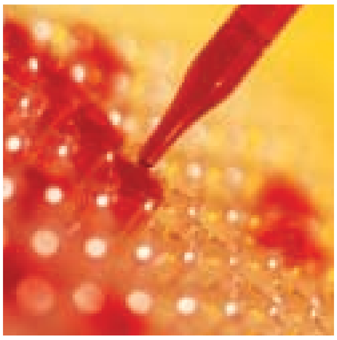
Ms. DENG Yue（鄧鉞）, aged 36, Marketing Director of Jiachenhong, is in charge of designing and implementing the marketing campaign and managing the sales and marketing force. Ms. Deng graduated from NanKai University Tianjin Foreign Trade Institute（南開大學對外貿易學院）and has over 10 years of marketing and management experience. Prior to joining the Group, she worked for a number of well-known multinational medical corporations.

Mr. ZHANG Ying (張穎), aged 35, is the Financial Controller of Jiachenhong. He is in charge of Jiachenhong's daily financial management and internal control. Mr. Zhang graduated from the Beijing Financial Commerce College（北京財政貿易學院）and has over 10 years of accounting experience.

Mr. SHAO Bao Ping (邵寶平), aged 40, Chief Executive Officer of Baisuihang, is in charge of its daily operations. Mr. Shao obtained his master's degree from the Shanghai Institute of Materia Medica of the Chinese Academy of Sciences (中國科學院上海藥物研究所) and has extensive work experience in the fields of pharmacology and herbal medicine. Mr. Shao has held key positions in well-known enterprises in the PRC and has extensive corporate management experience.

Ms. YANG Li Ya (楊莉婭), aged 43, Chief Operating Officer of Baisuihang, oversees the whole manufacturing process and is in charge of quality control. Ms. Yang has extensive managerial experience and has held senior managerial positions in a number of large PRC pharmaceutical companies. Ms. Yang obtained her master's degree in Pharmaceutical Engineering from the East China University of Science and Technology (華東理工大學).

# Management Discussion and Analysis



## BUSINESS REVIEW

### *Overview*

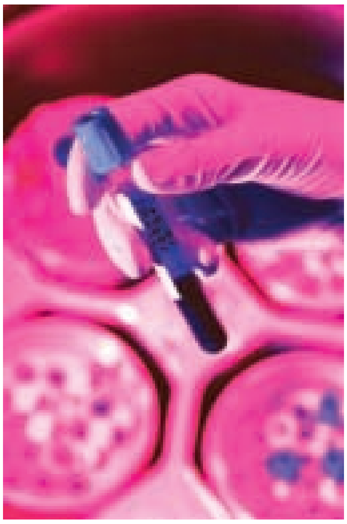
Golden Meditech's performance during the year under review was outstanding. Built on solid foundations, the core businesses maintained their highly satisfactory performance. The usage rate of the Medical Device Segment's flagship product rose by over 25% for the fifth consecutive year and the Cord Blood Bank Segment again saw customer sign-ups and revenue increased by over 100%. The production design for the Chinese Herbal Medicine Segment's product, TangHerb®, was completed and the facilities were fully equipped in under twelve months, enabling us to launch the product during this financial year. The management's investment strategy has clearly been successful, with new ventures starting to create value and investments from the earliest days continuing to bring substantial returns to shareholders.

### *Medical Device Segment — continuing market dominance of flagship product*

The Medical Device Segment maintained stable growth and its pre-eminent position during the year. The flagship product — the Autologous Blood Recovery System ("ABRS") — continues to dominate the China market. It collects, processes and recycles the blood a patient loses during surgery, replacing traditional homologous blood transfusion methods and eliminating the risk of contracting blood-borne diseases through transfusion.

The turnover of the Medical Device Segment for the year under review increased 10% compared to last year to HK$246,311,000. The operating results of this Segment increased 29%, to HK$187,532,000. The Group sold approximately 2,100 units of the ABRS Machine, an increase of 11%, during the year, and 100,000 sets of Disposable Chambers. Since the product's launch, the sales of Disposable Chambers have grown over 25% for five consecutive years, demonstrating the increasing popularity of the ABRS.

In his statement, the Chairman highlights the global trend toward personal healthcare products and tailor-made services, and points out that this market has just began to grow in China and has huge potential. To enter this market — to fuel future growth — the Group has developed and is preparing to launch a series of personal health monitoring devices. The products initially target Bluetooth handset users in China. Customers can send the vital



health signs data collected to their mobile handsets via Bluetooth for reading and onward transmission. Our pioneering devices enable busy young people to monitor their own and their family's health anytime, anywhere.

To ensure the speedy penetration of its personal healthcare devices in China, the Group acquired a distributor of personal electronic goods in the fourth quarter in order to use its nationwide sales channels for sales and marketing. The management believes this will result in huge savings on establishing sales networks and on advertising, and help maximise cost-effectiveness.

### *Cord Blood Bank Segment — successful sales and promotion*

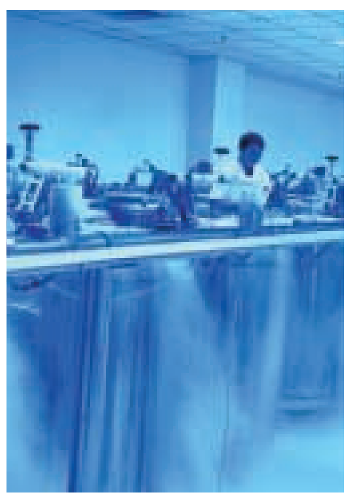
The Cord Blood Bank business maintained its tremendous growth during the year. The business provides examination, separation, processing and storage services for the umbilical cord blood stem cells of newborn babies. The first private cord blood bank operator in China, it is still one of only two authorised operators.

During this financial year, turnover increased dramatically by 133%, amounting to HK$33,989,000, as a result of the comprehensive marketing strategy and highly-effective management team.

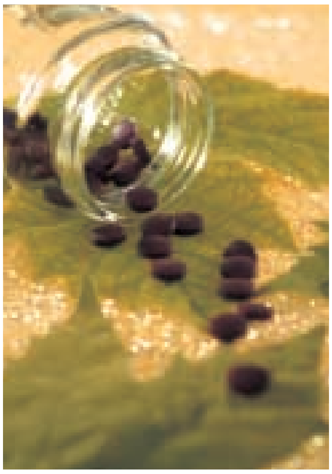
The current management team — appointed by the Group last year — decided, after serious consideration, to replace the expansion program put in place by the former management three years ago with a more efficient and realistic plan that would ensure speedy implementation. As a result, some construction materials were sold to minimise the loss. Although this resulted in a one-off loss of HK$11,185,000, the management is confident of realising the new expansion plan and contributing significantly higher returns for the Group and the shareholders.

Since the current management team took over the business, the compound annual growth rates of both the revenue and new customer sign-ups have risen remarkably by 202% and 187% respectively — proof of the team's superb leadership skills, and marketing abilities.

By 31 March 2006, the number of paying customers had exceeded 11,000, with the fees generating a significant amount of cash for the Group every year. Currently, the obstetrics departments of over 130 hospitals in China promote our cord blood banking service. The management strongly believes this service will become increasingly popular among the general public.



### *Chinese Herbal Medicine Segment — prompt commercialisation*



The Segment's product, TangHerb®, is the first proprietary Chinese medicine approved by the SFDA for alleviating AIDS symptoms. Clinical trials prove that it can boost the immune systems of both HIV carriers and AIDS patients and enhance their quality of life. The Group completed the acquisition of the manufacturing complex for TangHerb®, upgraded the facilities and obtained all necessary production certificates within a year, and launched the product during the year under review as planned.

The Group intends to develop the overseas market for TangHerb®. To help in obtaining the approval of foreign governments for the sale of TangHerb®, the Group appointed the Clinical Trials Centre ("CTC") at the University of Hong Kong to audit the clinical trials of TangHerb® for quality of trial conduct, and reliability of data and statistical analysis.

After over half a year of detailed study, the CTC's audit report, issued in late 2005, confirms that "the clinical trial of TangHerb® has been conducted according to international standards, i.e. in line with the Declaration of Helsinki and the ICH GCP Guidelines." In addition the audit "did not identify any major findings that could have influenced the quality of trial conduct, data and statistical analysis." The CTC's professional audit and endorsement provide strong support for developing both the domestic and foreign markets of TangHerb®.

### *Tumour Treatment Division — spectacular returns*

The Group's tumour treatment associate, China Medical Technologies, Inc. ("CMED"), successfully listed on the NASDAQ in the United States in August 2005. The Group sold 22,900,000 ordinary shares at CMED's secondary offering on 23 March 2006, resulting in a gain of approximately HK$322,218,000. As at 31 March 2006, the Group held 27,100,000 CMED ordinary shares.

### *Major Investment — future growth*

On 27 January 2006, the Group entered into an acquisition agreement to acquire a 50% equity interest in Beijing Pypo Technology Group Company Limited ("Pypo"), which possesses a nationwide network of sales channels for personal electronic goods, for an aggregate cash consideration of RMB460,000,000, representing approximately 5.5 times Pypo's net profit in 2005. This acquisition was approved at the extraordinary general meeting held on 19 April 2006 and was subsequently granted business licence by the relevant PRC regulatory authority on 2 June 2006.

The Group plans to use Pypo's nationwide sales network to market its newly developed health monitoring devices to the target customers — Bluetooth handset users in China. Pypo's sales network can ensure speedy penetration of the products across China, resulting in considerable savings on establishing sales channels and on advertising, and maximising cost-effectiveness. Pypo's stable sales record, high liquidity, and robust financial position will also strengthen our earnings.

## FINANCIAL REVIEW

### *Turnover*

The Group continued to demonstrate robust growth and deliver satisfactory returns for the year ended 31 March 2006, in line with management's expectations. Turnover was HK$280,578,000, an increase of 17% compared with last year.

The Medical Device Segment remained the Group's principal source of revenue, accounting for 88% 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 and Chinese Herbal Medicine segments will account for a larger share of total turnover in the future.

### *Profit Attributable to Equity Shareholders*

During the financial year under review, profit attributable to equity shareholders rose spectacularly to HK$563,824,000. This sharp rise in earnings was due to the gain from selling part of the stake in an associate. Despite the sale of some materials for cord blood bank facilities that were under construction, which resulted in a one-off loss of HK$11,185,000, and the unfavourable effect of the new accounting policies effective 1 April 2005, profit attributable to equity shareholders increased dramatically by 308%.

### *Gross Profit Margin*

The Group maintained a high gross profit margin of 67% for the year under review (2005: 70%). The management anticipates that the gross profit margin of the Medical Device Segment will continue to be impressive. However, each of the Group's businesses 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.

### *Deemed Disposal and Disposal of Partial Interest in an Associate*

CMED, the associate in which the Group invested in 2003, was listed on the NASDAQ in the United States in August 2005, creating an exceptional gain of HK$116,571,000 for the Group. The Group sold 22,900,000 ordinary shares at CMED's Secondary Offering in March 2006, generating a gain of HK$322,218,000. As at 31 March 2006, the Group held 27,100,000 CMED ordinary shares.

### *Selling and Administrative Expenses*

Total selling and administrative expenses for the year ended 31 March 2006 were HK$112,825,000. The increase was mainly due to the expansion of the businesses, the declaration of discretionary bonuses to certain senior management and employees of the Group for their outstanding contribution in relation to CMED, and the adoption of new accounting policies, which require the inclusion of employees' share option expense in the administrative expenses. The Group has always been prudent in controlling costs and, while the management will continue to enhance the Group's profitability, it will also continue to ensure expenses are kept at a reasonable level.

### *Finance Costs*

Finance costs mainly included the interests on bank loans, expenses incurred in the lending arrangements, and the interest on the convertible bonds.

### One-off Loss

After due consideration, the new management team of the cord blood bank business decided to adjust the plan for developing new branches initiated three years ago by the former management and replace it with a more efficient and realistic plan that would ensure speedy implementation. This entailed selling some of the materials for the branches under construction. Although this resulted in a one-off loss of HK$11,185,000, the Group is confident of realising the new expansion plan and generating significantly higher returns in less time.

### Dividend

The Board does not recommend the payment of a final dividend for this financial year. The directors believe this will help the Group to implement its development plan and to achieve its ultimate goal of enhancing company value.

### Capital Structure, Liquidity and Financial Resources

*Assets and Shareholder Interests*

The Group's total assets and shareholder interests at 31 March 2006 were HK$2,526,813,000 and HK$2,055,998,000 respectively (2005: HK$1,490,302,000 and HK$956,141,000 respectively).

### Liquidity

The Group's cash and bank balances at 31 March 2006 were HK$481,666,000 (2005: HK$156,045,000). Total bank borrowings were HK$134,587,000 (2005: HK$151,358,000).

### Financial Resources

The Group has always maintained a sound financial position and has sufficient cash to satisfy future requirements.

Interest-bearing liabilities totalled HK$246,864,000 (2005: HK$268,527,000). They included bank borrowings and the three-year convertible bonds issued in September 2004.

### Gearing Ratio

The gearing ratio was approximately 5% at 31 March 2006 if calculated as a percentage of total interest-bearing liabilities (excluding the convertible bonds) over total assets (2005: 10%), and was approximately 10% if calculated as a percentage of total interest-bearing liabilities (including the convertible bonds) over total assets (2005: 18%).

### *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 July 2005 revaluation of the Renminbi is already working in our favour and the management believes it will continue to benefit the Group.

Since the exchange rate fluctuation between Hong Kong Dollars and Renminbi is minimal, the management considers the exchange rate risk to which the Group is exposed to be very low. Therefore, 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 capital requirements.

### *Charges on Group Assets*

As at 31 March 2006, the total book value of the assets charged for bank loans was HK$98,558,000 (2005: HK$98,992,000).

### *Contingent Assets/Liabilities*

As at 31 March 2006, the Group considered it had no contingent assets/liabilities (2005: Nil). Details of any contingent assets and liabilities are set out in note 38 to the financial statements.

## POST BALANCE SHEET EVENT

*Successful Placing of New Shares*

On 13 April 2006, the Group entered into a placing agreement to place 252,824,000 new ordinary shares, representing approximately 19.8% of Golden Meditech's existing issued share capital, at HK$2.4 per share. The placing raised HK$587,467,000 net of estimated expenses, which will be used as working capital and reserve for potential future investments. The placement was completed on 26 April 2006.

## EMPLOYEES

The Group has 372 (2005: 318) full-time employees in Hong Kong and the PRC at as 31 March 2006.

The Group believes that its people are its most important asset. Employees' salaries are therefore set at competitive levels, while staff members who demonstrate outstanding performance are rewarded with discretionary bonuses and share options.

## PROSPECTS

The core businesses of the Group all have tremendous growth potential, and they all enjoy leading positions in their fields. The management has laid a firm foundation for future development and strongly believes the Group can continue to generate satisfactory returns for shareholders.

Going forward, the management will work toward expanding the hospital market. We intend to achieve greater market penetration for the ABRS so as to ensure long-term sales of the Disposable Chambers, and launch a new medical device for in-hospital treatment in the coming financial year. We will also develop the personal healthcare market, and plan to complete the commercialisation for our first product next year.

The management is confident that the cord blood banking services will become even more popular with expectant parents, and will generate more significant earnings for the Group. We also expect the Chinese Herbal Medicine business, through sales of TangHerb®, to deliver satisfactory results in the next financial year, and continue to receive government support.

The Group is committed to sustaining its impressive performance, creating value for our shareholders and contributing to society through the development and application of outstanding medical technology. We are confident that we can build on our strong foundations, maintain our pre-eminent position in the industry and achieve our ultimate goal of becoming the world's leading hi-tech medical group.

The Board of Directors of the Company (the "Board") is pleased to present this Corporate Governance Report for the year ended 31 March 2006.

Good corporate governance has always been recognised as vital to the Group's success and development. The Board is committed to achieving and maintaining high standards of corporate governance. The Board recognises that such commitment is essential in upholding accountability and transparency, enhancing the performance of the Company and safeguarding the interests of the shareholders.

This report addresses the status of the Company's compliance with the principles and provisions of the new Code on Corporate Governance Practices (the "CG Code"), which came into effect for the reporting financial year after 1 January 2005.

## THE CG CODE

The CG Code sets out the principles of good corporate governance and two levels of corporate governance practices, namely:

(a) code provisions (the "Code Provisions") which listed issuers are expected to comply with or give considered reasons for any deviation from; and

(b) recommended best practices (the "Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with and give considered reasons for deviation from.

The Company has applied the principles as set out in the CG Code and complied with all the Code Provisions except for Code Provision A.2.1. It has also put in place certain Recommended Best Practices. The Board periodically reviews the corporate governance practices of the Company to ensure that they meet the requirements of the CG Code.

## THE BOARD

### *Responsibilities*

The Board is responsible to the shareholders for providing effective leadership, and ensuring transparency and accountability of the Group's operations. It sets the Company's values and aims with the objective of enhancing shareholders' value. It formulates the Group's overall strategy and policies, sets corporate and management targets, key operational initiatives, and policies on risk management pursuant to the Group's strategic objectives. It also monitors the Group's operational and financial performance, approves budgets and major capital expenditures, major investments, material acquisitions and disposals of assets, oversees corporate and financial restructuring, and significant operational, financial and management matters.

The Board is also responsible for presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual, interim and quarterly reports, providing price-sensitive announcements and other financial disclosures as required under the GEM Listing Rules, and supplying to regulators all information required to be disclosed pursuant to any statutory requirement.

The Board delegates the day-to-day management, administration and operation of the Group's business to the management of the relevant segments and divisions. The management is responsible for the implementation and adoption of the Company's strategies and policies. The delegated functions and tasks are periodically reviewed by the Board.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

### *Composition*

The composition of the Board reflects the balance of skills and experience desirable for effective leadership of the Company and independent judgment.

The Board currently comprises four Executive Directors and three Independent Non-Executive Directors.

*Executive Directors:*

Mr. KAM Yuen *(Chairman)*
Ms. JIN Lu
Mr. LU Tian Long
Ms. ZHENG Ting

*Independent Non-Executive Directors:*

Prof. CAO Gang *(Chairman of Audit Committee and member of Remuneration Committee)*
Mr. GAO Zong Ze *(Chairman of Remuneration Committee and member of Audit Committee)*
Prof. GU Qiao *(member of Audit Committee and Remuneration Committee)*

The list of Directors (by category) is disclosed in all corporate communications issued by the Company pursuant to the GEM Listing Rules from time to time.

