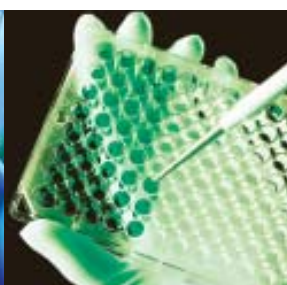




(Stock Code: 8180)

# Third Quarterly Report 2005/2006

[illegible]



...a leading Chinese-based, integrated medical enterprise. We specialise in blood-related products and technologies, and combine technological innovation with a visionary approach to healthcare that can benefit the world.

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

...a leading Chinese-based, integrated medical enterprise. We specialise in blood-related products and technologies, and combine technological innovation with a visionary approach to healthcare that can benefit the world.

## **CONTENTS**

CHARACTERISTICS OF GEM	2
CORPORATE INFORMATION	3
CORPORATE PROFILE	5
PERFORMANCE HIGHLIGHTS	6
THIRD QUARTERLY RESULTS	7
NOTES TO THE THIRD QUARTERLY REPORT	8
MANAGEMENT DISCUSSION & ANALYSIS	17
DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY	22
SHARE OPTION SCHEMES	23
DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES	25
SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY	25
COMPETING INTERESTS	26
PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES	26
SECURITIES TRANSACTIONS BY DIRECTORS	26
AUDIT COMMITTEE	27
GLOSSARY	28

## **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 internet 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.**

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

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

## **CORPORATE INFORMATION**

### ***Executive Directors***

Mr. KAM Yuen (*Chairman*)