The Directors' biographical details are set out in the section "Biographical Details of Directors and Senior Management" of this annual report.

### *Independent Non-Executive Directors*

Throughout the year ended 31 March 2006, the Company met the requirement of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors with at least one in possession of appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each Independent Non-Executive Director a written annual confirmation of independence pursuant to the GEM Listing Rules and considers the Independent Non-Executive Directors to be independent.

The Independent Non-Executive Directors possess a wide range of financial expertise and experience. Their participation in Board and committee meetings helps to ensure that the interests of all shareholders of the Company are taken into account and that key issues vital to the success of the Company are subjected to independent and objective consideration by the Board.

### *Appointment and Succession Planning of Directors*

Pursuant to the CG Code, there should be a formal, considered and transparent procedure for the appointment of new directors and plans should be in place for orderly succession for appointments to the Board.

The Company does not have a nomination committee. However, the Company follows a formal, considered and transparent procedure for appointing new directors or nominating suitable candidates for approval of the shareholders either to fill the vacancies caused by the resignation of directors or to appoint additional directors.

The Board also regularly reviews its structure, size and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group.

The appointment or nomination of new Directors is a collective decision of the Board. In the selection process, the proposed candidates' skills, experience, professional knowledge, personal integrity and time commitments are taken into account having regard to the Company's needs and the relevant statutory requirements and regulations.

Each Director shall, after his appointment and on a timely basis thereafter, disclose to the Board the number and nature of offices held by such Director in other public companies and organizations and any other significant commitments.

In accordance with the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board by the Directors shall be subject to re-election at the first annual general meeting after appointment.

In accordance with the Company's Articles of Association, Mr. KAM Yuen, Ms. JIN Lu, Mr. LU Tian Long and Prof. GU Qiao shall retire by rotation at the annual general meeting of the Company to be held on 13 September 2006 and, being eligible, offer themselves for re-election. The Board recommends the re-appointment of the said Directors, whose biographical details are contained in the circular sent to the shareholders together with this annual report.

Each of the Executive Directors has entered into a service contract with the Company, commencing on 1 April 2005, which will continue until terminated by either party giving to the other not less than 90 days' notice in writing.

Mr. GAO Zong Ze and Prof. GU Qiao, both of whom are Independent Non-Executive Directors, have each entered into a service contract with the Company for a term of one year commencing on 28 December 2004 and continuing thereafter until terminated by either party giving to the other not less than 30 days' notice in writing.

Prof. CAO Gang, an Independent Non-Executive Director, has entered into a service contract with the Company for a term of one year commencing on 23 September 2004 and continuing thereafter until terminated by either party giving to the other not less than 30 days' notice in writing.

### *Training for Directors*

Every newly appointed Director is provided with an induction on the first occasion of his/her appointment to ensure that he/she has adequate understanding of the businesses and operations of the Group. The Directors are also kept informed on a timely basis of their responsibilities and obligations under the GEM Listing Rules and other relevant statutory or regulatory requirements. The Company also encourages its Directors to participate in other continuous professional development programmes for directors.

No new Director was appointed during the year ended 31 March 2006.

### *Chairman and Chief Executive Officer*

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

Mr. KAM Yuen is the chairman and chief executive officer of the Company 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 in view of the current composition of the Board, which comprises, inter alia, 3 Independent Non-Executive Directors who bring strong independent judgement, knowledge and experience to the Board's deliberations. The Board believes that this structure is conducive to strong and consistent leadership for the Group, enabling it to make and implement decisions promptly and efficiently.

Mr. Kam has been both the chairman and chief executive officer of the Company since the listing of the Company's shares on the GEM. He has substantial experience in the medical healthcare industry. The Board and management are of the view that the assumption of those positions by Mr. Kam is beneficial to the business development of the Group.

### *Board Meetings*

Regular Board meetings are held at least four times a year at approximately quarterly intervals. During the year ended 31 March 2006, the full Board met seven times. At these meetings the Directors considered and approved significant matters including, among other things, the financial results of the Group, statutory financial reports, acquisition of Beijing Pypo Technology Group Company Limited and matters relating to the secondary offering of certain shares of China Medical Technologies, Inc.

Six additional Board meetings were held during the year under review and these were attended by a majority of the Directors. The meetings were held for the purposes of, among other things, approving documents relating to the scrip dividend scheme, the transfer of the Company's convertible bonds and the allotment of shares under the scrip dividend scheme, the convertible bonds and the share option scheme.

The individual attendance of each Director at meetings of the Board, Audit Committee and Remuneration Committee held during the year is set out below:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** |
| *Executive Directors:* | | | |
| Mr. KAM Yuen *(Chairman)* | 13/13 | N/A | N/A |
| Ms. JIN Lu | 8/13 | N/A | N/A |
| Mr. LU Tian Long | 8/13 | N/A | N/A |
| Ms. ZHENG Ting | 11/13 | N/A | N/A |
| *Independent Non-Executive Directors:* | | | |
| Prof. CAO Gang | 8/13 | 4/4 | 1/1 |
| Mr. GAO Zong Ze | 8/13 | 4/4 | 1/1 |
| Prof. GU Qiao | 8/13 | 4/4 | 1/1 |

## *Conduct of Meetings*

In order to ensure the Board works effectively and discharges its responsibilities, all members of the Board have full and timely access to the latest developments and financial position of the Group and are properly briefed on issues arising for discussion at Board meetings.

All Directors are notified of regular Board meetings at least 14 days in advance. For other Board and committee meetings, reasonable notice is generally given.

Directors are consulted and provided with an opportunity to include matters in the agenda for discussion at Board and committee meetings. Information packages, including meeting agenda, board papers and all appropriate information, are sent to all Directors at least 3 days before each Board or committee meeting to enable them to make informed decisions.

The Company Secretary has the responsibility to keep the Directors informed of any new corporate governance issues and changes in the regulatory regime and ensure Board procedures are in compliance with the CG Code and other statutory requirements. All members of the Board have full access to the Company Secretary.

Minutes of Board and committee meetings are recorded in detail and draft minutes are circulated to all Directors and committee members, as the case may be, for comment before approval. Minutes of Board and committee meetings are kept by the Company Secretary and are open for inspection by Directors.

The Board is provided with sufficient resources to discharge its duties and if required, individual Directors may retain outside advisers, at the Company's expense, to provide advice on any specific matter.

According to the current Board practice, any transaction which involves a material conflict of interest for a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting instead of by the circulation of written resolutions of all Board members. The Company's Articles of Association also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

### *Audit Committee*

The Company established an audit committee (the "Audit Committee") on 15 December 2001 and has formulated its written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules.

The Audit Committee's primary duties include the following:

- to make recommendations to the Board on the appointment and removal of external auditors and to assess their independence and performance;
- to review the Company's financial statements and make sure that they are complete, accurate and fair before submission to the Board;
- to consider any significant or unusual items raised by the qualified accountant, compliance officer or external auditors;
- to ensure compliance with the applicable accounting standards and regulatory requirements on financial reporting and disclosure; and
- to supervise the effectiveness of the financial reporting process and internal control systems of the Group and to monitor the integrity thereof.

Pursuant to the terms of reference of the Audit Committee, the Audit Committee shall meet at least four times every year. Additional meetings may also be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Group may request a meeting if considered necessary.

The Audit Committee held four meetings during the year ended 31 March 2006. Working closely with the management of the Company, the Audit Committee has reviewed the Company's annual, interim and quarterly results, the accounting principles and practices adopted by the Group, discussed with the Board and management internal controls and financial reporting matters, and reviewed the independence and performance of the external auditors. The Company's annual results for the year ended 31 March 2006 have been reviewed by the Audit Committee.

### *Remuneration Committee*

The Company established a remuneration committee (the "Remuneration Committee") in June 2005 with written terms of reference in compliance with paragraph B1 of the CG Code.

The principal responsibilities of the Remuneration Committee include the following:

- to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Company;
- to determine the specific remuneration packages of all Executive Directors and senior management of the Company and to make recommendations to the Board on the remuneration of the Independent Non-Executive Directors; and
- to establish a formal and transparent procedure for developing the remuneration policy and structure and to ensure that no Director participates in deciding his/her own remuneration.

The emoluments of Directors, including basic salary and performance bonus, are determined by reference to each Director's skills, knowledge and level of responsibilities, the Company's performance and profitability, remuneration benchmarks in the industry and the prevailing market conditions.

Meetings of the Remuneration Committee are held at least once a year and additional meetings may be held as required. During the year, the Remuneration Committee has assessed the performance of each of the Executive Directors and the Company's financial controller and approved a revision of their remuneration packages.

### *Directors' Securities Transactions*

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for securities dealings by Directors.

Specific enquiries indicate that all Directors have complied with the required standard of dealings for the year ended 31 March 2006.

### *Accountability and Audit*

The Board is responsible for presenting a balanced, clear and understandable assessment of the Group's financial position and prospects. In preparing the financial statements for the year ended 31 March 2006, the Directors have selected suitable accounting policies and applied them consistently. The Directors also made judgments and estimates that are prudent and reasonable and have prepared the financial statements on a going concern basis. There are no material uncertainties or events that may cast significant doubt on the Company's ability to continue as a going concern.

Messrs. KPMG, the external auditors of the Company, acknowledge their reporting responsibilities for the financial statements of the Company for the year ended 31 March 2006 in the Auditors' Report included in this annual report.

For the year ended 31 March 2006, the fees payable to the external auditors for audit and non-audit services (primarily for acting as reporting accountants for an acquisition) were HK$2,440,000 and HK$2,300,000 respectively.

### *Investor Relations*

The Company is committed to maintaining open dialogue with the investment community in order to increase understanding of the Company's strategy, operations and management. To promote investor relations, the Company's senior management has participated in regular one-on-one meetings, roadshows and investor conferences organised by various investment banks during the year. In addition, the Company also hosted regular investor briefings and tele-conferences, tailored for overseas investors, to keep them up to date with business developments.

The Company attaches great importance to communicating with its shareholders and investors. Information on the Group's activities, business strategies and developments is provided in the Company's annual, interim and quarterly reports, corporate brochures and video. During the year, the Chairman attended and presided at all general meetings. Shareholders are encouraged to attend the general meetings of the Company, which offer a valuable forum for dialogue and interaction with the Chairman and top management of the Company.

Separate resolutions are proposed at general meetings on each substantially separate issue. Details of the poll voting procedures and rights of shareholders to demand a poll are included in the circulars sent to the shareholders at least 14 days before a general meeting and 21 days before the annual general meeting.

In order to promote effective communications and to keep the investors abreast of developments, financial and other information relating to the Group and its business activities is posted regularly on the Company's website at www.goldenmeditech.com.

The directors have pleasure in submitting their annual report together with the audited financial statements of Golden Meditech Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries and associates are set out in notes 18 and 19 to the financial statements.

The analysis of the turnover from the principal activities of the Group during the financial year is set out in note 4 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 59% | |
| Five largest customers in aggregate | 86% | |
| The largest supplier | | 23% |
| Five largest suppliers in aggregate | | 62% |

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

## FINANCIAL STATEMENTS

The profit and cash flows of the Group for the year ended 31 March 2006 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 43 to 120 of this annual report.

## DIVIDENDS AND RESERVES

The directors do not recommend the payment of a final dividend (2005: HK2.1 cents per share).

Profits attributable to equity shareholders, before dividends, of HK$563,824,000 (2005 (restated): HK$138,263,000) have been transferred to reserves. Other movements in reserves of the Group and the Company during the year are set out in the statement of changes in equity on pages 47 to 49.

## DONATIONS

During the year, the Group made donations for charitable and community purposes amounted to HK$150,000 (2005: HK$100,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

## CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 31 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer shares on a pro-rata basis to the existing shareholders.

## DIRECTORS

The directors of the Company during the financial year were:

### *Executive Directors*

Mr. KAM Yuen *(Chairman)*
Ms. JIN Lu
Mr. LU Tian Long
Ms. ZHENG Ting

### *Independent Non-Executive Directors*

Prof. CAO Gang
Mr. GAO Zong Ze
Prof. GU Qiao

In accordance with Article 108 of the Company's Articles of Association, Mr. KAM Yuen (Chairman), Ms. JIN Lu, Mr. LU Tian Long and Prof. GU Qiao will retire at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

The biographical details of the directors and senior management are set out on pages 12 to 15 of this annual report. Details of the emoluments of the directors and the five highest paid individuals are set out in notes 8 and 9 to the financial statements.

## DIRECTORS' SERVICE CONTRACTS

### *Executive Directors*

Each of the Executive Directors has entered into a service contract with the Company, commencing on 1 April 2005, which will continue until terminated by either party giving to the other not less than 90 days' notice in writing.

### *Independent Non-Executive Directors*

Mr. GAO Zong Ze and Prof. GU Qiao, have each entered into a service contract with the Company for a term of one year commencing on 28 December 2004 and will continue thereafter until terminated by either party giving to the other not less than 30 days' notice in writing.

Prof. CAO Gang has entered into a service contract with the Company for a term of one year commencing on 23 September 2004 and will continue thereafter until terminated by either party giving to the other not less than 30 days' notice in writing.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

As at 31 March 2006, 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

| | | Number of ordinary shares of HK$0.1 each Long position/(Short position) | | | | | |
|---|---|---|---|---|---|---|---|
| Name of directors | Capacity and nature of interests | Personal interests | Family interests | Corporate interests | Number of underlying shares held under equity derivatives | Total interests | Approximate percentage of the Company's issued share capital |
| Mr. KAM Yuen | Interest of controlled corporation | — | — | 433,916,000(1)<br>(61,832,000)(2) | —<br>— | 433,916,000<br>(61,832,000) | 34.00%<br>(4.84%) |
| | Beneficial owner | — | — | — | 63,206,245(3) | 63,206,245 | 4.95% |
| Mr. LU Tian Long | Beneficial owner | — | — | — | 400,000(3) | 400,000 | 0.03% |
| Ms. ZHENG Ting | Beneficial owner | — | — | — | 2,000,000(3) | 2,000,000 | 0.16% |

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 31 March 2006.

(2) Mr. KAM Yuen was deemed under the SFO to have a short position in the shares 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 31 March 2006, none of the directors or the 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 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 summarised in note 33 to the financial statements.

2. A summary of movements of share options under the share option schemes of the Company for the year ended 31 March 2006 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 1 April 2005 | Number of underlying shares in respect of which share options were exercised during the year | Number of underlying shares in respect of which share options were granted during the year | Number of underlying shares in respect of which share options were outstanding as at 31 March 2006 | Exercise price HK$ |
|---|---|---|---|---|---|---|
| Mr. KAM Yuen | 30 March 2005(2&3) | 63,206,245 | — | — | 63,206,245 | 1.76 |
| Mr. LU Tian Long | 31 March 2003(4) | 3,200,000 | (3,200,000)(6) | — | — | 0.575(1) |
| | 4 March 2005(5) | 400,000 | — | — | 400,000 | 1.60 |
| Ms. ZHENG Ting | 31 March 2003(4) | 1,600,000 | (1,600,000)(6) | — | — | 0.575(1) |
| | 4 March 2005(5) | 2,000,000 | — | — | 2,000,000 | 1.60 |
| Full-time employees (other than directors) | 31 March 2003(4) | 1,080,000 | (1,080,000)(6) | — | — | 0.575(1) |
| | 4 March 2005(5) | 11,970,000 | — | — | 11,970,000 | 1.60 |
| | | 83,456,245 | (5,880,000) | — | 77,576,245 | |

Notes:

(1) The exercise price has been adjusted from HK$1.15 per share to HK$0.575 per share due to a bonus issue of shares effected in 2004 on the basis of ten bonus shares for every then existing ten shares of HK$0.1 each (the "Bonus Issue").

(2) The share options were granted by the Board on 4 March 2005, subject to certain conditions, and were approved by the shareholders at the extraordinary general meeting held on 30 March 2005.

(3) The share options are exercisable as to:

(i) up to 20% immediately after 6 months from the date of grant;

(ii) up to 60% immediately after 18 months from the date of grant;

(iii) up to 100% immediately after 30 months from the date of grant; and

(iv) the share options will expire at the close of business on 3 March 2015.

(4) 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.

(5) 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.

(6) Share options were exercised as follows:

| Exercise date | Weighted average closing price of shares immediately before the date of exercise | Number of underlying shares held by directors involved | Number of underlying shares held by full-time employees involved | Total number of underlying shares involved |
|---|---|---|---|---|
| 15 March 2006 | HK$2.20 | 4,800,000 | 1,080,000 | 5,880,000 |

(7) No share options granted under the share option schemes adopted by the Company on 30 July 2002 and 30 March 2005 respectively were cancelled or lapsed during the year ended 31 March 2006.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option schemes described above, at no time during the year 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 age of eighteen, had been granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right during the year.

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

As at 31 March 2006, the interests of the shareholders (not being directors or the 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 were as follows:

### *(i) Long position/(short position) of substantial shareholders*

| Name | Capacity and nature of interest | No. of issued shares | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Bio Garden[(1)] | Beneficial owner | 433,916,000<br>(61,832,000) | 34.00%<br>(4.84%) |
| Kent C. McCarthy[(2)] | Interest of controlled corporation | 211,570,735 | 16.58% |
| Jayhawk China Fund (Cayman), Ltd.[(2)] | Investment manager | 199,878,735 | 15.66% |

Notes:

(1) Bio Garden is an investment holding company incorporated in the BVI. Mr. KAM Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden as at 31 March 2006.

(2) The interest disclosed by Kent C. McCarthy includes 199,878,735 shares held by Jayhawk China Fund (Cayman), Ltd.

### *(ii) Long position of other persons who are required to disclose their interests*

| 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 East Value Fund | Beneficial owner | 65,085,846 | 5.10% |

Save as disclosed above, as at 31 March 2006, 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.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public during the year ended 31 March 2006 and as at the date of this annual report.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group and the Company as at 31 March 2006 are set out in notes 29 and 31 to the financial statements.

## RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in note 37 to the financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 121 and 122 of this annual report.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 25 to 32 of this annual report.

## COMPETITION AND CONFLICT OF 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 conflict of interest with the Group.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-Executive Directors, namely Prof. CAO Gang, Mr. GAO Zong Ze and Prof. GU Qiao, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the Independent Non-Executive Directors to be independent.

## AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

**KAM Yuen**
*Chairman*
Hong Kong, 14 June 2006

## AUDITORS' REPORT TO THE SHAREHOLDERS OF GOLDEN MEDITECH COMPANY LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 43 to 120 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
Hong Kong, 14 June 2006

# Consolidated Income Statement

*for the year ended 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | 2006<br>$'000 | 2005<br>(restated)<br>$'000 |
|---|---|---|---|
| **Turnover** | 4 & 13 | **280,578** | 238,991 |
| Cost of sales | | **(92,441)** | (70,533) |
| **Gross profit** | | **188,137** | 168,458 |
| Other revenue | 5 | **22,093** | 18,117 |
| Selling expenses | | **(13,954)** | (7,877) |
| Administrative expenses | | **(98,871)** | (47,940) |
| **Profit from operations** | | **97,405** | 130,758 |
| Finance costs | 6(a) | **(12,431)** | (8,399) |
| Gain on deemed disposal of an associate | 19(a) | **116,571** | — |
| Gain on partial disposal of an associate | 19(b) | **322,218** | — |
| Share of profits less losses of associates | | **39,975** | 26,957 |
| **Profit before taxation** | 6 | **563,738** | 149,316 |
| Taxation | 7(a) | **(2,466)** | (10,658) |
| **Profit for the year** | | **561,272** | 138,658 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 10 | **563,824** | 138,263 |
| Minority interests | | **(2,552)** | 395 |
| **Profit for the year** | | **561,272** | 138,658 |
| **Final dividend proposed after the balance sheet date** | 11 | **—** | 26,547 |
| **Earnings per share** | 12 | | |
| Basic (in cents) | | **44.5** | 11.4 |
| Diluted (in cents) | | **42.7** | 11.2 |

The notes on pages 52 to 120 form part of these financial statements.

# Consolidated Balance Sheet

*at 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | 2006 | | 2005 (restated) | |
|---|---|---|---|---|---|
| | | **$'000** | **$'000** | $'000 | $'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 14 | | **166,094** | | 161,537 |
| Construction in progress | 15 | | **137,530** | | 183,397 |
| Intangible assets | 16 | | **523,845** | | 521,010 |
| Goodwill | 17 | | **74,450** | | 74,450 |
| Interests in associates | 19 | | **30,395** | | 79,964 |
| Available-for-sale equity securities | 20 | | **635,304** | | — |
| Deferred tax assets | 30(b) | | **9,397** | | — |
| | | | **1,577,015** | | 1,020,358 |
| **Current assets** | | | | | |
| Trading securities | 21 | **580** | | 565 | |
| Inventories | 22 | **32,887** | | 27,733 | |
| Trade receivables | 23 | **144,811** | | 129,065 | |
| Other receivables, deposits and prepayments | 24 | **78,137** | | 156,536 | |
| Loan receivable | 25 | **211,717** | | — | |
| Cash and bank balances | 26 | **481,666** | | 156,045 | |
| | | **949,798** | | 469,944 | |
| **Current liabilities** | | | | | |
| Trade payables | 27 | **46,076** | | 51,218 | |
| Other payables and accruals | 28(a) | **110,536** | | 64,224 | |
| Bank loans | 29 | **37,913** | | 57,169 | |
| Current taxation | 30(a) | **3,264** | | 3,085 | |
| | | **197,789** | | 175,696 | |
| **Net current assets** | | | **752,009** | | 294,248 |
| **Total assets less current liabilities** | | | **2,329,024** | | 1,314,606 |

*at 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | **2006** | | 2005 (restated) | |
|---|---|---|---|---|---|
| | | **$'000** | **$'000** | $'000 | $'000 |
| **Non-current liabilities** | | | | | |
| Deferred income | | **14,833** | | 5,645 | |
| Government grant | | **193** | | 719 | |
| Other payables | 28(c) | **—** | | 90,400 | |
| Bank loan | 29 | **96,674** | | 94,189 | |
| Convertible bonds | 31 | **112,277** | | 117,169 | |
| | | | **223,977** | | 308,122 |
| **NET ASSETS** | | | **2,105,047** | | 1,006,484 |
| **CAPITAL AND RESERVES** | | | | | |
| **Share capital** | 32(a) | | **127,621** | | 126,413 |
| **Reserves** | 32(b) | | **1,928,377** | | 829,728 |
| **Total equity attributable to equity shareholders of the Company** | | | **2,055,998** | | 956,141 |
| **Minority interests** | | | **49,049** | | 50,343 |
| **TOTAL EQUITY** | | | **2,105,047** | | 1,006,484 |

Approved and authorised for issue by the board of directors on 14 June 2006

**KAM Yuen**
Director

**ZHENG Ting**
Director

The notes on pages 52 to 120 form part of these financial statements.

# Balance Sheet

*at 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | 2006 | | 2005 (restated) | |
|---|---|---|---|---|---|
| | | **$'000** | **$'000** | $'000 | $'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 14 | | **43** | | 53 |
| Interests in subsidiaries | 18 | | **854,870** | | 831,017 |
| | | | **854,913** | | 831,070 |
| **Current assets** | | | | | |
| Amount due from a subsidiary | 18 | **28,273** | | 28,273 | |
| Other receivables, deposits and prepayments | 24 | **883** | | 1,303 | |
| Cash and bank balances | 26 | **5,280** | | 15,051 | |
| | | **34,436** | | 44,627 | |
| **Current liabilities** | | | | | |
| Other payables and accruals | 28(a) | **7,824** | | 7,383 | |
| Bank loans | 29 | **37,913** | | 28,913 | |
| | | **45,737** | | 36,296 | |
| **Net current (liabilities)/assets** | | | **(11,301)** | | 8,331 |
| **Total assets less current liabilities** | | | **843,612** | | 839,401 |
| **Non-current liabilities** | | | | | |
| Other payable | 28(c) | **—** | | 90,400 | |
| Convertible bonds | 31 | **112,277** | | 117,169 | |
| | | | **112,277** | | 207,569 |
| **NET ASSETS** | | | **731,335** | | 631,832 |
| **CAPITAL AND RESERVES** | | | | | |
| **Share capital** | 32(a) | | **127,621** | | 126,413 |
| **Reserves** | 32(b) | | **603,714** | | 505,419 |
| | | | **731,335** | | 631,832 |

Approved and authorised for issue by the board of directors on 14 June 2006

**KAM Yuen**
Director

**ZHENG Ting**
Director

The notes on pages 52 to 120 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*for the year ended 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Merger reserve $'000 | Exchange reserve $'000 | Surplus reserve $'000 | Fair value reserve $'000 | Retained profits $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
| At 1 April 2005 | | | | | | | | | | | | |
| - as previously reported | | 126,413 | 433,469 | — | 54,193 | (1,287) | 29,487 | — | 307,035 | 949,310 | 50,343 | 999,653 |
| - prior period adjustments in respect of: | | | | | | | | | | | | |
| - HKFRS 2 | 3(a)(i) | — | 3,559 | 905 | — | — | — | — | (4,464) | — | — | — |
| - HKAS 32 | 3(a)(i) | — | — | 8,358 | — | — | — | — | (1,527) | 6,831 | — | 6,831 |
| - as restated | | 126,413 | 437,028 | 9,263 | 54,193 | (1,287) | 29,487 | — | 301,044 | 956,141 | 50,343 | 1,006,484 |
| Changes in fair value of available-for-sale equity securities | | — | — | — | — | — | — | 513,587 | — | 513,587 | — | 513,587 |
| Exchange differences on translation of financial statements of companies outside Hong Kong | | — | — | — | — | 29,315 | — | — | — | 29,315 | 1,258 | 30,573 |
| Net gain recognised directly in equity | | — | — | — | — | 29,315 | — | 513,587 | — | 542,902 | 1,258 | 544,160 |
| Profit/(loss) for the year | | — | — | — | — | — | — | — | 563,824 | 563,824 | (2,552) | 561,272 |
| Equity-settled share-based transactions | | — | — | 6,489 | — | — | — | — | — | 6,489 | — | 6,489 |
| Shares issued under share option scheme | 32(a)(ii) | 588 | 3,284 | (491) | — | — | — | — | — | 3,381 | — | 3,381 |
| Issue of shares upon conversion of convertible bonds | 32(a)(v) | 421 | 7,579 | (539) | — | — | — | — | — | 7,461 | — | 7,461 |
| Issue of shares for scrip dividend | 32(a)(vi) | 199 | 2,148 | — | — | — | — | — | — | 2,347 | — | 2,347 |
| Dividends approved in respect of previous year | 11(b) | — | — | — | — | — | — | — | (26,547) | (26,547) | — | (26,547) |
| Transfer to surplus reserve | | — | — | — | — | — | 15,190 | — | (15,190) | — | — | — |
| At 31 March 2006 | | 127,621 | 450,039 | 14,722 | 54,193 | 28,028 | 44,677 | 513,587 | 823,131 | 2,055,998 | 49,049 | 2,105,047 |

# Consolidated Statement of Changes in Equity *(Continued)*

*for the year ended 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | | Attributable to equity shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Merger reserve $'000 | Exchange reserve $'000 | Surplus reserve $'000 | Fair value reserve $'000 | Retained profits $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
| At 1 April 2004 | | | | | | | | | | | | |
| - as previously reported | | 58,919 | 376,406 | — | 54,193 | 727 | 17,322 | — | 199,925 | 707,492 | 44,297 | 751,789 |
| - prior period adjustments in respect of: | | | | | | | | | | | | |
| - HKFRS 2 | | — | 1,200 | 2,310 | — | — | — | — | (3,510) | — | — | — |
| - as restated | | 58,919 | 377,606 | 2,310 | 54,193 | 727 | 17,322 | — | 196,415 | 707,492 | 44,297 | 751,789 |
| Exchange differences on translation of financial statements of companies outside Hong Kong | | — | — | — | — | (2,014) | — | — | — | (2,014) | (181) | (2,195) |
| Net loss recognised directly in equity | | — | — | — | — | (2,014) | — | — | — | (2,014) | (181) | (2,195) |
| Profit for the year (restated) | | — | — | — | — | — | — | — | 138,263 | 138,263 | 395 | 138,658 |
| Bonus Issue of shares | 32(a)(i) | 59,637 | (59,637) | — | — | — | — | — | — | — | — | — |
| Equity-settled share-based transactions (restated) | 3(c) | — | — | 954 | — | — | — | — | — | 954 | — | 954 |
| Shares issued under share option scheme (restated) | 32(a)(ii) | 2,107 | 16,496 | (2,359) | — | — | — | — | — | 16,244 | — | 16,244 |
| Issue of convertible bonds (restated) | 32(a)(iv) | — | — | 15,260 | — | — | — | — | — | 15,260 | — | 15,260 |
| Issue of shares upon conversion of convertible bonds (restated) | 32(a)(v) | 5,389 | 97,011 | (6,902) | — | — | — | — | — | 95,498 | — | 95,498 |
| Issue of shares for scrip dividend | 32(a)(vi) | 361 | 5,552 | — | — | — | — | — | — | 5,913 | — | 5,913 |
| Dividends approved in respect of previous year | 11(b) | — | — | — | — | — | — | — | (21,469) | (21,469) | — | (21,469) |
| Addition on acquisition of subsidiaries | | — | — | — | — | — | — | — | — | — | 5,832 | 5,832 |
| Transfer to surplus reserve | | — | — | — | — | — | 12,165 | — | (12,165) | — | — | — |
| At 31 March 2005 (as restated) | | 126,413 | 437,028 | 9,263 | 54,193 | (1,287) | 29,487 | — | 301,044 | 956,141 | 50,343 | 1,006,484 |

The notes on pages 52 to 120 form part of these financial statements.

# Statement of Changes in Equity

*for the year ended 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At 1 April 2005 | | | | | | |
| - as previously reported | | 126,413 | 433,469 | — | 65,119 | 625,001 |
| - prior period adjustments in respect of: | | | | | | |
| - HKFRS 2 | 3(a)(ii) | — | 3,559 | 905 | (4,464) | — |
| - HKAS 32 | 3(a)(ii) | — | — | 8,358 | (1,527) | 6,831 |
| - as restated | | 126,413 | 437,028 | 9,263 | 59,128 | 631,832 |
| Shares issued under share option scheme | 32(a)(ii) | 588 | 3,284 | (491) | — | 3,381 |
| Issue of shares upon conversion of convertible bonds | 32(a)(v) | 421 | 7,579 | (539) | — | 7,461 |
| Issue of shares for scrip dividend | 32(a)(vi) | 199 | 2,148 | — | — | 2,347 |
| Dividend approved in respect of previous year | 11(b) | — | — | — | (26,547) | (26,547) |
| Equity-settled share-based transactions | | — | — | 6,489 | — | 6,489 |
| Profit for the year | | — | — | — | 106,372 | 106,372 |
| At 31 March 2006 | | 127,621 | 450,039 | 14,722 | 138,953 | 731,335 |
| At 1 April 2004 | | | | | | |
| - as previously reported | | 58,919 | 376,406 | — | 28,460 | 463,785 |
| - prior period adjustments in respect of | | | | | | |
| - HKFRS 2 | 3(c) | — | 1,200 | 2,310 | (3,510) | — |
| - as restated | | 58,919 | 377,606 | 2,310 | 24,950 | 463,785 |
| Bonus Issue for shares | 32(a)(i) | 59,637 | (59,637) | — | — | — |
| Equity-settled share-based transactions (restated) | 3(c) | — | — | 954 | — | 954 |
| Shares issued under share option scheme (restated) | 32(a)(ii) | 2,107 | 16,496 | (2,359) | — | 16,244 |
| Issue of convertible bonds (restated) | 32(a)(iv) | — | — | 15,260 | — | 15,260 |
| Issue of shares upon conversion of convertible bonds (restated) | 32(a)(v) | 5,389 | 97,011 | (6,902) | — | 95,498 |
| Issue of shares for scrip dividend | 32(a)(vi) | 361 | 5,552 | — | — | 5,913 |
| Dividend approved in respect of previous year | 11(b) | — | — | — | (21,469) | (21,469) |
| Profit for the year (restated) | | — | — | — | 55,647 | 55,647 |
| At 31 March 2005 (as restated) | | 126,413 | 437,028 | 9,263 | 59,128 | 631,832 |

The notes on pages 52 to 120 form part of these financial statements.

# Consolidated Cash Flow Statement

*for the year ended 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | 2006 | 2005 |
|---|---|---|---|
| | | $'000 | $'000 |
| | | | (restated) |
| **Operating activities** | | | |
| Profit before taxation | | **563,738** | 149,316 |
| Adjustments for: | | | |
| - Depreciation | | **22,135** | 12,947 |
| - Amortisation of goodwill | | **—** | 3,793 |
| - Gain on disposal of property, plant and equipment | | **—** | (191) |
| - Government grants | | **(2,711)** | (235) |
| - Amortisation of intangible assets | | **10,791** | 1,832 |
| - Write back of other payables | | **(390)** | (866) |
| - Interest income | | **(2,580)** | (1,143) |
| - Finance costs | | **12,431** | 8,399 |
| - Gain on deemed disposal of an associate | | **(116,571)** | — |
| - Gain on partial disposal of an associate | | **(322,218)** | — |
| - Share of profits less losses of associates | | **(39,975)** | (26,957) |
| - Impairment loss on construction in progress | | **11,185** | — |
| - Equity-settled share-based payment expense | | **6,489** | 954 |
| - Effect of foreign exchange rates | | **(1,311)** | (294) |
| **Operating profit before changes in working capital** | | **141,013** | 147,555 |
| Increase in inventories | | **(4,307)** | (4,477) |
| Increase in trade receivables | | **(12,023)** | (35,043) |
| Increase in loan and other receivables, deposits and prepayments | | **(125,998)** | (102,472) |
| (Decrease)/increase in trade payables | | **(6,327)** | 5,884 |
| Decrease in other payables and accruals | | **(44,865)** | (20,609) |
| Increase in deferred income | | **8,807** | 3,644 |
| **Cash used in operations** | | **(43,700)** | (5,518) |
| Tax paid | | **(11,767)** | (9,795) |
| **Net cash used in operating activities** | | **(55,467)** | (15,313) |

*for the year ended 31 March 2006*
*(Expressed in Hong Kong dollars)*

| | Note | 2006 $'000 | 2005 $'000 (restated) |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for additions to construction in progress | | **(6,648)** | (7,622) |
| Proceeds from sale of construction in progress | | **27,717** | — |
| Proceeds from sale of property, plant and equipment | | **244** | 7,462 |
| Payment for purchase of property, plant and equipment | | **(4,923)** | (3,131) |
| Capital injection to associate | | **(17,611)** | — |
| Payment of purchase of subsidiaries, net of cash acquired | 34 | **—** | (138,557) |
| Proceeds from partial disposal of an associate | 19(b) | **425,494** | — |
| Net increase in short-term deposits with original maturity over three months | | **38,198** | — |
| Payment for trading securities | | **—** | (565) |
| Interest received | | **2,580** | 1,143 |
| **Net cash generated from/(used in) investing activities** | | **465,051** | (141,270) |
| **Financing activities** | | | |
| Proceeds from new bank loans | | **9,000** | 151,358 |
| Repayment of bank loan | | **(28,257)** | (28,371) |
| Proceeds from shares issued under share option scheme | | **3,381** | 16,244 |
| Proceeds from government grants | | **2,173** | 954 |
| Dividend paid | | **(24,200)** | (15,555) |
| Interest paid | | **(9,863)** | (6,872) |
| **Net cash (used in)/from financing activities** | | **(47,766)** | 117,758 |
| **Net increase/(decrease) in cash and cash equivalents** | | **361,818** | (38,825) |
| **Cash and cash equivalents at 1 April** | | **117,847** | 156,939 |
| **Effect of foreign exchange rates changes** | | **2,001** | (267) |
| **Cash and cash equivalents at 31 March** | 26 | **481,666** | 117,847 |

The notes on pages 52 to 120 form part of these financial statements.

## 1 BACKGROUND

Golden Meditech Company Limited (the "Company") was incorporated in the Cayman Islands on 3 September 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries are collectively referred to as the "Group".

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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 requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules of the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale equity securities and trading securities are stated at their fair value as explained in note 2(f).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(c) Subsidiaries*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### *(d) Associates*

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 2(e) and 2(k)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(d) Associates* *(Continued)*

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 2(k)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

### *(e) Goodwill*

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### *(f) Other investments in equity securities*

The Group's and the Company's policies for investments in equity securities other than investments in subsidiaries and associates are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(k)).