Mr. LU Tian Long

Ms. JIN Lu

Ms. ZHENG Ting

### ***Independent Non-executive Directors***

Prof. CAO Gang

Mr. GAO Zong Ze

Prof. GU Qiao

### ***Registered Office***

Appleby Corporate Services (Cayman) Limited

P.O. Box 1350 GT

Clifton House

75 Fort Street, George Town

Grand Cayman, Cayman Islands

British West Indies

### ***Head Office in the PRC***

Room 11, 7/F, Tower E1, Beijing Oriental Plaza

No.1 East Chang An Ave, Dong Cheng District

Beijing, 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

CITIC Ka Wah Bank Limited

Bank of China (Hong Kong) Limited

***Public Relations Consultant***

A-World Consulting Limited

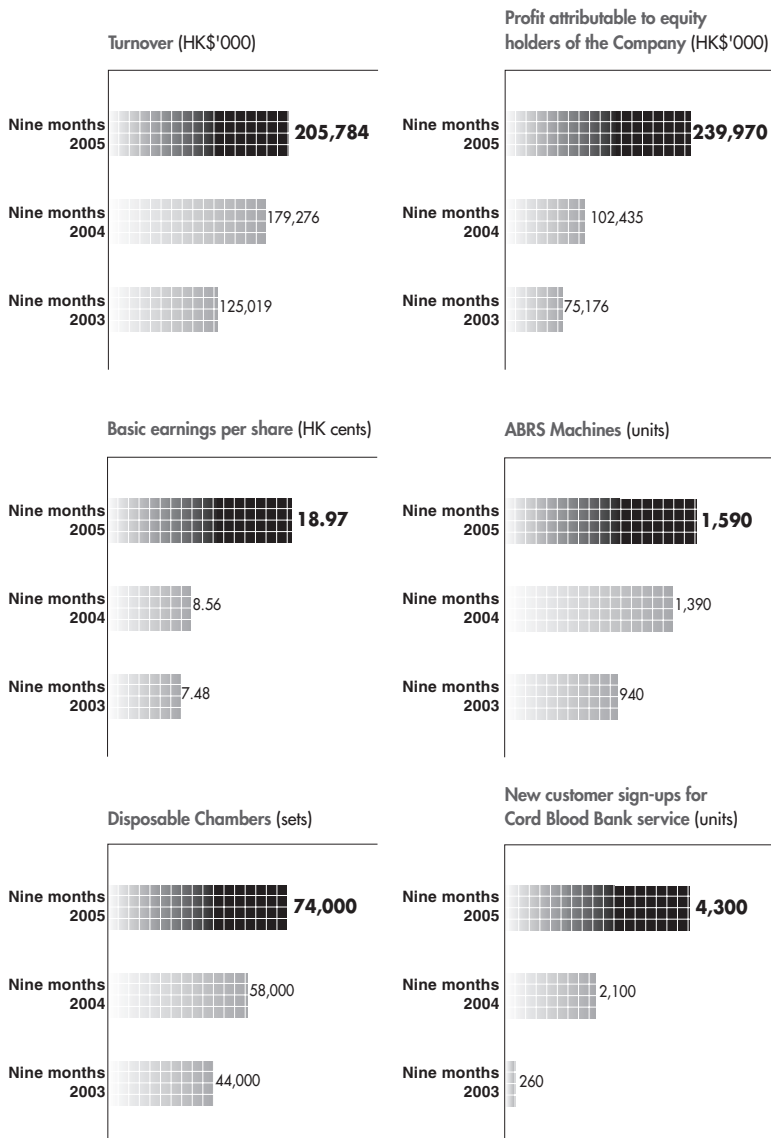
## CORPORATE PROFILE

**Golden Meditech Company Limited** (“Golden Meditech”; stock code: 8180.HK) is a leading hi-tech integrated medical group in China. Its major business areas are medical devices, haematopoietic stem cell storage and applications and Chinese herbal medicines.

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

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

## PERFORMANCE HIGHLIGHTS



### Notes:

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



### THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors of the Company is pleased to announce the unaudited consolidated results of the Group for the three months and nine months ended 31 December 2005, together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

### CONSOLIDATED INCOME STATEMENT

		Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	Note	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Turnover	2	74,113	59,596	205,784	179,276
Cost of sales		(21,893)	(17,517)	(58,743)	(50,128)
Gross profit		52,220	42,079	147,041	129,148
Other revenue	4	4,916	3,767	13,544	12,122
Selling expenses		(3,664)	(1,864)	(9,384)	(5,844)
Administrative expenses		(12,613)	(15,681)	(36,285)	(36,154)
Profit from operations		40,859	28,301	114,916	99,272
Finance costs		(3,373)	(3,514)	(9,480)	(5,626)
Gain on deemed disposal of an associate		—	—	116,571	—
Share of profits of associates		11,754	8,182	30,625	19,146
Profit before taxation		49,240	32,969	252,632	112,792
Taxation	5	(4,533)	(2,703)	(12,883)	(9,295)
Profit for the period		44,707	30,266	239,749	103,497
Attributable to:					
Equity holders of the Company		44,299	29,692	239,970	102,435
Minority interests		408	574	(221)	1,062
		44,707	30,266	239,749	103,497
Earnings per share					
- Basic	7	3.50 cents	2.46 cents	18.97 cents	8.56 cents
- Diluted	7	3.39 cents	2.34 cents	18.19 cents	8.30 cents

The notes on pages 8 to 16 form part of this third quarterly report.

# NOTES TO THE THIRD QUARTERLY REPORT

## 1. Basis of preparation

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

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

In the nine months ended 31 December 2005, the Group has adopted, for the first time, a number of new and revised HKFRSs and HKAS (herein collectively referred to as the "new HKFRSs"). The new HKFRSs are effective for the accounting periods beginning on or after 1 January 2005.

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

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

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

## 1. Basis of preparation (continued)

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

Both HKFRS 2 and HKAS 32 require retrospective application. Based on the Group's latest assessment, the effect of adopting these two standards has decreased consolidated retained profits as at 1 April 2005 by HK\$4,820,000. In addition, the profits for the three months and nine months ended 31 December 2005 were decreased by HK\$2,008,000 (2004: HK\$1,117,000) and HK\$6,017,000 (2004: HK\$1,790,000) respectively.

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

## 2. Turnover

The Group is principally engaged in the manufacture and sale of its autologous blood recovery system ("ABRS"), which includes the machines ("ABRS Machines") and disposable blood processing chambers and related accessories ("Disposable Chambers"), the storage and applications of haematopoietic stem cells, or blood stem cells ("Cord Blood Bank") and the research and development, manufacture and sale of proprietary Chinese medicines in the PRC.

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

Turnover recognised during the period is analysed as follows:

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Sales of ABRS Machines	53,833	46,664	151,012	142,981
Sales of Disposable Chambers	11,107	8,976	32,703	25,775
Cord Blood Bank services	9,164	3,956	22,056	10,520
Others	9	—	13	—
	<u>74,113</u>	<u>59,596</u>	<u>205,784</u>	<u>179,276</u>

### 3. Segment information

(i) *Primary reporting format - business segments*

The main businesses of the Group are as follows:

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

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

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

The following tables present turnover, expenditure and profit/(loss) from operations for the Group's business segments.