Other investments in securities are classified as available-for-sale equity securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(k)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(g) Property, plant and equipment*

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)):

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(i)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold land | Over the remaining term of the lease |
| Buildings | 10 - 30 years |
| Leasehold improvements | Shorter of the estimated useful lives and unexpired term of the leases |
| Machineries | 5 -10 years |
| Motor vehicles | 5 years |
| Furniture, fixtures and equipment | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The useful life of an asset is reviewed annually.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(h) Intangible assets (other than goodwill)*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Licence and certificate | 8 years |
| Capitalised development costs | 20 years |
| Proprietary Chinese medicine formula | 20 years |
| Operating rights for cord blood bank | 30 years |

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is definite are reviewed annually.

### *(i) Leased assets*

#### *(i) Classification of assets leased to the Group*

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### *(ii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(j) Construction in progress*

Construction in progress is stated at cost less impairment losses (see note 2(k)). Cost comprises direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

### *(k) Impairment of assets*

#### *(i) Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale equity securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(k) Impairment of assets (Continued)*

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— prepaid interests in leasehold land classified as being held under an operating lease;

— intangible assets;

— goodwill; and

— investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(k) Impairment of assets* *(Continued)*

#### *(ii) Impairment of other assets* *(Continued)*

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### *(l) Inventories*

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion, appropriate share of overheads based on normal operating capacity and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### *(m) Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(k)).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(n) Convertible bonds*

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible bonds is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

### *(o) Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

### *(p) Trade and other payables*

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### *(q) Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(r) Employee benefits*

#### *(i) Short-term employee benefits and contributions to defined contribution plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contributions plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to share premium account) or the option expires (when it is released directly to retained profits).

#### *(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### *(s) Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(s) Income tax (Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(t) Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### *(u) Dividends*

Dividends are recognised as a liability in the period in which they are declared.

### *(v) Revenue recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax ("VAT") or other sales taxes and is after deduction of any returns and allowances.

#### *(ii) Service income*

Revenue is recognised upon the delivery of services to customers.

#### *(iii) VAT refund*

VAT refund is recognised as income in the accounting period in which it is earned.

#### *(iv) Government grants*

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

#### *(v) Interest income*

Interest income is recognised as it accrues using the effective interest method.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(w) Translation of foreign currencies*

Items included in the accounts of the each Group's entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts adopted Hong Kong dollars as the Group's presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 April 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of an operation outside Hong Kong acquired before 1 April 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

### *(x) Borrowing costs*

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *(y) Related parties*

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

### *(z) Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The primary format, business segment, is based on the Group's management and internal reporting structure.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 43).

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *(a) Restatement of prior periods and opening balances*

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 March 2005. The effects of the changes in accounting policies on the balances at 1 April 2004 and 2005 are disclosed in the consolidated statement of changes in equity.

#### *(i) Effect on the consolidated financial statements*

Consolidated income statement for the year ended 31 March 2005

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in profit for the year) | | | | | 2005 (as restated) |
|---|---|---|---|---|---|---|---|
| | | HKFRS 2 | HKFRS 3 | HKAS 1 | HKAS 32 | Sub-total | |
| | | (note 3(c)) | (note 3(d)(ii)) | (note 3(e)) | (note 3(g)) | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Turnover** | 238,991 | — | — | — | — | — | 238,991 |
| Cost of sales | (68,701) | — | (1,832) | — | — | (1,832) | (70,533) |
| **Gross profit** | 170,290 | — | (1,832) | — | — | (1,832) | 168,458 |
| Administrative expenses | (48,818) | (954) | 1,832 | — | — | 878 | (47,940) |
| Other income and expenses | 10,240 | — | — | — | — | — | 10,240 |
| **Profit from operations** | 131,712 | (954) | — | — | — | (954) | 130,758 |
| Finance costs | (6,872) | — | — | — | (1,527) | (1,527) | (8,399) |
| Share of profits less losses of associates | 29,748 | — | — | (2,791) | — | (2,791) | 26,957 |
| **Profit before taxation** | 154,588 | (954) | — | (2,791) | (1,527) | (5,272) | 149,316 |
| Taxation | (13,449) | — | — | 2,791 | — | 2,791 | (10,658) |
| | 141,139 | (954) | — | — | (1,527) | (2,481) | 138,658 |
| Minority interests | (395) | — | — | 395 | — | 395 | — |
| **Profit for the year** | 140,744 | (954) | — | 395 | (1,527) | (2,086) | 138,658 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (a) *Restatement of prior periods and opening balances* *(Continued)*

#### (i) *Effect on the consolidated financial statements* *(Continued)*

Consolidated income statement for the year ended 31 March 2005 *(Continued)*

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in net assets) | | | | | |
|---|---|---|---|---|---|---|---|
| | | HKFRS 2 | HKFRS 3 | HKAS 1 | HKAS 32 | Sub-total | 2005 (as restated) |
| | | (note 3(c)) | (note 3(d)(ii)) | (note 3(e)) | (note 3(g)) | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Attributable to:** | | | | | | | |
| Equity shareholders of the Company | 140,744 | (954) | — | — | (1,527) | (2,481) | 138,263 |
| Minority interests | — | — | — | 395 | — | 395 | 395 |
| **Profit for the year** | 140,744 | (954) | — | 395 | (1,527) | (2,086) | 138,658 |
| **Dividends payable to equity shareholders of the Company attributable to the year** | 26,547 | — | — | — | — | — | 26,547 |
| **Earnings per share** | | | | | | | |
| Basic (in cents) | 11.6 | (0.1) | — | — | (0.1) | (0.2) | 11.4 |
| Diluted (in cents) | 11.3 | (0.1) | — | — | — | (0.1) | 11.2 |
| **Other significant disclosure items:** | | | | | | | |
| Directors' remuneration | 1,822 | 203 | — | — | — | 203 | 2,025 |
| Staff costs | 10,134 | 751 | — | — | — | 751 | 10,885 |
| Amortisation of intangible assets | — | — | 1,832 | — | — | 1,832 | 1,832 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (a) *Restatement of prior periods and opening balances* (Continued)

#### (i) *Effect on the consolidated financial statements* (Continued)

Consolidated balance sheet at 31 March 2005

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in net assets) HKFRS 2 | HKFRS 3 | HKAS 1 | HKAS 17 | HKAS 32 | Sub-total | 2005 (as restated) |
|---|---|---|---|---|---|---|---|---|
| | | (note 3(c)) | (note 3(d)(ii)) | (note 3(e)) | (note 3(f)) | (note 3(g)) | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-current assets** | | | | | | | | |
| Property, plant and equipment | 161,537 | — | — | — | (3,910) | — | (3,910) | 157,627 |
| Interest in leasehold land held for own use under operating lease | — | — | — | — | 3,910 | — | 3,910 | 3,910 |
| Intangible assets | 466,259 | — | 54,751 | — | — | — | 54,751 | 521,010 |
| Other non-current assets | 337,811 | — | — | — | — | — | — | 337,811 |
| | 965,607 | — | 54,751 | — | — | — | 54,751 | 1,020,358 |
| **Current assets** | | | | | | | | |
| Inventories | 82,484 | — | (54,751) | — | — | — | (54,751) | 27,733 |
| Other current assets | 442,211 | — | — | — | — | — | — | 442,211 |
| | 524,695 | — | (54,751) | — | — | — | (54,751) | 469,944 |
| **Current liabilities** | (175,696) | — | — | — | — | — | — | (175,696) |
| **Net current assets** | 348,999 | — | (54,751) | — | — | — | (54,751) | 294,248 |
| **Total assets less current liabilities** | 1,314,606 | — | — | — | — | — | — | 1,314,606 |
| **Non-current liabilities** | | | | | | | | |
| Bank loans | (94,189) | — | — | — | — | — | — | (94,189) |
| Convertible bonds | (124,000) | — | — | — | — | 6,831 | 6,831 | (117,169) |
| Other non-current liabilities | (96,764) | — | — | — | — | — | — | (96,764) |
| | (314,953) | — | — | — | — | 6,831 | 6,831 | (308,122) |
| **Minority interests** | (50,343) | — | — | 50,343 | — | — | 50,343 | — |
| **NET ASSETS** | 949,310 | — | — | 50,343 | — | 6,831 | 57,174 | 1,006,484 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (a) *Restatement of prior periods and opening balances (Continued)*

#### (i) *Effect on the consolidated financial statements (Continued)*

Consolidated balance sheet at 31 March 2005 *(Continued)*

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in net assets) | | | | | | 2005 (as restated) |
|---|---|---|---|---|---|---|---|---|
| | | HKFRS 2 | HKFRS 3 | HKAS 1 | HKAS 17 | HKAS 32 | Sub-total | |
| | | (note 3(c)) | (note 3(d)(ii)) | (note 3(e)) | (note 3(f)) | (note 3(g)) | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **CAPITAL AND RESERVES** | | | | | | | | |
| **Attributable to equity shareholders of the Company** | | | | | | | | |
| Share capital | 126,413 | — | — | — | — | — | — | 126,413 |
| Capital reserve | — | 905 | — | — | — | 8,358 | 9,263 | 9,263 |
| Other reserves | 515,862 | 3,559 | — | — | — | — | 3,559 | 519,421 |
| Retained profits | 307,035 | (4,464) | — | — | — | (1,527) | (5,991) | 301,044 |
| | 949,310 | — | — | — | — | 6,831 | 6,831 | 956,141 |
| **Attributable to minority interests** | — | — | — | 50,343 | — | — | 50,343 | 50,343 |
| | 949,310 | — | — | 50,343 | — | 6,831 | 57,174 | 1,006,484 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *(a) Restatement of prior periods and opening balances (Continued)*

#### *(ii) Effect on the Company's balance sheet*

Balance sheet at 31 March 2005

| | 2005 (as previously reported) | Effect of new policy (increase/(decrease) in net assets) | | | 2005 (as restated) |
|---|---|---|---|---|---|
| | | HKFRS 2 (note 3(c)) | HKAS 32 (note 3(g)) | Sub-total | |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Total assets less current liabilities** | 839,401 | — | — | — | 839,401 |
| **Non-current liabilities** | | | | | |
| Convertible bonds | (124,000) | — | 6,831 | 6,831 | (117,169) |
| Other non-current liabilities | (90,400) | — | — | — | (90,400) |
| | (214,400) | — | 6,831 | 6,831 | (207,569) |
| **NET ASSETS** | 625,001 | — | 6,831 | 6,831 | 631,832 |
| **CAPITAL AND RESERVES** | | | | | |
| **Share capital** | 126,413 | — | — | — | 126,413 |
| **Capital reserve** | — | 905 | 8,358 | 9,263 | 9,263 |
| **Other reserves** | 433,469 | 3,559 | — | 3,559 | 437,028 |
| **Retained profits** | 65,119 | (4,464) | (1,527) | (5,991) | 59,128 |
| | 625,001 | — | 6,831 | 6,831 | 631,832 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *(b) Estimated effect of changes in accounting policies on the current period*

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

#### *(i) Effect on the consolidated financial statements*

Estimated effect on the consolidated income statement for the year ended 31 March 2006

| | Effect of new policy (increase/(decrease) in profit for the year) | | | | |
|---|---|---|---|---|---|
| | **HKFRS 2** (note 3(c)) $'000 | **HKFRS 3** (note 3(d)(i)) $'000 | **HKAS 32 & 39** (note 3(g)) $'000 | **HKFRS 1** (note 3(e)) $'000 | **Total** $'000 |
| Cost of sales | — | — | — | — | — |
| **Gross profit** | — | — | — | — | — |
| Other net income | — | — | — | — | — |
| Administrative expenses | (6,489) | 4,068 | — | — | (2,421) |
| Other operating expenses | — | — | — | — | — |
| **Profit from operations** | (6,489) | 4,068 | — | — | (2,421) |
| Finance costs | — | — | (2,568) | — | (2,568) |
| Gain on deemed disposal of an associate | — | (633) | — | — | (633) |
| Share of profits less losses of associates | — | 633 | — | (3,912) | (3,279) |
| **Profit before taxation** | (6,489) | 4,068 | (2,568) | (3,912) | (8,901) |
| Taxation | — | — | — | 3,912 | 3,912 |
| **Profit for the year** | (6,489) | 4,068 | (2,568) | — | (4,989) |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (b) *Estimated effect of changes in accounting policies on the current period* *(Continued)*

#### (i) *Effect on the consolidated financial statements* *(Continued)*

Estimated effect on the consolidated income statement for the year ended 31 March 2006 *(Continued)*

| | Effect of new policy (increase/(decrease) in profit for the year) | | | | |
|---|---|---|---|---|---|
| | **HKFRS 2** | **HKFRS 3** | **HKAS 32 & 39** | **HKFRS 1** | **Total** |
| | (note 3(c)) | (note 3(d)(i)) | (note 3(g)) | (note 3(e)) | |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Attributable to:** | | | | | |
| Equity shareholders of the Company | (6,489) | 2,158 | (2,568) | — | (6,899) |
| Minority interests | — | 1,910 | — | — | 1,910 |
| **Profit for the year** | (6,489) | 4,068 | (2,568) | — | (4,989) |
| **Dividends payable to equity shareholders of the Company attributable to the year** | — | — | — | — | — |
| **Earnings per share** | | | | | |
| Basic (in cents) | (0.5) | 0.2 | (0.2) | — | (0.5) |
| Diluted (in cents) | (0.5) | 0.2 | — | — | (0.3) |
| **Other significant disclosure items:** | | | | | |
| Directors' remuneration | (5,658) | — | — | — | (5,658) |
| Staff costs | (831) | — | — | — | (831) |
| Amortisation of goodwill | — | 4,068 | — | — | 4,068 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *(b) Estimated effect of changes in accounting policies on the current period* *(Continued)*

#### *(i) Effect on the consolidated financial statements* *(Continued)*

Estimated effect on the consolidated balance sheet at 31 March 2006

| | Effect of new policy (increase/(decrease) in net assets) | | | | |
|---|---|---|---|---|---|
| | **HKAS 17** (note 3(f)) $'000 | **HKFRS 3** (note 3(d)) $'000 | **HKFRS 2** (note 3(c)) $'000 | **HKAS 32 & 39** (note 3(g)) $'000 | **Total** $'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | (4,811) | — | — | — | (4,811) |
| Interest in leasehold land held for own use under operating lease | 4,811 | — | — | — | 4,811 |
| Intangible assets | — | 56,196 | — | — | 56,196 |
| Goodwill | — | 4,068 | — | — | 4,068 |
| | — | 60,264 | — | — | 60,264 |
| **Current assets** | | | | | |
| Inventories | — | (56,196) | — | — | (56,196) |
| **Net current assets** | — | (56,196) | — | — | (56,196) |
| **Total assets less current liabilities** | — | 4,068 | — | — | 4,068 |
| **Non-current liabilities** | | | | | |
| Convertible bonds | — | — | — | 3,723 | 3,723 |
| **NET ASSETS** | — | 4,068 | — | 3,723 | 7,791 |
| **CAPITAL AND RESERVES** | | | | | |
| **Effect attributable to equity shareholders of the Company** | | | | | |
| Share premium | — | — | 4,050 | — | 4,050 |
| Capital reserve | — | — | 6,903 | 7,819 | 14,722 |
| Retained profits | — | 4,068 | (10,953) | (4,096) | (10,981) |
| | — | 4,068 | — | 3,723 | 7,791 |
| **Effect attributable to minority interests** | — | — | — | — | — |
| | — | 4,068 | — | 3,723 | 7,791 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (b) *Estimated effect of changes in accounting policies on the current period* (Continued)

#### (i) *Effect on the consolidated financial statements* (Continued)

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 March 2006

| | Effect of new policy (increase/(decrease) in equity) | | |
|---|---|---|---|
| | **HKFRS 2** (note 3(c)) $'000 | **HKAS 32** (note 3(g)) $'000 | **Total** $'000 |
| Attributable to equity shareholders of the Company | (6,489) | (2,568) | (9,057) |
| Minority interests | — | — | — |
| Total equity | (6,489) | (2,568) | (9,057) |

#### (ii) *Effect on the Company's balance sheet*

Estimated effect on the balance sheet at 31 March 2006

| | Estimated effect of new policy (increase/(decrease) in net assets) | | |
|---|---|---|---|
| | **HKFRS 2** (note 3(c)) $'000 | **HKAS 32 & 39** (note 3(g)) $'000 | **Total** $'000 |
| **Non-current liabilities** | | | |
| Convertible bonds | — | 3,723 | 3,723 |
| | — | 3,723 | 3,723 |
| **NET ASSETS** | — | 3,723 | 3,723 |
| **CAPITAL AND RESERVES** | | | |
| Share premium | 4,050 | — | 4,050 |
| Capital reserve | 6,903 | 7,819 | 14,722 |
| Retained profit | (10,953) | (4,096) | (15,049) |
| | — | 3,723 | 3,723 |

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *(b) Estimated effect of changes in accounting policies on the current period (Continued)*

#### *(ii) Effect on the Company's balance sheet (Continued)*

Estimated effect on amounts recognised as capital transactions with owners of the Company for the year ended 31 March 2006

| | Effect of new policy (increase/(decrease)) | | |
|---|---|---|---|
| | **HKFRS 2** (note 3(c)) $'000 | **HKAS 32** (note 3(g)) $'000 | **Total** $'000 |
| Attributable to equity shareholders of the Company | (6,489) | (2,568) | (9,057) |

### *(c) Employee share option scheme (HKFRS 2, Share-based payment)*

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over ordinary shares of the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 2(r)(ii).

The new accounting policy has been applied retrospectively with comparatives restated.

The adjustments for each financial statement line affected for the years ended 31 March 2005 and 2006 are set out in notes 3(a) and (b).

Details of the employee share option scheme are set out in note 33.

### *(d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)*

#### *(i) Amortisation of goodwill*

In prior periods:

— positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the consolidated income statement until disposal or impairment of the acquired business;

— positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

— negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the consolidated income statement as those expected losses were incurred.

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (d) *Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)* (Continued)

#### (i) *Amortisation of goodwill* (Continued)

With effect from 1 April 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 April 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 2(e).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statements line affected for the year ended 31 March 2006 are set out in note 3(b).

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 April 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31 March 2005.

#### (ii) *Limited retrospective application*

HKFRS 3 permits to apply the requirements of HKFRS from any date before the effective date, provided (a) the valuations and other information needed to apply the HKFRS to past business combination were obtained at the time those combinations were initially accounted for; and (b) the entity also applies HKAS 36 and HKAS 38 prospectively from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there is no need to determine estimates that would need to have been made at a prior date.

The adoption of this limited retrospective application has resulted in the presentation of the Group's operating rights for cord blood bank as Intangible Assets. The adjustments for each consolidated financial statements line affected for the year ended 31 March 2006 are set out in note 3(b).

### (e) *Changes in presentation (HKAS 1, Presentation of financial statements)*

#### (i) *Presentation of shares of associates' taxation (HKAS 1, Presentation of financial statements)*

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 April 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively comparatives restated as shown in note 3(a).

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### *(e) Changes in presentation (HKAS 1, Presentation of financial statements)* (Continued)

#### *(ii) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 2(c). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 3(a).

### *(f) Leasehold land and buildings (HKAS 17, Leases)*

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With effect from 1 April 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 2(g) and (i). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 April 2005, the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

### *(g) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)*

With effect from 1 April 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 2(f), (k), (m) to (p). Further details of the changes are as follows.

#### *(i) Investments in equity securities*

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 April 2005, and in accordance with HKAS 39, all investments with the exception of securities held for trading purposes are classified as available-for-sale equity securities and carried at fair value. Changes in the fair value of available-for-sale equity securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. There are no material adjustments arising from the adoption of the new policies for securities held for trading purposes and unquoted equity investments not carried at fair value. Further details of the new policies are set out in note 2(f).

## 3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

### (g) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)* (Continued)

#### *(ii) Convertible bonds*

In prior years, convertible bonds issued were stated at amortised cost (including transaction costs).

With effect from 1 April 2005, and in accordance with HKAS 32 and HKAS 39, convertible bonds issued are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained profits). Further details of the new policies are set out in note 2(n).

#### *(iii) Description of transitional provisions and effect of adjustments*

The above changes in accounting policies were adopted by way of an opening balance adjustment to certain reserves as at 1 April 2005 in accordance with the transitional arrangements in HKAS39, except for the change in accounting policy relating to the splitting of the convertible bonds issued into their liability and equity components at initial recognition in accordance with HKAS 32, in which case it has been adopted retrospectively.

The adjustments for each financial statement line item affected for the years ended 31 March 2005 and 2006 are set out in notes 3(a) and (b).

### (h) *Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, The effects of changes in foreign exchange rates)*

In prior years, goodwill arising on the acquisition of a foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 April 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the new assets of the foreign operation. Further details of the new policy is set out in note 2(w).

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and is only applied to acquisitions occurring on or after 1 April 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the financial statements for the year ended 31 March 2006.

### (i) *Definition of related parties (HKAS 24, Related party disclosures)*

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 2(y) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

## 4 TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sale of autologus blood recovery machines ("ABRS Machines") and disposable blood processing chambers and related accessories ("Disposable Chambers"), provision of storage and accessory services of 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, less returns, allowances, value added tax, business tax and other sales tax, and income from services rendered to customers.

Turnover recognised during the year may be analysed as follows:

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Sales of ABRS Machines | **201,960** | 189,493 |
| Sales of Disposable Chambers | **44,351** | 34,826 |
| Cord Blood Bank services | **33,989** | 14,578 |
| Others | **278** | 94 |
| | **280,578** | 238,991 |

## 5 OTHER REVENUE

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Interest income | **2,580** | 1,143 |
| VAT refund | **16,397** | 15,671 |
| Government grants | **2,711** | 235 |
| Gain on disposal of property, plant and equipment | **—** | 191 |
| Write back of other payables | **390** | 866 |
| Others | **15** | 11 |
| | **22,093** | 18,117 |

Pursuant to the relevant 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 for a period expiring in December 2006.

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

| | | 2006 | 2005 |
|---|---|---|---|
| | | | (restated) |
| | | **$'000** | $'000 |
| (a) | Finance costs: | | |
| | Interest on bank loans wholly repayable within five years | **8,418** | 5,179 |
| | Interest on convertible bonds | **3,802** | 2,489 |
| | Other borrowing costs | **211** | 731 |
| | | **12,431** | 8,399 |
| (b) | Staff costs: | | |
| | Salaries, wages and other benefits | **20,838** | 9,709 |
| | Contributions to defined contribution plans | **595** | 425 |
| | Equity-settled share-based payment expenses | **831** | 751 |
| | | **22,264** | 10,885 |
| (c) | Other items: | | |
| | Amortisation of goodwill | **—** | 3,793 |
| | Amortisation of goodwill included in share of profits less losses of associates | **—** | 762 |
| | Amortisation of intangible assets | **10,791** | 1,832 |
| | Provision for bad and doubtful debts | **1,156** | 14,646 |
| | Write-back of provision for bad and doubtful debts | **(9,574)** | — |
| | Auditors' remuneration | | |
| | — audit services | **2,440** | 1,300 |
| | — other services | **2,300** | 12 |
| | Depreciation | **22,135** | 12,947 |
| | Impairment loss on construction in progress | **11,185** | — |
| | Operating lease charges in respect of | | |
| | — properties | **4,404** | 3,778 |
| | — other assets | **411** | 462 |
| | Research and development costs | **3,026** | 1,840 |
| | Share of associates' taxation | **3,912** | 2,791 |

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | 2006 | 2005 |
|---|---|---|
| | | (restated) |
| | $'000 | $'000 |
| **Current tax - Outside Hong Kong** | | |
| PRC income tax for the year | **11,863** | 10,658 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 30(b)) | **(9,397)** | — |
| | **2,466** | 10,658 |

**PRC income tax**

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

In accordance with the relevant tax rules and regulations in the PRC, one of the subsidiaries was fully exempted from PRC income tax until 31 December 2003. Thereafter, this subsidiary is entitled to a 50% reduction of PRC income tax, or 7.5%, for the next three years until 31 December 2006.

Another subsidiary of the Group was fully exempted from PRC income tax until 31 December 2005. Thereafter, this subsidiary is entitled to a 50% reduction of PRC income tax, or 7.5%, for the next three years until 31 December 2008.

**Hong Kong Profits Tax**

No provision for Hong Kong Profits Tax was made for the year ended 31 March 2006 (2005: Nil) as the Group did not have any profits assessable to Hong Kong Profits Tax during the year.

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

### *(b) Reconciliation between tax expense and accounting profit at applicable tax rates:*

| | **2006** | | 2005 (restated) | |
|---|---|---|---|---|
| | **$'000** | **%** | $'000 | % |
| Profit before taxation | **563,738** | | 149,316 | |
| Notional taxation on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned | **154,098** | **27.3** | 43,042 | 28.8 |
| Tax effect of non-deductible expenses | **11,321** | **2.0** | 7,258 | 4.9 |
| Tax effect of non-taxable revenue | **(117,918)** | **(20.9)** | (5,715) | (3.8) |
| Reduced tax rate approved by tax authorities | **(30,418)** | **(5.4)** | (26,701) | (17.9) |
| Income tax exemption | **(13,484)** | **(2.4)** | (11,304) | (7.6) |
| Tax effect of unrecognised deferred tax balances | **(5,586)** | **(1.0)** | — | — |
| Tax effect of unused tax losses not recognised | **4,453** | **0.8** | 4,078 | 2.7 |
| Actual tax expense | **2,466** | **0.4** | 10,658 | 7.1 |

## 8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | **Directors fees $'000** | **Salaries, allowances and benefits in kind $'000** | **Discretionary bonuses $'000** | **Share-based payments $'000** | **Retirement scheme contributions $'000** | **2006 Total $'000** |
|---|---|---|---|---|---|---|
| Mr. KAM Yuen | **—** | **1,607** | **35,000** | **5,491** | **12** | **42,110** |
| Ms. JIN Lu | **—** | **663** | **—** | **—** | **12** | **675** |
| Mr. LU Tian Long | **—** | **663** | **—** | **28** | **12** | **703** |
| Ms. ZHENG Ting | **—** | **663** | **—** | **139** | **12** | **814** |
| Prof. CAO Gang | **60** | **—** | **—** | **—** | **—** | **60** |
| Mr. GAO Zong Ze | **60** | **—** | **—** | **—** | **—** | **60** |
| Prof. GU Qiao | **60** | **—** | **—** | **—** | **—** | **60** |
| | **180** | **3,596** | **35,000** | **5,658** | **48** | **44,482** |

| | Directors fees $'000 | Salaries, allowances and benefits in kind $'000 | Discretionary bonuses $'000 | Share-based payments (restated) $'000 | Retirement scheme contributions $'000 | 2005 (restated) Total $'000 |
|---|---|---|---|---|---|---|
| Mr. KAM Yuen | — | 824 | — | — | 12 | 836 |
| Ms. JIN Lu | — | 216 | — | — | 11 | 227 |
| Mr. LU Tian Long | — | 216 | — | 101 | 11 | 328 |
| Ms. ZHENG Ting | — | 216 | — | 102 | 11 | 329 |
| Ms. CHAU Mei Chun (Retired on 23 September 2004) | — | 150 | — | — | 5 | 155 |
| Prof. CAO Gang | 30 | — | — | — | — | 30 |
| Mr. GAO Zong Ze | 60 | — | — | — | — | 60 |
| Prof. GU Qiao | 60 | — | — | — | — | 60 |
| | 150 | 1,622 | — | 203 | 50 | 2,025 |

The above emoluments include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. Details of these benefits in kind are disclosed under the paragraph "Share option schemes" in the directors' report and notes 2(r)(ii) and 33.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: two) individuals are as follows:

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Salaries, allowances and other benefits | **1,860** | 1,047 |
| Discretionary bonuses | **4,494** | 27 |
| Share-based payments | **219** | 151 |
| Retirement benefits | **36** | 24 |
| | **6,609** | 1,249 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2006** | 2005 |
| *Emoluments bands* | | |
| Nil to $1,000,000 | **1** | 2 |
| $1,500,000 to $2,000,000 | **1** | — |
| $4,000,000 to $4,500,000 | **1** | — |
| | **3** | 2 |

## 10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of $106,372,000 (2005 (restated): $55,647,000) which has been dealt with in the financial statements of the Company.

## 11 DIVIDEND

### (a) Dividend payable to equity shareholders of the Company attributable to the year

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Final dividend proposed after the balance sheet date of nil (2005: 2.1) cents per share | **—** | 26,547 |

### (b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of 2.1 (2005: 1.8) cents per share | **26,547** | 21,469 |

## 12 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of $563,824,000 (2005 (restated): $138,263,000) divided by the weighted average number of 1,265,612,000 (2005: 1,211,950,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | **2006** | 2005 |
|---|---|---|
| | **'000 shares** | '000 shares |
| Issued ordinary shares at 1 April | **1,264,125** | 589,185 |
| Effect of bonus issue (note 32(a)(i)) | **—** | 595,819 |
| Effect of share options exercised (note 32(a)(ii)) | **258** | 8,568 |
| Effect of conversion of convertible bonds (note 32(a)(v)) | **300** | 16,954 |
| Effect of scrip dividend (note 32(a)(vi)) | **929** | 1,424 |
| Weighted average number of ordinary shares at 31 March | **1,265,612** | 1,211,950 |

## 12 EARNINGS PER SHARE *(Continued)*

### *(b) Diluted earnings per share*

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of $567,626,000 (2005 (restated): $140,752,000) as adjusted for the interest on convertible bonds of $3,802,000 (2005 (restated): $2,489,000) and the weighted average number of 1,330,230,000 (2005: 1,252,846,000) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential shares, calculation as follows:

#### *(i) Profit attributable to equity shareholders of the Company (diluted)*

| | **2006** **$'000** | 2005 (restated) $'000 |
|---|---|---|
| Profit attributable to equity shareholders | **563,824** | 138,263 |
| After tax effect of effective interest on liability component of convertible bonds | **3,802** | 2,489 |
| Profit attributable to equity shareholders (diluted) | **567,626** | 140,752 |

#### *(ii) Weighted average number of ordinary shares (diluted)*

| | **2006** **Number of shares** **'000** | 2005 Number of shares '000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 March | **1,265,612** | 1,211,950 |
| Effect of conversion of convertible bonds (note 31) | **61,053** | 37,012 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 33) | **3,565** | 3,884 |
| Weighted average number of ordinary shares (diluted) at 31 March | **1,330,230** | 1,252,846 |

## 13 SEGMENT REPORTING

### *Business segments*

The Group comprises the following main business segments:

(i) Medical Device Segment: the development, manufacture and sale of medical devices including ABRS Machines and Disposable Chambers.

(ii) Cord Blood Bank Segment: the provision of blood stem cells storage facilities and accessory services.

(iii) Chinese Herbal Medicine Segment: the research and development, manufacture and sale of proprietary Chinese medicines.

| | **Medical Device** | | **Cord Blood Bank** | | **Chinese Herbal Medicine** | | **Inter-segment elimination** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 (restated) |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Revenue from external customers | **246,311** | 224,319 | **33,989** | 14,578 | **278** | 94 | **—** | — | **280,578** | 238,991 |
| Segment result | **187,532** | 145,209 | **113** | 5,069 | **(26,053)** | (3,004) | **—** | — | **161,592** | 147,274 |
| Unallocated operating income and expenses | | | | | | | | | **374,602** | (16,516) |
| Finance costs | | | | | | | | | **(12,431)** | (8,399) |
| Share of profits less losses of associates | | | | | | | | | **39,975** | 26,957 |
| Taxation | | | | | | | | | **(2,466)** | (10,658) |
| Net profit for the year | | | | | | | | | **561,272** | 138,658 |
| Depreciation and amortisation for the year | **9,258** | 9,729 | **4,808** | 4,049 | **18,840** | 985 | **—** | — | **32,906** | 14,763 |
| Unallocated depreciation and amortisation for the year | | | | | | | | | **20** | 3,809 |
| Total depreciation and amortisation for the year | | | | | | | | | **32,926** | 18,572 |
| Provision for bad and doubtful debts | **—** | 14,646 | **1,156** | — | **—** | — | **—** | — | **1,156** | 14,646 |
| Write-back of provision for bad and doubtful debts | **9,574** | — | **—** | — | **—** | — | **—** | — | **9,574** | **—** |
| Impairment of construction in progress | **—** | — | **11,185** | — | **—** | — | **—** | — | **11,185** | — |
| Segment assets | **769,327** | 588,605 | **222,425** | 255,745 | **525,452** | 527,375 | **(45,473)** | (52,334) | **1,471,731** | 1,319,391 |
| Investments in associates | | | | | | | | | **30,395** | 79,964 |
| Unallocated assets | | | | | | | | | **1,024,687** | 90,947 |
| Total assets | | | | | | | | | **2,526,813** | 1,490,302 |
| Segment liabilities | **51,069** | 55,600 | **32,583** | 38,900 | **84,215** | 71,974 | **(45,473)** | (52,334) | **122,394** | 114,140 |
| Unallocated liabilities | | | | | | | | | **299,372** | 369,678 |
| Total liabilities | | | | | | | | | **421,766** | 483,818 |
| Capital expenditure | **3,362** | 2,905 | **3,317** | 7,144 | **4,882** | 673 | **—** | — | **11,561** | 10,722 |
| Unallocated capital expenditure | | | | | | | | | **10** | 32 |
| Total capital expenditure | | | | | | | | | **11,571** | 10,754 |

The Group's turnover and operating profit are entirely derived from the PRC. Accordingly, no analysis by geographical segment is provided.

## 14 PROPERTY, PLANT AND EQUIPMENT

The Group

| | Interests in leasehold land held for own use under operating leases $'000 | Buildings held for own use $'000 | Leasehold improvements $'000 | Machineries $'000 | Motor vehicles $'000 | Furniture, fixtures and equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 April 2005 | 4,124 | 107,488 | 20,774 | 38,488 | 7,304 | 19,618 | 197,796 |
| Exchange adjustments | 109 | 2,836 | 549 | 1,017 | 194 | 516 | 5,221 |
| Transfer from construction in progress (note 15) | 907 | 14,071 | 987 | 1,950 | — | 90 | 18,005 |
| Additions | — | — | 327 | 627 | 1,876 | 2,093 | 4,923 |
| Disposal | — | — | — | — | (641) | — | (641) |
| At 31 March 2006 | 5,140 | 124,395 | 22,637 | 42,082 | 8,733 | 22,317 | 225,304 |
| **Aggregate depreciation:** | | | | | | | |
| At 1 April 2005 | 214 | 12,406 | 5,228 | 10,944 | 2,426 | 5,041 | 36,259 |
| Exchange adjustments | 7 | 392 | 167 | 340 | 82 | 225 | 1,213 |
| Charge for the year | 108 | 5,616 | 2,539 | 4,307 | 1,515 | 8,050 | 22,135 |
| Written back on disposal | — | — | — | — | (397) | — | (397) |
| At 31 March 2006 | 329 | 18,414 | 7,934 | 15,591 | 3,626 | 13,316 | 59,210 |
| **Net book value:** | | | | | | | |
| At 31 March 2006 | 4,811 | 105,981 | 14,703 | 26,491 | 5,107 | 9,001 | 166,094 |

## 14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group

| | Interests in leasehold land held for own use under operating leases $'000 | Buildings held for own use $'000 | Leasehold improvements $'000 | Machineries $'000 | Motor vehicles $'000 | Furniture, fixtures and equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 April 2004 | 4,141 | 107,907 | 6,636 | 30,319 | 3,178 | 2,888 | 155,069 |
| Exchange adjustments | (17) | (437) | (27) | (123) | (13) | (11) | (628) |
| Transfer from construction in progress (note 15) | — | — | 13,544 | 6,325 | — | 20 | 19,889 |
| Through acquisition of subsidiaries | — | — | — | 12,867 | 3,415 | 15,952 | 32,234 |
| Additions | — | 18 | 621 | 574 | 724 | 1,194 | 3,131 |
| Disposal | — | — | — | (11,474) | — | (425) | (11,899) |
| At 31 March 2005 | 4,124 | 107,488 | 20,774 | 38,488 | 7,304 | 19,618 | 197,796 |
| **Aggregate depreciation:** | | | | | | | |
| At 1 April 2004 | 129 | 7,219 | 2,452 | 6,805 | 919 | 1,140 | 18,664 |
| Exchange adjustments | (1) | (30) | (10) | (28) | (4) | (5) | (78) |
| Through acquisition of subsidiaries | — | — | — | 5,267 | 731 | 3,356 | 9,354 |
| Charge for the year | 86 | 5,217 | 2,786 | 3,210 | 780 | 868 | 12,947 |
| Written back on disposal | — | — | — | (4,310) | — | (318) | (4,628) |
| At 31 March 2005 | 214 | 12,406 | 5,228 | 10,944 | 2,426 | 5,041 | 36,259 |
| **Net book value:** | | | | | | | |
| At 31 March 2005 | 3,910 | 95,082 | 15,546 | 27,544 | 4,878 | 14,577 | 161,537 |

At 31 March 2006, the Group pledged land and buildings with an aggregate carrying value of approximately $98,558,000 (2005: $98,992,000), as collaterals against certain loans granted to the Group by a bank (see note 29(a)).