<b>Unaudited</b> <b>For the nine months ended</b> <b>31 December 2005</b> <i>HK\$'000</i>				
	Medical Device Segment	Cord Blood Bank Segment	Chinese Herbal Medicine Segment	Consolidated
Turnover	183,715	22,056	13	205,784
Segment results	130,352	6,827	(6,947)	130,232
Unallocated costs				(15,316)
Profit from operations				114,916
Finance costs				(9,480)
Gain on deemed disposal of an associate				116,571
Share of profits of associates				30,625
Profit before taxation				252,632
Taxation				(12,883)
Profit for the period				239,749
Attributable to:				
Equity holders of the Company				239,970
Minority interests				(221)
				239,749

### 3. Segment information (continued)

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

	Unaudited For the nine months ended 31 December 2004 HK\$'000 (Restated)			
	Medical Device Segment	Cord Blood Bank Segment	Chinese Herbal Medicine Segment	Consolidated
Turnover	168,756	10,520	—	179,276
Segment results	118,138	4,152	(735)	121,555
Unallocated costs				(22,283)
Profit from operations				99,272
Finance costs				(5,626)
Share of profits of associates				19,146
Profit before taxation				112,792
Taxation				(9,295)
Profit for the period				103,497
Attributable to:				
Equity holders of the Company				102,435
Minority interests				1,062
				103,497

#### (ii) Secondary reporting format - geographical segments

In view of the fact that the Group operates mainly in the People's Republic of China, excluding Hong Kong and Macau (the "PRC"), no geographical segment analysis is presented.

#### 4. Other revenue

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest income	434	309	988	733
VAT refund (Note)	4,482	3,458	12,556	11,389
	<u>4,916</u>	<u>3,767</u>	<u>13,544</u>	<u>12,122</u>

Note:

Pursuant to the relevant PRC government policies and an approval issued by 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. The VAT refund will expire in December 2006.

#### 5. Taxation

Taxation charged to the consolidated income statement represents:

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Current tax - Outside Hong Kong</b>				
PRC income tax for the period	2,907	2,033	8,577	7,603
Share of associates' taxation	1,626	670	4,306	1,692
	<u>4,533</u>	<u>2,703</u>	<u>12,883</u>	<u>9,295</u>

## 5. Taxation (continued)

### (i) PRC income tax

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

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

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

### (ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 December 2005 (2004: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

## 6. Dividend

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Dividend attributable to the previous financial year</b>				
Final dividend paid during the period, of HK2.1 cents per share (2004: HK1.8 cents per share)	<b>26,547</b>	21,469	<b>26,547</b>	21,469

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2005 (2004: Nil).

## 7. Earnings per share

### (i) *Basic earnings per share*

The calculation of basic earnings per share for the three months and nine months ended 31 December 2005 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$44,299,000 and HK\$239,970,000 respectively divided by the weighted average number of 1,265,860,485 and 1,264,705,538 shares respectively in issue during the periods.

The calculation of basic earnings per share for the three months and nine months ended 31 December 2004 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$29,692,000 (restated) and HK\$102,435,000 (restated) respectively divided by the weighted average number of 1,209,399,061 and 1,196,850,086 shares respectively in issue during the periods.

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

The calculation of diluted earnings per share for the three months and nine months ended 31 December 2005 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$45,197,000 and HK\$242,653,000 respectively, which are the profit attributable to equity holders of the Company for the periods adjusted for the accrued interest expense related to the convertible bonds of HK\$898,000 and HK\$2,683,000 respectively, divided by the weighted average number of 1,334,690,530 and 1,333,413,402 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.

The calculation of diluted earnings per share for the three months and nine months ended 31 December 2004 is based on the unaudited consolidated profit attributable to equity holders of the Company of HK\$31,116,000 (restated) and HK\$104,299,000 (restated) respectively, which are the profit attributable to equity holders of the Company for the periods adjusted for the accrued interest expense related to the convertible bonds of HK\$1,424,000 (restated) and HK\$1,864,000 (restated) respectively, divided by the weighted average number of 1,327,618,644 and 1,256,571,707 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.