## 14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | The Company Equipment | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| **Cost:** | | |
| At 1 April | **74** | 42 |
| Additions | **10** | 32 |
| At 31 March | **84** | 74 |
| **Aggregate depreciation:** | | |
| At 1 April | **21** | 8 |
| Charge for the year | **20** | 13 |
| At 31 March | **41** | 21 |
| **Net book value:** | | |
| At 31 March | **43** | 53 |

The analysis of net book value of properties is as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Outside Hong Kong | | |
| - under medium-term lease | **110,792** | 98,992 |

## 15 CONSTRUCTION IN PROGRESS

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| At 1 April | **183,397** | 159,466 |
| Exchange adjustments | **4,840** | (649) |
| Through acquisition of a subsidiary | — | 36,847 |
| Additions | **6,648** | 7,622 |
| Transfer to property, plant and equipment (note 14) | **(18,005)** | (19,889) |
| Construction materials sold to a contractor (note (a)) | **(28,165)** | — |
| Impairment loss (note (b)) | **(11,185)** | — |
| At 31 March | **137,530** | 183,397 |

Construction in progress as at 31 March 2006 represents renovation work in progress, machinery under installation and construction of storage facilities for blood stem cells and a leasehold land and building for the production of proprietary Chinese medicines under construction.

Notes:

### *(a) Construction materials sold to a contractor*

A contractor purchased certain construction materials for its own use and refunded certain amount of prepaid construction fees.

### *(b) Impairment loss*

Under the new expansion plan initiated by the new management team, the management decided to abort two cord blood banks which were still under construction. As a result, the Group assessed the recoverable amount of these cord blood banks. Based on their assessment, the full carrying value of building materials attached to the respective cord blood banks under construction of $11,185,000 was written off (included in administrative expenses). No impairment or write-down are considered necessary for the remaining cord blood banks under construction.

## 16 INTANGIBLE ASSETS

| | The Group | | | | |
|---|---|---|---|---|---|
| | **Licence and certificate** | **Capitalised development costs** | **Unpatented proprietary Chinese medicine formula** | **Operating rights for cord blood bank** | **Total** |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost:** | | | | | |
| At 1 April 2005 (restated) | 29,479 | 16,232 | 420,548 | 57,495 | 523,754 |
| Exchange adjustments | 778 | 428 | 11,099 | 1,467 | 13,772 |
| At 31 March 2006 | 30,257 | 16,660 | 431,647 | 58,962 | 537,526 |
| **Accumulated amortisation:** | | | | | |
| At 1 April 2005 | — | — | — | (2,744) | (2,744) |
| Exchange adjustments | (18) | (4) | (102) | (22) | (146) |
| Charge for the year | (1,558) | (343) | (7,017) | (1,873) | (10,791) |
| At 31 March 2006 | (1,576) | (347) | (7,119) | (4,639) | (13,681) |
| **Carrying amount:** | | | | | |
| At 31 March 2006 | 28,681 | 16,313 | 424,528 | 54,323 | 523,845 |

## 16 INTANGIBLE ASSETS *(Continued)*

| | The Group | | | | |
|---|---|---|---|---|---|
| | **Licence and certificate** | **Capitalised development costs** | **Unpatented proprietary Chinese medicine formula** | **Operating rights for cord blood bank** | **Total** |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost:** | | | | | |
| At 1 April 2004 (restated) | — | — | — | 57,718 | 57,718 |
| Exchange adjustments (restated) | — | — | — | (223) | (223) |
| Through acquisition of a subsidiary | 29,479 | 16,232 | 420,548 | — | 466,259 |
| At 31 March 2005 (restated) | 29,479 | 16,232 | 420,548 | 57,495 | 523,754 |
| **Accumulated amortisation:** | | | | | |
| At 1 April 2004 | — | — | — | (916) | (916) |
| Exchange adjustments | — | — | — | 4 | 4 |
| Charge for the year | — | — | — | (1,832) | (1,832) |
| At 31 March 2005 | — | — | — | (2,744) | (2,744) |
| **Carrying amount:** | | | | | |
| At 31 March 2005 (restated) | 29,479 | 16,232 | 420,548 | 54,751 | 521,010 |

Licence and certificate represents the fair value on acquisition of a new medicine certificate for the production of TangHerb®, which has been approved by the State Food and Drug Administration to be used in enhancing the immune systems of HIV carriers and AIDS patients and defer the progression of such illness. The value is amortised on a straight line basis over its estimated useful life of eight years.

Capitalised development costs represent costs incurred in the development of TangHerb® and is amortised on a straight line basis over its estimated useful life of twenty years.

Unpatented proprietary Chinese medicine formula represents the fair value on acquisition of a Chinese medicine prescription formula as well as production technology of TangHerb®. The Group is in the process of applying for the patent in respect of this Chinese medicine prescription formula and its production technology. The value is amortised on a straight line basis over its estimated useful life of twenty years.

Production of Chinese medicine began during the year and the amortisation charge for the year is included in cost of sales in the consolidated income statement.

Operating rights for cord blood bank represents the rights for the provision of blood stem cells storage facilities and accessory services in the PRC. The amount is amortised on a straight line basis over the estimated useful lives of thirty years.

## 17 GOODWILL

| | The Group |
|---|---|
| | $'000 |
| **Cost:** | |
| At 1 April 2004 | **73,034** |
| Through acquisition of a subsidiary | **7,374** |
| At 31 March 2005 | **80,408** |
| At 1 April 2005 | **80,408** |
| Opening balance adjustment to eliminate accumulated amortisation | **(5,958)** |
| At 31 March 2006 | **74,450** |
| **Accumulated amortisation:** | |
| At 1 April 2004 | **2,165** |
| Amortisation for the year | **3,793** |
| At 31 March 2005 | **5,958** |
| At 1 April 2005 | **5,958** |
| Eliminated against cost at 1 April 2005 | **(5,958)** |
| At 31 March 2006 | **—** |
| **Carrying amount:** | |
| At 31 March 2006 | **74,450** |
| At 31 March 2005 | **74,450** |

In 2005, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over ten to twenty years. The amortisation of positive goodwill for the year ended 31 March 2005 was included in "administrative expenses" in the consolidated income statement.

As explained further in note 3(d), with effect from 1 April 2005 the Group no longer amortises goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at the date.

## 17 GOODWILL *(Continued)*

### *Impairment tests for cash-generating units containing goodwill*

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segments as follows:

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Medical Device | **506** | 506 |
| Cord Blood Bank | **66,663** | 66,663 |
| Chinese Herbal Medicine | **7,281** | 7,281 |
| At 31 March | **74,450** | 74,450 |

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budget approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

| | **2006** | 2005 |
|---|---|---|
| | **%** | % |
| Gross margin | | |
| - Medical Device | **70** | 70 |
| - Cord Blood Bank | **65** | 65 |
| - Chinese Herbal Medicine | **35** | 35 |
| Growth rate | | |
| - Medical Device | **10** | 10 |
| - Cord Blood Bank | **50** | 50 |
| - Chinese Herbal Medicine | **100** | 100 |
| Discount rate | | |
| - Medical Device | **3.4** | 3.4 |
| - Cord Blood Bank | **3.4** | 3.4 |
| - Chinese Herbal Medicine | **3.4** | 3.4 |

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 18 INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Unlisted shares, at cost | **1** | 1 |
| Amounts due from subsidiaries | **854,869** | 831,016 |
| | **854,870** | 831,017 |

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Amount due from a subsidiary under current assets is unsecured, interest-free and repayable on demand.

The following list contains the particulars of subsidiaries which affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the Group financial statements.

| Name of company | Place of incorporation/ establishment and operations | Percentage of equity: Group's effective holding | Held by the Company | Held by subsidiaries | Issued/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| China Bright Group Co. Limited | Hong Kong | 100% | 100% | — | $13,158 | Investment holding |
| Golden Meditech (BVI) Company Limited | British Virgin Islands/ Hong Kong | 100% | 100% | — | US$1 | Investment holding |
| Golden Meditech Medical Devices Distribution (BVI) Company Limited | British Virgin Islands/ Hong Kong | 100% | 100% | — | US$1 | Investment holding |
| Golden Meditech Stem Cells (BVI) Company Limited | British Virgin Islands/ Hong Kong | 100% | 100% | — | US$1 | Investment holding |
| Golden Meditech Herbal Treatment (BVI) Company Limited | British Virgin Islands/ Hong Kong | 100% | 100% | — | US$1 | Investment holding |
| Qi Jie Yuan Medicine Holding (HK) Limited | British Virgin Islands/ Hong Kong | 51% | — | 51% | US$100 | Investment holding |

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 18 INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ establishment and operations | Percentage of equity: Group's effective holding | Percentage of equity: Held by the Company | Percentage of equity: Held by subsidiaries | Issued/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| China Stem Cells Holdings Limited | Cayman Islands/ Hong Kong | 51% | — | 51% | US$100 | Investment holding |
| Beijing Jingjing Medical Equipment Co., Ltd. ("Jingjing") # | PRC | 100% | — | 100% | US$10,100,000 | Manufacture and sale of medical devices |
| Beijing Jiachenhong Biological Technologies Co., Ltd. ("Jiachenhong") # | PRC | 51% | — | 100% | RMB100,000,000 | Provision of blood stem cell storage facilities and accessory services |
| Beijing Qijieyuan Pharmaceutical Technology Development Co., Ltd. ("Qijieyuan") # | PRC | 51% | — | 100% | RMB20,000,000 | Research and development of proprietary Chinese medicines |
| Shanghai Baisuihang Pharmaceutical Co., Ltd. ("Baisuihang")* | PRC | 60.8% | — | 100% | RMB41,558,000 | Manufacture and sale of proprietary Chinese medicines |

\# Registered under the laws of the PRC as foreign investment enterprises.

* Registered under the laws of the PRC as a limited liability company.

## 19 INTERESTS IN ASSOCIATES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Share of net assets | **30,395** | 73,865 |
| Goodwill | **—** | 6,099 |
| | **30,395** | 79,964 |

The following list contains the particulars of associates which principally affected the results or assets of the Group:

| Name of associate | Form of business structure | Place of incorporation and operation | Percentage of equity held by the Group and by subsidiaries | Issued/ registered capital | Principal activities |
|---|---|---|---|---|---|
| Union China National Medical Equipment Co., Ltd. | Incorporated | PRC | 37.8% | US$10,000,000 | Sale and distribution of medical devices |

*Summary financial information on associates*

| | Assets | Liabilities | Equity | Revenues | Profit/(loss) |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2006** | | | | | |
| 100 per cent | 111,271 | (30,862) | 80,409 | 486,362 | 188,539 |
| Group's effective interest | 42,060 | (11,665) | 30,395 | 121,050 | 39,975 |
| **2005** | | | | | |
| 100 per cent | 465,690 | (195,765) | 269,925 | 219,084 | 111,108 |
| Group's effective interest | 120,842 | (40,878) | 79,964 | 56,586 | 26,957 |

### *(a) Listing of China Medical Technologies, Inc. ("China Medical")*

On 10 August 2005, China Medical's American Depositary Shares ("ADSs") were listed on the NASDAQ. The initial public offering price was set at US$15.00 per ADS for the 6.4 million ADSs (representing 64 million ordinary shares) being offered. Immediately after the completion of the initial public offering, the Group's interest in China Medical was diluted from 25% to approximately 18.9%. In addition, 0.96 million ADSs (representing 9.6 million ordinary shares) were offered on 29 August 2005 pursuant to the exercise of an over-allotment option granted to the underwriters. The Group's interest in China Medical was further diluted to approximately 18.3% after the over-allotment option was exercised in full. The listing and the allotment resulted in a gain on deemed disposal of an associate of $116,571,000. The gain is recognised in the consolidated income statement during the year.

## 19 INTERESTS IN ASSOCIATES *(Continued)*

### *(b) Disposal of ADSs in China Medical*

On 23 March 2006, a subsidiary of the Group entered into an underwriting agreement with China Medical, the other selling shareholders and the underwriters pursuant to which the selling shareholders agreed to sell to the underwriters an aggregate of 5.75 million ADSs representing 57.5 million ordinary shares (including the exercise of the over-allotment option), of which 2.29 million ADSs representing 22.9 million ordinary shares were sold by the subsidiary to the underwriters. The purchase price was US$25.5 per ADS. Net consideration received totalled $425,494,000. After completion of the disposal, the Group's effective equity interest in China Medical was reduced from 18.3% to 9.9% after the completion date, 28 March 2006, and the remaining interest in China Medical was reclassified as available-for-sale equity securities (note 20). Therefore, the Group shared China Medical's profit or loss until the date of disposal and a gain on partial disposal of an associate of $322,218,000 is recognised in the consolidated income statement during the year.

## 20 AVAILABLE-FOR-SALE EQUITY SECURITIES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Listed outside of Hong Kong (note 19(b)), at fair value | **635,304** | — |

## 21 TRADING SECURITIES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Listed equity securities outside Hong Kong, at market value | 580 | 565 |

## 22 INVENTORIES

### *(a) Inventories in the consolidated balance sheet comprise:*

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | | (restated) |
| | **$'000** | $'000 |
| Raw materials | **3,027** | 1,522 |
| Work in progress | **4,826** | 2,234 |
| Finished goods | **25,034** | 23,977 |
| | **32,887** | 27,733 |

Included in finished goods are preservation costs related to cord blood stem cells of $20,001,000 (2005 (restated): $17,887,000). Preservation costs consist primarily of direct labour and materials including laboratory expenses, blood stem cells collection fees, and indirect costs including allocations of costs from relevant departments and facility depreciation.

## 22 INVENTORIES *(Continued)*

### b) *The analysis of the amount of inventories recognised as an expense is as follows:*

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Carrying amount of inventories sold | **71,871** | 62,673 |

## 23 TRADE RECEIVABLES

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

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Within 6 months | **133,942** | 89,733 |
| Between 7 and 12 months | **9,452** | 30,063 |
| Over one year | **1,417** | 9,269 |
| | **144,811** | 129,065 |

All of the trade receivables are expected to be recovered within one year.

The Group's credit policy is set out in note 35(a).

## 24 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Included in other receivables, deposits and prepayments of the Group at 31 March 2006 is earnest money totalled $55,104,000 (2005: $129,038,000) in relation to the acquisition of a PRC entity engaged in personal electronic goods distribution. The amount could be used as part of the consideration for the acquisition. The acquisition was subsequently approved by shareholders at the extraordinary general meeting held on 19 April 2006 (see note 40(b)). On 2 June 2006, the PRC entity obtained the approval and revised business licence from the relevant PRC authorities.

(b) Included in other receivables, deposits and prepayments of the Group at 31 March 2006 are cash advances to a director of a subsidiary with an aggregate amount of $Nil (2005: $569,000). The amount due is unsecured, non-interest bearing and repayable on demand.

(c) Included in other receivables, deposits and prepayments of the Group at 31 March 2006 is consideration receivable from a former shareholder of a subsidiary with an amount of $Nil (2005: $7,608,000) in respect of the disposal of property, plant and equipment and inventories. The amount due is unsecured, non-interest bearing and repayable on demand.

(d) All of the other receivables, deposits and prepayments are expected to be recovered within one year.

## 25 LOAN RECEIVABLE

During the year, the Group entered into a sale and purchase agreement to conditionally acquire a 50% equity interest in a PRC entity engaged in personal electronic goods distribution. Subsequent to the signing of the sale and purchase agreement, the Group provided the PRC entity with unsecured and interest bearing conditional loan repayable within six months. If the sale and purchase agreement was not approved either by the shareholders at the general meeting or by the relevant administration authorities for industry and commerce in the PRC, the Group will be entitled to receive interests at a rate not lower than the prevailing lending rate of PRC banks in respect of the loan. Such acquisition has been approved by the shareholders at the extraordinary general meeting held on 19 April 2006 (see note 40(b)). The Group has the right to transfer the loan as part of the consideration in the sale and purchase agreement. On 2 June 2006, the PRC entity obtained the approval form the local Administration for Industry and Commerce.

## 26 CASH AND BANK BALANCES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Deposits with banks | **4,811** | 38,198 | **4,811** | — |
| Cash at bank and on hand | **476,855** | 117,847 | **469** | 15,051 |
| | **481,666** | 156,045 | **5,280** | 15,051 |
| Time deposits with original maturity over three months | **—** | (38,198) | | |
| Cash and cash equivalents in the cash flow statement | **481,666** | 117,847 | | |

Included in cash and bank balances in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **USD '000** | USD '000 | **USD '000** | USD '000 |
| United States Dollars | **24,876** | 4,980 | **12** | 23 |

## 27 TRADE PAYABLES

The Group is normally granted with credit terms of 1 to 3 months from its suppliers. Details of the ageing analysis of trade payables are as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Due within 3 months or on demand | **46,076** | 51,218 |

## 28 OTHER PAYABLES AND ACCRUALS

(a) All of the other payables and accruals under current liabilities are expected to be settled within one year. At 31 March 2006, details of other payables and accruals under the current liabilities are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Amount due to a creditor of a subsidiary (note) | **48,945** | 47,439 | **—** | — |
| Other payables and accruals | **61,591** | 16,785 | **7,824** | 7,383 |
| | **110,536** | 64,224 | **7,824** | 7,383 |

Note: The amount is due to a creditor of Baisuihang as at 31 March 2006. The amount is unsecured, non-interest bearing and is repayable within one year.

(b) Included in other payables and accruals of the Group as at 31 March 2006 is an accrual of directors' and employees' bonuses totalled $35,000,000 (2005: $Nil) and $4,966,000 (2005: $34,000), respectively.

(c) At 31 March 2005, included in other payables and accruals under non-current liabilities was the remaining balance of consideration payable of $90,400,000 in respect of the acquisition of a 51% equity interest in Qijieyuan. The balance was fully settled during the year.

## 29 BANK LOANS

At 31 March 2006, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year or on demand | **37,913** | 57,169 | **37,913** | 28,913 |
| After 1 year but within 2 years (note (a)) | **96,674** | — | **—** | — |
| After 2 years but within 5 years (note (a)) | **—** | 94,189 | **—** | — |
| | **96,674** | 94,189 | **—** | — |
| | **134,587** | 151,358 | **37,913** | 28,913 |

At 31 March 2006, the bank loans were secured as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Bank loans | | | | |
| - secured (notes (a) and (b)) | **96,674** | 122,445 | **—** | — |
| - unsecured | **37,913** | 28,913 | **37,913** | 28,913 |
| | **134,587** | 151,358 | **37,913** | 28,913 |

Notes:

(a) A bank loan of $96,674,000 (2005: $94,189,000) repayable on 15 September 2007 is classified as a non-current liability in the balance sheet. This bank loan is secured by land and buildings as detailed in note 14.

(b) As at 31 March 2005, a secured bank loan of $28,256,000 which carried interest at 5.84% per annum is guaranteed by a related company controlled by a director of a subsidiary of the Group. The balance was fully settled during the year.

## 30 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

### (a) Current taxation in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Provision for taxation outside Hong Kong | **3,264** | 3,085 |

### (b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

| | **Future benefit of tax losses $'000** |
|---|---|
| ***Deferred tax arising from:*** | |
| At 1 April 2004 and 31 March 2005 | — |
| At 1 April 2005 | — |
| Credited to profit or loss (note 7(a)) | (9,397) |
| At 31 March 2006 | (9,397) |

### (c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $51,169,000 (2005: $46,660,000) as it is not probable that future taxable profits against which the losses can be utilised in the relevant tax jurisdiction and entity. Tax losses of the Group's PRC subsidiaries totalled $3,486,000 (2005: $19,742,000) will expire during 2006 to 2010. Other tax losses do not expire under current tax legislation.

## 31 CONVERTIBLE BONDS

| | The Group and the Company | |
|---|---|---|
| | **2006** | 2005 |
| | | (restated) |
| | **$'000** | $'000 |
| Convertible bonds | **112,277** | 117,169 |

Upon the completion of the acquisition of Qijieyuan on 6 September 2004, the Company issued convertible bonds with a principal amount of $226,400,000 as part of consideration for the acquisition of Qijieyuan. As at 31 March 2006, the principal amount of outstanding convertible bonds was $116,000,000 (2005: $124,000,000).

The convertible bonds bear interest at the rate of 1% per annum and will mature on 5 September 2007. The outstanding principal amount of the bonds may be converted into ordinary shares of the Company at an initial conversion price of $3.8 per share, subject to adjustment in certain circumstances, from 6 December 2004 to 5 September 2007. As a result of the Bonus Issue, the conversion price has been adjusted to $1.9 per share with effect from 24 September 2004, as approved by the Board and certified by the Company's auditors in accordance with the terms of the convertible bonds.

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

The convertible bonds are not expected to be settled within one year.

## 32 CAPITAL AND RESERVES

### (a) Share capital

| | Note | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | | **No. of shares** | | No. of shares | |
| | | **'000** | **$'000** | '000 | $'000 |
| **Authorised:** | | | | | |
| Ordinary shares of $0.1 each | | **2,000,000** | **200,000** | 2,000,000 | 200,000 |
| **Issued and fully paid:** | | | | | |
| At 1 April | | **1,264,125** | **126,413** | 589,185 | 58,919 |
| Bonus Issue of shares | (i) | **—** | **—** | 596,370 | 59,637 |
| Shares issued under share option scheme | (ii) | **5,880** | **588** | 21,065 | 2,107 |
| Issue of shares upon conversion of convertible bonds | (v) | **4,210** | **421** | 53,895 | 5,389 |
| Issue of shares for scrip dividend | (vi) | **1,996** | **199** | 3,610 | 361 |
| At 31 March | | **1,276,211** | **127,621** | 1,264,125 | 126,413 |

Notes:

(i) **Bonus Issue of Shares**

Pursuant to an ordinary resolution passed at the annual general meeting held on 23 September 2004, a bonus issue of shares was made on the basis of ten bonus shares for every then existing ten shares of $0.1 each by the capitalisation of share premium account, resulting in the issue of 596,370,000 ordinary shares of $0.1 each.

(ii) **Shares issued under share option scheme**

During the year, options were exercised to subscribe for 5,880,000 (2005: 21,065,000) ordinary shares of $0.1 each at a consideration of $3,381,000 (2005: $16,244,000) of which $588,000 (2005: $2,107,000) was credited to share capital and the balance of $2,793,000 (2005: $14,137,000) was credited to the share premium account. An amount of $491,000 (2005: $2,359,000) has been transferred from the capital reserve to the share premium account in accordance with the policy set out in note 2(r)(ii).

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 32 CAPITAL AND RESERVES *(Continued)*

### (a) *Share capital* *(Continued)*

Notes: *(Continued)*

(iii) **Terms of unexpired and unexercised share options as at balance sheet date**

| Date granted | Exercisable period | Exercise price | 2006 Number | 2005 Number |
|---|---|---|---|---|
| 31 March 2003 ("Option 1") | 1 April 2003 to 16 March 2013 | $0.575* | — | 5,880,000 |
| 4 March 2005 ("Option 2") | 4 June 2005 to 28 February 2015 | $1.60 | **14,370,000** | 14,370,000 |
| 30 March 2005 ("Option 3") | 30 September 2005 to 3 March 2015 | $1.76 | **63,206,245** | 63,206,245 |
| | | | **77,576,245** | 83,456,245 |

* Adjusted for the effect of the Bonus Issue.

(iv) **Issue of convertible bonds**

On 6 September 2004, the Company issued convertible bonds with a principal amount of $226,400,000 (see note 31). Capital reserve account of the Company has been increased by approximately $15,260,000 in accordance with the policy set out in note 2(n).

(v) **Issue of shares upon conversion of convertible bonds**

During the year, 4,210,000 (2005: 53,895,000) ordinary shares of $0.1 each were issued upon the conversion of convertible bonds. The share capital and share premium accounts of the Company have been increased by approximately $421,000 (2005: $5,389,000) and $7,579,000 (2005: $97,011,000) respectively following the conversion. An amount of $539,000 (2005: $6,902,000) has been transferred from the capital reserve to the share premium account in accordance with the policy set out in note 2(n).

(vi) **Issue of shares for scrip dividend**

During the year, the Company offered its shareholders a scrip dividend alternative under which shareholders could elect to receive ordinary shares of $0.1 each in lieu of the 2005 final dividend. On 13 October 2005, 1,996,000 ordinary shares of $0.1 each were issued and allotted to the electing shareholders and credited as fully paid at the issue price of $1.176 per share.

On 8 November 2004, 3,610,000 ordinary shares of $0.1 each were issued and allotted to the electing shareholders and credited as fully paid at the issue price of $1.638 per share.

## 32 CAPITAL AND RESERVES *(Continued)*

### *(b) Reserves*

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2006** | 2005 | **2006** | 2005 |
| | Note | **$'000** | $'000 | **$'000** | $'000 |
| Share premium | (i) | **450,039** | 437,028 | **450,039** | 437,028 |
| Capital reserve | (ii) | **14,722** | 9,263 | **14,722** | 9,263 |
| Merger reserve | (iii) | **54,193** | 54,193 | **—** | — |
| Exchange reserve | (iv) | **28,028** | (1,287) | **—** | — |
| Surplus reserve | (v) | **44,677** | 29,487 | **—** | — |
| Fair value reserve | (vi) | **513,587** | — | **—** | — |
| Retained profits | | **823,131** | 301,044 | **138,953** | 59,128 |
| | | **1,928,377** | 829,728 | **603,714** | 505,419 |

*Nature and purpose of reserves*

(i) Share premium

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

The capital reserve comprises the following:

— the fair value of the actual or estimated number of the outstanding share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2(r)(ii); and

— the value of the equity component of the outstanding convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in note 2(n).

(iii) Merger reserve

The merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of shares issued by the Company in exchange thereof.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside of Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 2(w).

## 32 SHARE CAPITAL AND RESERVES *(Continued)*

### (b) Reserves *(Continued)*

*Nature and purpose of reserves (Continued)*

(v) Surplus reserve

According to the relevant rules and regulations in the PRC, Jingjing and Jiachenhong are required to appropriate 10% of after-tax profit (after offsetting prior year losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. Thereafter, any further appropriations can be made at the directors' discretion. The surplus reserve can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on condition that the surplus reserve shall be maintained at a minimum of 25% of the registered capital after such issuance.

(vi) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held at the balance sheet date and is dealt with in accordance with the accounting policies set out in note 2(f).

### (c) Distributability of reserves

At 31 March 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $138,953,000 (2005 (restated): $59,128,000). The directors do not recommend a final dividend for the year ended 31 March 2006 (2005: HK$2.1 cents per ordinary share).

## 33 SHARE OPTIONS

### (a) The principal terms of the share option schemes of the Company are summarised as follows:

(i) The Company adopted a share option scheme on 30 July 2002 (the "2002 Scheme"). The Company by shareholders' resolutions passed at the extraordinary general meeting held on 30 March 2005 has adopted a new share option scheme (the "Current Scheme" and, together with the 2002 Scheme, the "Schemes") and terminated the 2002 Scheme. No further share options may be offered under the 2002 Scheme. However, any outstanding share options granted under the 2002 Scheme shall continue to be exercisable subject to the provisions of the 2002 Scheme and the provisions of Chapter 23 of the GEM Listing Rules. The Current Scheme shall be valid and effective until 29 March 2015.

(ii) The purpose of the 2002 Scheme is to recognise the contribution of full-time employees of the Company or any subsidiary and executive and independent non-executive directors of the Company or any subsidiary (the "2002 Participants") by granting share options to them as incentives or rewards.

The purpose of the Current Scheme is to recognise the contribution of the executives, employees, directors (including non-executive directors and independent non-executive directors), consultants, advisers and agents of the Company and its affiliates (the "Current Participants" and, together with the 2002 Participants, the "Participants") by granting share options to them as incentives or rewards.

## 33 SHARE OPTIONS *(Continued)*

### *(a) The principal terms of the share option schemes of the Company are summarised as follows:* (Continued)

(iii) The total number of shares which may be issued upon exercise of all share options to be granted under the 2002 Scheme and the Current Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at 30 March 2005, the date the Current Scheme was adopted. Pursuant to the Schemes, the total number of shares available for issue in respect thereof was 63,206,245 ordinary shares, representing approximately 5% of the issued share capital of the Company as at the date of this annual report. The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Schemes must not exceed 30% of the shares in issue from time to time.

(iv) Pursuant to each of the 2002 Scheme and the Current Scheme, the total number of shares issued and to be issued upon the exercise of all share options granted and to be granted to each Participant (including both exercised and outstanding share options) in any 12-month period up to and including the offer date shall not exceed 1% of the shares in issue as at the offer date. The Company may grant share options in excess of such limit, subject to shareholders' approval in general meeting.

(v) Pursuant to the 2002 Scheme, a share option may be exercised at any time during a period notified by the Board to the grantee provided that such period shall not commence earlier than 27 December 2002 and shall not be longer than 10 years from the date of offer.

Pursuant to the Current Scheme, a share option may be exercised at any time during a period notified by the Board to the grantee, such period shall not be longer than 10 years from the date of offer.

(vi) Pursuant to each of the 2002 Scheme and the Current Scheme, a share option may be granted by the Board upon any terms and conditions as it may think fit subject to the rules of the Schemes and the GEM Listing Rules. Save for this, there is neither any performance targets that need to be achieved by the grantee nor any minimum period for which a share option must be held before a share option can be exercised.

(vii) Pursuant to each of the 2002 Scheme and the Current Scheme, acceptance of an offer must be made by the grantee by the date specified in the offer as the last date for acceptance, together with a remittance in favour of the Company of $1 by way of consideration for the grant.

(viii) Pursuant to the 2002 Scheme and the Current Scheme, the exercise price shall be determined by the Board, but shall not be less than the higher of:

(1) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date on which an offer is made to a participant, which must be a business day;

(2) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which an offer is made; and

(3) the nominal value of the shares.

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 33 SHARE OPTIONS *(Continued)*

### *(a) The principal terms of the share option schemes of the Company are summarised as follows:* (Continued)

(ix) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

| | Exercise price HK$ | As at 31 March 2005 Number | As at 31 March 2006 Number | Vesting conditions | Contractual life of options |
|---|---|---|---|---|---|
| Options granted to directors: | | | | | |
| - on 31 March 2003 ("Option 1") | 0.575* | 4,800,000 | — | - up to 30% immediately after the date of grant<br>- up to 60% immediately after 12 months from the date of grant<br>- up to 100% immediately after 18 months from the date of grant | Expire at the close of business on 16 March 2013 |
| - on 4 March 2005 ("Option 2") | 1.60 | 2,400,000 | 2,400,000 | - immediately 3 months after the date of grant | Expire at the close of business on 28 February 2015 |
| - on 30 March 2005 ("Option 3") | 1.76 | 63,206,245 | 63,206,245 | - up to 20% immediately after 6 months from the date of grant<br>- up to 60% immediately after 18 months from the date of grant<br>- up to 100% immediately after 30 months from the date of grant | Expire at the close of business on 3 March 2015 |
| Options granted to employees: | | | | | |
| - on 31 March 2003 ("Option 1") | 0.575* | 1,080,000 | — | - up to 30% immediately after the date of grant<br>- up to 60% immediately after 12 months from the date of grant<br>- up to 100% immediately after 18 months from the date of grant | Expire at the close of business on 16 March 2013 |
| - on 4 March 2005 ("Option 2") | 1.60 | 11,970,000 | 11,970,000 | - immediately 3 months after the date of grant | Expire at the close of business on 28 February 2015 |
| | | 83,456,245 | 77,576,245 | | |

* Adjusted for the effect of the Bonus Issue.

## 33 SHARE OPTIONS *(Continued)*

### *(b) The number and weighted average exercise prices of share options are as follows:*

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options ’000** | Weighted average exercise price | Number of options ’000 |
| Outstanding at the beginning of the period | **$1.65** | **83,456** | $0.575* | 17,065 |
| Additional share options due to the Bonus Issue | **—** | **—** | $0.575* | 9,880 |
| Exercised during the period | **$0.575*** | **(5,880)** | $0.77 | (21,065) |
| Granted during the period | **—** | **—** | $1.73 | 77,576 |
| Outstanding at the end of the period | **$1.73** | **77,576** | $1.65 | 83,456 |

* Adjusted for the effect of the Bonus Issue.

The weighted average share price at the date of exercise for share options exercised during the year was $2.20 (2005: $2.26).

The options outstanding at 31 March 2006 and their remaining contractual lives are stated in (a) above.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 33 SHARE OPTIONS *(Continued)*

### *(c) Fair value of share options and assumptions*

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimated fair value of the services received is measured based on the Black-Scholes pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes pricing model.

| | **2006** | 2005 |
|---|---|---|
| Fair value of share options and assumptions | | |
| Fair value at measurement date | | |
| - Option 1 | — | $0.084* |
| - Option 2 | **$0.098** | $0.098 |
| - Option 3 | **$0.139** | $0.139 |
| Share price | | |
| - Option 1 | — | $1.20 |
| - Option 2 | **$1.60** | $1.60 |
| - Option 3 | **$1.52** | $1.52 |
| Exercise price | | |
| - Option 1 | — | $0.575* |
| - Option 2 | **$1.60** | $1.60 |
| - Option 3 | **$1.76** | $1.76 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes pricing model) | | |
| - Option 1 | — | 66.70% |
| - Option 2 | **46.77%** | 46.77% |
| - Option 3 | **45.63%** | 45.63% |
| Option expected life (expressed as weighted average life used in the modelling under the Black-Scholes pricing model) | | |
| - Option 1 | — | 0.33 – 1.5 years |
| - Option 2 | **0.33 years** | 0.33 years |
| - Option 3 | **0.6 - 2.6 years** | 0.6 – 2.6 years |
| Expected dividend yield | | |
| - Option 1 | — | 1.25 – 3.75% |
| - Option 2 | — | — |
| - Option 3 | **1.39 - 2.35%** | 1.39 – 2.35% |
| Risk-free interest rate (based on Exchange Fund Notes) | | |
| - Option 1 | — | 1.080 – 1.335% |
| - Option 2 | **1.789%** | 1.789% |
| - Option 3 | **2.669 – 3.568%** | 2.669 – 3.568% |

* Adjusted for the effect of the Bonus Issue.

## 33 SHARE OPTIONS *(Continued)*

### *(c) Fair value of share options and assumptions* (Continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividend yields are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimates.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options grants.

## 34 ACQUISITION OF SUBSIDIARIES

On 6 September 2004, the Group acquired a 51% equity interest in Qijieyuan for a consideration of $452,800,000 which was satisfied by the issue of the convertible bonds with a principal amount of $226,400,000 and a cash consideration of $226,400,000.

On 22 December 2004, the Group acquired a 60.8% equity interest in Baisuihang for a cash consideration of $2,826,000.

| | **2006** | 2005 |
|---|---|---|
| | $'000 | $'000 |
| **Net assets acquired** | | |
| Property, plant and equipment | — | 22,880 |
| Construction in progress | — | 36,847 |
| Intangible assets | — | 466,259 |
| Inventories | — | 661 |
| Trade and other receivables, deposits and prepayments | — | 866 |
| Cash at bank and on hand | — | 269 |
| Trade and other payables and accruals | — | (73,667) |
| Net identifiable assets and liabilities | — | 454,115 |
| Minority interests | — | (5,863) |
| | — | 448,252 |
| Goodwill arising on consolidation | — | 7,374 |
| Total purchase price paid | — | 455,626 |
| Less: Satisfied by the issue of convertible bonds | — | (226,400) |
| Cash of the subsidiaries acquired | — | (269) |
| Balance payable included in other payables and accruals (note) | — | (90,400) |
| Net cash outflow in respect of the purchase of subsidiaries | — | 138,557 |

Note: In respect of the acquisition of a 51% equity interest in Qijieyuan, the remaining balance of the consideration payable of $90,400,000 was originally payable in cash on or before 6 September 2005. On 25 March 2005, an agreement was reached with the transferor to extend the payment term for another year as the production of TangHerb did not commence as planned. The balance has been fully settled during the year.