## 8. Reserves

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Unaudited Surplus reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2005							
as previously reported	433,469	54,193	(1,287)	29,487	—	307,035	822,897
Effect of changes in accounting policies ( <i>note 1</i> )	2,797	—	—	—	7,801	(4,820)	5,778
As restated	436,266	54,193	(1,287)	29,487	7,801	302,215	828,675
Exchange differences	—	—	10,563	—	—	—	10,563
Accounted for employees' share option expenses	—	—	—	—	4,268	—	4,268
Issue of shares for scrip dividend	2,148	—	—	—	—	—	2,148
Transfer to surplus reserve	—	—	—	14,425	—	(14,425)	—
Profit for the period	—	—	—	—	—	239,970	239,970
Dividends ( <i>note 6</i> )	—	—	—	—	—	(26,547)	(26,547)
As at 31 December 2005	<u>438,414</u>	<u>54,193</u>	<u>9,276</u>	<u>43,912</u>	<u>12,069</u>	<u>501,213</u>	<u>1,059,077</u>
As at 1 April 2004							
as previously reported	376,406	54,193	727	17,322	—	199,925	648,573
Effect of changes in accounting policies ( <i>note 1</i> )	777	—	—	—	1,496	(2,273)	—
As restated	377,183	54,193	727	17,322	1,496	197,652	648,573
Bonus issue of shares	(59,637)	—	—	—	—	—	(59,637)
Shares issued under share option scheme	8,321	—	—	—	(777)	—	7,544
Accounted for employees' share option expenses	—	—	—	—	582	—	582
Issuance of convertible bonds	—	—	—	—	12,884	—	12,884
Issue of shares upon conversion of convertible bonds	97,762	—	—	—	(5,827)	—	91,935
Issue of shares for scrip dividend	5,553	—	—	—	—	—	5,553
Transfer to surplus reserve	—	—	—	12,156	—	(12,156)	—
Profit for the period	—	—	—	—	—	102,435	102,435
Dividend ( <i>note 6</i> )	—	—	—	—	—	(21,469)	(21,469)
As at 31 December 2004	<u>429,182</u>	<u>54,193</u>	<u>727</u>	<u>29,478</u>	<u>8,358</u>	<u>266,462</u>	<u>788,400</u>

## **9. Post balance sheet events**

On 27 January 2006, the Group entered into a conditional acquisition agreement to acquire a 50% equity interest in Beijing Pypo Technology Group Company Limited ("Pypo"), one of the few PRC distributors of a world-famous mobile phone brand. This acquisition will provide a customer base and nationwide sales channel for the Group's newly developed personal healthcare devices.

The total consideration for the acquisition is RMB 460 million and will be settled in cash from the Group's internal resources. The acquisition is subject to the fulfilment of certain terms and conditions, including our shareholders' approval at an extraordinary general meeting ("EGM").

The Group has paid the vendor a refundable deposit of RMB 57 million in cash as earnest money, which was converted into the first payment of the consideration on 27 January 2006. The second payment, RMB 219 million, is payable within 10 business days after our shareholders approve the acquisition at the EGM. The remaining balance is payable within 12 months from the date the acquisition is completed.

## MANAGEMENT DISCUSSION & ANALYSIS

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

Nine months			
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	Change (%)
<b>Turnover</b>			
Medical Device	183,715	168,756	9%
Cord Blood Bank	22,056	10,520	110%
Chinese Herbal Medicine	13	—	N/A
	<u>205,784</u>	<u>179,276</u>	15%
<b>Operating profit/(loss)</b>			
Medical Device	130,352	118,138	10%
Cord Blood Bank	6,827	4,152	64%
Tumour Treatment	30,099	19,710	53%
Medical Device Distribution	526	(564)	N/A
Chinese Herbal Medicine	(6,947)	(735)	N/A
	<u>160,857</u>	<u>140,701</u>	14%
Add: Gain on deemed disposal of an associate	116,571	—	N/A
Less: Unallocated costs	(15,316)	(22,283)	(31)%
Finance costs	(9,480)	(5,626)	69%
	<u>252,632</u>	<u>112,792</u>	124%
<b>Profit before taxation</b>			
<b>Key operating data:</b>			
<b>Medical Device</b>			
ABRS Machines (Units)	1,590	1,390	14%
Disposable Chambers (Sets)	74,000	58,000	28%
<b>Cord Blood Bank</b>			
New customer sign-ups (Units)	4,300	2,100	105%

## **BUSINESS REVIEW**

### **Overview**

The Group continued to generate sustainable returns for the reporting period. The Medical Device Segment maintained a healthy growth, while the growth of the Cord Blood Bank Segment continued to accelerate.

The Group was recently chosen for the first time to participate in the Deloitte Technology Fast 500 Asia Pacific 2005 programme, which recognises the Technology, Media and Telecommunications companies with the fastest annual revenue growth in the Asia-Pacific region, including in the PRC, the HKSAR, Australia, India, Japan and Korea. The programme calculates companies' growth over the previous three years and our inclusion is therefore further evidence that our growth is not only robust but also sustainable. We are proud that the Group's hard work is being recognised.

The key to this strong and sustainable growth is the Group's ability to identify and capture market opportunities. Going forward, the Group plans to develop a range of personal healthcare products and services in China. On their eventual launch, we anticipate they will become another growth engine for the Group.

### **The Medical Device Segment**

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 blood transfusion methods.

This Segment recorded stable growth during the period under review, with turnover amounting to HK\$183,715,000, an increase of 9% compared with last year. Operating profit from this segment also rose satisfactorily to HK\$130,352,000, an increase of 10% compared to last year. The Group sold approximately 1,590 units of the ABRS Machine and 74,000 sets of Disposable Chambers. The sales of Disposable Chambers continued to rocket and rose over 28% compared with last year, demonstrating the increasing popularity of the ABRS.

To cultivate the personal healthcare market, the Group has been developing a series of lightweight health monitors with advanced sensors and featuring diagnostic and data transmission functions, initially targeted at Bluetooth mobile handset users in China. Customers can send diagnostic data to handsets via Bluetooth for reading and onward transmission. The health monitor devices can assist the growing number of young couples in China, with responsibility for older family members to check their own and their relatives health any time, anywhere.

## **The Cord Blood Bank Segment**

The Cord Blood Bank business provides separation, processing, examination and storage services for the umbilical cord blood stem cells of newborn babies. Its performance has been remarkable since it commenced operations two years ago. The first private cord blood bank operator in China, it is still one of only two authorised operators.

During the reporting period, turnover amounted to HK\$22,056,000, representing a substantial increase of 110% compared with last year, the result of a successful marketing effort and stringent cost control. New customer sign-ups rose from approximately 2,100 in the first three quarters of the previous financial year to approximately 4,300 for the same period this year, a surge of 105%.

## **The Chinese Herbal Medicine Segment**

This segment's flagship product, TangHerb®, a proprietary Chinese medicine effective in boosting the immune systems of AIDS sufferers, has begun commercial production. However, its sales have not yet been recorded.

The Group intends to develop the overseas market for TangHerb® so that more AIDS patients can benefit. 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 trial of TangHerb® for quality of trial conduct, and reliability of data and statistical analysis.

After more than six months of detailed study, the CTC issued an audit report in late 2005, confirming 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 provides strong support and evidence that will enable us to expand the market of TangHerb® to other countries.

## **Major investment**

On 27 January 2006, the Group entered into a conditional acquisition agreement to acquire a 50% equity interest in Pypo for a total consideration of RMB 460 million, representing an attractive price/earnings multiple of approximately 7.4 times for Pypo for the year ended 31 March 2005.

Pypo is one of the few PRC distributors of a world-famous mobile phone brand. The Group intends to use Pypo's nationwide consumer product sales network to market its newly developed health monitor devices to target customers, i.e. Bluetooth mobile handset users in China. Pypo's network is ideal for launching and selling our new products, saving huge advertising costs and enhancing cost-effectiveness.

The Group will also benefit from the highly reputable handset brand that Pypo distributes to raise the popularity and acceptance of the new products. Pypo's professional sales team and nationwide sales network will help us secure a substantial market share within the shortest time. Pypo's solid financial position, and its strong cash flow will also enhance the Group's earnings.

## **PROSPECTS**

The Group is committed to delivering impressive results for all shareholders. We will concentrate our resources on expanding our core businesses – seizing the opportunity to enter the personal healthcare market, establishing a nationwide cord blood bank network, and developing both the domestic and overseas markets of TangHerb®.

These goals will not be achieved easily, but management is confident of confronting these challenges and of continuing to create value for our shareholders and to contribute to the welfare of society.