## 35 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 46% (2005: 38%) and 91% (2005: 94%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the medical device business segment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees which would expose the Group to credit risk.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 35 FINANCIAL INSTRUMENTS *(Continued)*

### *(c) Interest rate risk*

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

| The Group | 2006 | | | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total $'000 | 1 year or less $'000 | 1 - 2 years $'000 | 2 - 5 years $'000 | Effective interest rate % | Total $'000 | 1 year or less $'000 | 1 - 2 years $'000 | 2 - 5 years $'000 |
| **Repricing dates for assets which reprice before maturity** | | | | | | | | | | |
| Cash and cash equivalents | 2.01 | 476,855 | 476,855 | — | — | 0.57 | 117,847 | 117,847 | — | — |
| **Maturity dates for assets/ (liabilities) which do not reprice before maturity** | | | | | | | | | | |
| Bank fixed deposits | 3.24 | 4,811 | 4,811 | — | — | 1.17 | 38,198 | 38,198 | — | — |
| Bank loans | 5.45 | (134,587) | (37,913) | (96,674) | — | 3.44 | (151,358) | (57,169) | — | (94,189) |
| Convertible bonds | 3.40 | (112,277) | — | (112,277) | — | 3.40 | (117,169) | — | — | (117,169) |
| | | (242,053) | (33,102) | (208,951) | — | | (230,329) | (18,971) | — | (211,358) |

| The Company | 2006 | | | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total $'000 | 1 year or less $'000 | 1 - 2 years $'000 | 2 - 5 years $'000 | Effective interest rate % | Total $'000 | 1 year or less $'000 | 1 - 2 years $'000 | 2 - 5 years $'000 |
| **Repricing dates for assets which reprice before maturity** | | | | | | | | | | |
| Cash and cash equivalents | 3.09 | 469 | 469 | — | — | 0.10 | 15,051 | 15,051 | — | — |
| **Maturity dates for assets/ (liabilities) which do not reprice before maturity** | | | | | | | | | | |
| Bank fixed deposits | 3.24 | 4,811 | 4,811 | — | — | — | — | — | — | — |
| Bank loans | 4.39 | (37,913) | (37,913) | — | — | 2.18 | (28,913) | (28,913) | — | — |
| Convertible bonds | 3.40 | (112,277) | — | (112,277) | — | 3.40 | (117,169) | — | — | (117,169) |
| | | (145,379) | (33,102) | (112,277) | — | | (146,082) | (28,913) | — | (117,169) |

## 35 FINANCIAL INSTRUMENTS *(Continued)*

### *(d) Foreign currency risk*

Presently, there is no hedging policy is adopted by the Group with respect to its foreign exchange exposure. The Group's transactional currencies are Chinese Renminbi, Hong Kong Dollars and the United States Dollars. Most of the transactions are within the PRC and Hong Kong. With the natural hedging of the revenue and costs being denominated in Chinese Renminbi, the Group's transactional foreign exchange exposure was insignificant.

The Group is exposed to foreign currency risks through certain other receivables and bank deposits dominated in United States Dollars ("USD"). As HKD is pegged to USD, the Company does not expect any significant movements in the USD/HKD exchange rate.

### *(e) Fair values*

The fair values of cash and cash equivalents, bank deposits, trade and other receivables, deposits and prepayments and trade and other payables and accrued expenses are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of bank loans and loan receivables approximate their fair values.

As set out in note 18, the Company had amounts due from/to subsidiaries. It is not practical to estimate the fair values of the amounts due to the related party nature of these instruments.

### *(f) Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction of transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

## 36 COMMITMENTS

### (a) Capital commitments outstanding at 31 March 2006 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Contracted for | 233,026 | 53,964 |

### (b) As at 31 March 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **1,844** | 2,324 | **1,103** | 1,102 |
| After 1 year but within 5 years | — | 1,726 | — | 1,143 |
| | **1,844** | 4,050 | **1,103** | 2,245 |

Significant leasing arrangements in respect of land held under operating leases are described in note 14.

In addition, the Group leases a number of properties under operating leases. The leases typically run for an initial 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.

## 37 RETIREMENT SCHEMES

### Hong Kong

Since December 2001, the Company and its Hong Kong subsidiary operate a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement scheme. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

### PRC, other than Hong Kong

Pursuant to the relevant PRC regulations, the Company's PRC subsidiaries are required to make contributions at approximately 19% of the employees' salaries and wages to a defined contribution retirement scheme organised by the Beijing Social Security Bureau in respect of the retirement benefits for the Group's employees in the PRC.

Save as disclosed above, the Group has no other obligation to make payments in respect of retirement benefits of the employees.

## 38 CONTINGENT ASSETS AND LIABILITIES

At 31 March 2006, there were two legal cases pending:

(i) In December 2004, Baisuihang, Jingjing and Qijieyuan (together the "defendants") signed a repayment agreement with a creditor (the "plaintiff") of Baisuihang, in relation to the repayment of amounts due to the creditor as noted in note 28(a). However, the Group did not pay the second instalment of RMB20 million when due, in accordance with the repayment agreement, as the Group was of the view that certain conditions of the agreement were not met by the plaintiff, in particular, the change of the nature of land use rights.

In December 2005, the defendants received notice that the plaintiff sued for the non-payment of RMB20,000,000. As advised by the Group's legal counsel, it is probable that the Group is liable to repay RMB20,000,000 and the remaining amount. The Group has already accrued for the total outstanding amounts as noted in note 28(a). No further provision has been made in respect of this claim.

(ii) In March 2006, the defendants counter-sued the plaintiff to compensate for their economic loss of RMB24 million as production could not commence as scheduled due to the delay in obtaining the registration for the change of the nature of related land use rights. As advised by the Group's legal counsel, the Group is not able to assess the final remedies. In view of the situation, no contingent asset is recognised in respect of this legal case in the financial statements.

As both legal cases do not affect the Group's daily operations nor incur additional expenses, no contingent assets or liabilities have been recognised in the financial statements.

## 39 RELATED PARTY TRANSACTIONS

(a) 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 year ended 31 March 2005 (note 29(b)).

(b) Cash advances in an aggregate amount of $569,000 was made to a director of a subsidiary during the year ended 31 March 2005. The amount due was unsecured, non-interest bearing and repayable on demand. The amount has been made settled during the year ended 31 March 2006.

(c) During the year ended 31 March 2005, property, plant and equipment and inventories with carrying amount totalling $7,417,000 were disposed of to a former shareholder of a subsidiary for a consideration of $7,608,000. The amount due was unsecured, non-interest bearing and repayable on demand. The amount has been settled in May 2005.

## 40 NON-ADJUSTING POST BALANCE SHEET DATE EVENTS

### *(a) Placing and subscription of new shares*

On 13 April 2006, the Company entered into placing and subscription agreements to place 252,824,000 new ordinary shares, representing approximately 19.8% of the Company's issued share capital, at $2.4 per share. The placing raised $587,467,000, net of relevant expenses, which will be used as working capital and reserve for potential investments in the future. The placing and subscription were completed on 26 April 2006.

### *(b) Approval of acquisition of a PRC entity*

The acquisition of a 50% equity interest in a PRC entity engaged in personal electronic goods distribution, disclosed in notes 24(a) and 25, was approved by shareholders at the extraordinary general meeting held on 19 April 2006.

## 41 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

## 42 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 17, 33 and 35 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments.

## 43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that:

— HKFRS 7, "Financial instruments: disclosures", requires more detailed qualitative and quantitative disclosure primarily on fair value information and risk management, thus it would only affect the level of detail in the disclosure of the financial information, and would not have a financial impact or result in a change in the Group's accounting policies. HKFRS 7 will be effective for accounting periods beginning 1 January 2007.

— The amendments to HKAS 1, HKAS 27 and HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations. The adoption of the remaining amendments, new standards, and interpretations which are not yet effective for the year ended 31 March 2006, is unlikely to have a significant impact on the Group's result of operations and financial position.

A summary of the published financial information of the Group is set out below:

## RESULTS

| | Year ended 31 March 2002 HK$'000 | Year ended 31 March 2003 HK$'000 | Year ended 31 March 2004 HK$'000 (restated) | Year ended 31 March 2005 HK$'000 (restated) | **Year ended 31 March 2006 HK$'000** |
|---|---|---|---|---|---|
| Turnover | 78,597 | 133,580 | 174,595 | 238,991 | **280,578** |
| Profit from operations | 41,876 | 76,543 | 93,225 | 130,758 | **97,405** |
| Finance costs | (283) | — | (754) | (8,399) | **(12,431)** |
| Gain on deemed disposal of an associate | — | — | — | — | **116,571** |
| Gain on partial disposal of an associate | — | — | — | — | **322,218** |
| Share of profits less losses from associates | — | — | 13,702 | 26,957 | **39,975** |
| Profit before taxation | 41,593 | 76,543 | 106,173 | 149,316 | **563,738** |
| Taxation | — | — | (2,232) | (10,658) | **(2,466)** |
| Profit for the year | 41,593 | 76,543 | 103,941 | 138,658 | **561,272** |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 41,593 | 76,543 | 104,431 | 138,263 | **563,824** |
| Minority interests | — | — | (490) | 395 | **(2,552)** |
| Profit for the year | 41,593 | 76,543 | 103,941 | 138,658 | **561,272** |

## ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2002<br>HK$'000 | 2003<br>HK$'000 | 2004<br>HK$'000<br>(restated) | 2005<br>HK$'000<br>(restated) | **2006<br>HK$'000** |
| Property, plant and equipment | 868 | 131,677 | 136,405 | 161,537 | **166,094** |
| Construction in progress | 79,729 | 7,176 | 159,466 | 183,397 | **137,530** |
| Intangible assets | — | — | 56,802 | 521,010 | **523,845** |
| Goodwill | 796 | 698 | 70,869 | 74,450 | **74,450** |
| Interests in associates | — | 39,535 | 53,237 | 79,964 | **30,395** |
| Available-for-sale equity securities | — | — | — | — | **635,304** |
| Deferred tax assets | — | — | — | — | **9,397** |
| | 81,393 | 179,086 | 476,779 | 1,020,358 | **1,577,015** |
| Current assets | 114,101 | 260,661 | 364,891 | 469,944 | **949,798** |
| Total assets | 195,494 | 439,747 | 841,670 | 1,490,302 | **2,526,813** |
| Current liabilities | (16,384) | (50,682) | (87,880) | (175,696) | **(197,789)** |
| Total assets less current liabilities | 179,110 | 389,065 | 753,790 | 1,314,606 | **2,329,024** |
| Non-current liabilities | — | — | (2,001) | (308,122) | **(223,977)** |
| Net assets | 179,110 | 389,065 | 751,789 | 1,006,484 | **2,105,047** |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 179,110 | 389,065 | 707,492 | 956,141 | **2,055,998** |
| Minority interests | — | — | 44,297 | 50,343 | **49,049** |
| Total equity | 179,110 | 389,065 | 751,789 | 1,006,484 | **2,105,047** |

Note:

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 3 to the financial statements. Figures for 2005 and 2006 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 3. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 3.

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Golden Meditech Company Limited (the "Company") for the year 2006 will be held at Chater Room III, B1, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong on Wednesday, 13 September 2006 at 10:00 a.m. for the following purposes:

1. to consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors (the "Directors") of the Company and of the auditors for the year ended 31 March 2006;

2. to re-elect retiring Directors;

3. to authorise the Directors to fix the Directors' remuneration;

4. to re-appoint the retiring auditors, KPMG, and to authorise the Directors to fix their remuneration;

5. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   **"THAT:**

   (a) subject to paragraph (c) of this Resolution, the board of Directors (the "Board") be and is hereby granted an unconditional general mandate to exercise during the Relevant Period (as defined in paragraph (d) of this Resolution) all the powers of the Company to allot, issue and deal with additional shares of HK$0.10 each in the Company (the "Shares") or securities convertible or exchangeable into Shares, and to make or grant offers, agreements, options, warrants or similar rights in respect thereof;

   (b) the mandate referred to in paragraph (a) shall authorise the Board during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted or issued or dealt with (whether pursuant to options or otherwise) by the Board pursuant to the mandate referred to in paragraph (a) above, otherwise than pursuant to:

      (i) a Rights Issue;

      (ii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to officers and/or employees and/or consultants and/or advisors of the Company and/or any of its affiliates of Shares or rights to subscribe for Shares;

      (iii) any scrip dividend or similar arrangement providing for the allotment and issue of Shares or other securities of the Company in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of the Company; or

(iv) any issue of Shares pursuant to the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into Shares shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

(d) for the purpose of this Resolution:

**"Relevant Period"** means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest;

**"Rights Issue"** means an offer of Shares, or an offer of warrants, options or other securities of the Company giving rights to subscribe for Shares, open for a period fixed by the Board to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

6. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**"THAT:**

(a) subject to paragraph (b) of this Resolution, the exercise by the Board of all the powers of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) to repurchase Shares be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

**"Relevant Period"** means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest."

7. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** conditional upon the passing of Resolutions Nos. 5 and 6 set out in this notice, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Board pursuant to and in accordance with the mandate granted under Resolution No. 5 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of Shares repurchased by the Company pursuant to and in accordance with the mandate granted under Resolution No. 6, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution"; and

8. as special business, to consider and, if thought fit, pass with or with amendments, the following resolution as a special resolution:

"**THAT** the Articles of Association of the Company be amended in the following manner:-

(a) by deleting the words "a Special" in paragraph (g) of Article 105 and substituting therefor the words "an Ordinary"; and

(b) by deleting the word "Special" immediately before the words "Resolution remove any Director (including a Managing Director or other Executive Director)" of Article 114 and replacing it with the word "Ordinary"."

By Order of the Board
**KONG Kam Yu**
*Company Secretary*

Hong Kong, 30 June 2006

*Notes:*

1. The register of members of the Company will be closed from Monday, 11 September 2006 to Wednesday, 13 September 2006, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending the annual general meeting convened by the above notice, all transfer forms must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 8 September 2006.

2. A member entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint one or, if he holds two or more Shares, more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the annual general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

4. If two or more persons are joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the principal or branch register of members of the Company in respect of the joint holding.

5. A circular setting out further information regarding the resolutions to be proposed at the annual general meeting will be despatched to members of the Company together with the 2005/2006 Annual Report.

6. The translation into Chinese language of the above notice (including the special resolution which contains the proposed amendment to the Company's Articles of Association) is for reference only. In case of any inconsistency, the English version shall prevail.

| **Terms used** | **Brief description** |
|---|---|
| ***General*** | |
| AGM | The annual general meeting of the Company to be held at 10:00 a.m. on Wednesday, 13 September 2006 at Chater Room III, B1, The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong. |
| Associate | A company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. |
| Company | Golden Meditech Company Limited. |
| Director(s) | The director(s) of the Company. |
| GEM | The Growth Enterprise Market operated by the Stock Exchange. |
| GEM Listing Rules | The Rules Governing the Listing of Securities on the GEM. |
| Group | Golden Meditech Company Limited, together with its subsidiaries. |
| HK$ | The Hong Kong dollar, the currency of Hong Kong. |
| HKICPA | The Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Law of Hong Kong). |
| Hong Kong | The Hong Kong Special Administrative Region of the People's Republic of China. |
| New HKFRSs | The new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards. |
| PRC/China | The People's Republic of China, excluding Hong Kong and Macau. |
| RMB | Renminbi, the currency of China. |
| SFDA | China's State Food and Drug Administration. |
| SFO | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong. |
| Share(s) | Ordinary share(s) of HK$0.10 each in the share capital of the Company. |
| Shareholder(s) | Holder(s) of Shares. |
| Stock Exchange | The Stock Exchange of Hong Kong Limited. |
| Subsidiary | A company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. |

***Medical Device Segment***

| | |
|---|---|
| Jingjing | Beijing Jingjing Medical Equipment Co., Ltd., a wholly-owned subsidiary of the Company. Its main operation is the research and development, production and sale of medical devices in the PRC. |
| Autologous Blood Recovery System | A hi-tech medical device that collects, filtrates, separates, cleanses, and re-infuses a patient's own blood lost during an accident or operation, replacing traditional blood transfusion. Its main components are the machine and the disposable chamber. The patents belong to the relevant subsidiary. |
| ABRS machine | The machine of the Autologous Blood Recovery System, including the models for hospital and outdoor use. |
| Disposable Chamber | The disposable blood processing chamber and related accessories. These are used once per operation for blood processing and recycling, and cannot be reused. |

***Cord Blood Bank Segment***

| | |
|---|---|
| Jiachenhong | Beijing Jiachenhong Biological Technologies Co., Ltd., a 51% indirectly owned subsidiary of the Company. Its main operation is the provision of blood stem cell storage facilities and accessory services in the PRC. |
| Haematopoietic stem cells/blood stem cells | Haematopoietic stem cells, from which all haematopoietic and immune cell types are derived. They can develop into red blood cells, white blood cells and platelets, are self-regenerative and have a multi-differentiation and homing tendency (i.e. oriented migration to haematopoietic tissues or organs). They are found mainly in bone marrow, umbilical cord blood and peripheral blood. |
| Cord blood | The blood left in the umbilical cord and placenta after the umbilical cord of a newborn is clamped. |
| Cord blood bank | A professional medical institution offering extraction and banking services for cord blood hematopoietic stem cells and answering patients' enquiries on transplant matching. |
| Storage of blood stem cells | Cryopreserving, or preserving by freezing, blood stem cells in liquid nitrogen at -196°C for a long period of time. |

***Chinese Herbal Medicine Segment***

| | |
|---|---|
| Qijieyuan | Beijing Qijieyuan Pharmaceutical Technology Development Co., Ltd., a 51% indirectly owned subsidiary of the Company. Its main operation is the research and development of proprietary Chinese herbal medicines in the PRC. |
| Baisuihang | Shanghai Baisuihang Pharmaceutical Co., Ltd., a 60.8% indirectly owned subsidiary of the Company. Its main operation is the production and sale of proprietary Chinese herbal medicines in the PRC. |
| TangHerb® | First proprietary Chinese herbal medicine approved by the SFDA of the PRC to alleviate AIDS symptoms. |
| CD4 cell | Also called a T-cell, a key immune cell of the immune system. |
| CTC | Clinical Trials Centre, Faculty of Medicine, The University of Hong Kong. |