## **FINANCIAL REVIEW**

### **Overview**

During the nine months ended 31 December 2005, the Group reported desirable growth in both turnover and earnings. The increase in turnover was mainly due to the organic growth of the Medical Device and the Cord Blood Bank segments. The Chinese Herbal Medicine Segment has just commenced production and its contribution is not reflected in the reporting period.

## **Turnover**

The Group recorded a turnover of HK\$205,784,000 during the nine months ended 31 December 2005, representing an increase of approximately 15% compared with last year. The Medical Device Segment accounted for 89% of total turnover. The remainder is mainly composed of contributions from the Cord Blood Bank Segment.

## **Gross profit margin**

The Group maintained a gross profit margin of 71% for the reporting period. The management anticipates that the Medical Device Segment's gross profit margin will remain lucrative. However, each of the Group's divisions has a different gross profit margin, and when the Cord Blood Bank and the Chinese Herbal Medicine segments contribution to total turnover rises, the Group's overall gross profit margin will change accordingly.

## **Selling and administrative expenses**

Total selling and administrative expenses for the period were HK\$45,669,000. Share option costs of HK\$4,268,000 were included as a result of adopting the new accounting policies. However, the Group has always been prudent in controlling costs and expenditure, and selling and administrative expenses for the period under review only increased slightly by HK\$3,671,000 compared to the same period last year.

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

During the nine months under review, profit attributable to equity holders of the Company amounted to HK\$239,970,000. Despite the unfavourable effect of the new accounting policies, this represented a spectacular increase of 134%. If it were recorded based on the former accounting policies, the growth would be 136%.

The sharp rise in earnings was due to the one-off exceptional gain of HK\$116,571,000 from the deemed disposal of the tumour treatment associate, China Medical Technologies, Inc., following its successful listing on the NASDAQ in the United States in August 2005.

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

As at 31 December 2005, the interests and short positions of the Directors and chief executives of the Company in the shares and, in respect of equity derivatives, underlying shares in, and debentures, of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Name of Directors	Capacity and nature of interests	Personal interests	Family interests	Corporate interests	Number of ordinary shares of HK\$0.1 each Long positions/(Short position)		Approximate percentage of the Company's issued share capital
					Number of underlying shares held under equity derivatives	Total interests	
Mr. KAM Yuen <sup>(1)</sup>	Interest in controlled corporation	—	—	433,916,000 <sup>(1)</sup> (61,832,000) <sup>(2)</sup>	—	433,916,000 (61,832,000)	34.27 (4.88)
	Beneficial owner	—	—	—	63,206,245 <sup>(3)</sup>	63,206,245	4.99
Mr. LU Tian Long	Beneficial owner	—	—	—	3,600,000 <sup>(3)</sup>	3,600,000	0.28
Ms. ZHENG Ting	Beneficial owner	—	—	—	3,600,000 <sup>(3)</sup>	3,600,000	0.28

### Notes:

- (1) Mr. KAM Yuen is the sole beneficial owner 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 December 2005.
- (2) Mr. KAM Yuen was deemed under the SFO to have a short position in the shares of the Company by virtue of his interest in Bio Garden.
- (3) These interests represent the 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 December 2005, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEMES

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

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

*Notes:*

- (1) The share options are exercisable as to:
  - (i) up to 20% after 6 months from 30 March 2005;
  - (ii) up to 60% after 18 months from 30 March 2005;
  - (iii) up to 100% after 30 months from 30 March 2005; and
  - (iv) the share options will expire at the close of business on 3 March 2015.
- (2) The share options are exercisable as to:
  - (i) up to 30% immediately after 31 March 2003;
  - (ii) up to 60% immediately after 12 months from 31 March 2003;
  - (iii) up to 100% immediately after 18 months from 31 March 2003; and
  - (iv) the share options will expire at the close of business on 16 March 2013.
- (3) The share options are exercisable in full immediately after 3 months from 4 March 2005 and will expire at the close of business on 28 February 2015.
- (4) No share options granted under the share option schemes adopted by the Company on 30 July 2002 and 30 March 2005 respectively were exercised, cancelled or lapsed during the nine months ended 31 December 2005.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2005, the interests of the shareholders (not being Directors or chief executives of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO are as follows:

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

Name	Capacity and nature of interest	Number of issued shares	Approximate percentage of the Company's issued share capital
Bio Garden <sup>(1)</sup>	Beneficial owner	433,916,000 (61,832,000)	34.27 (4.88)
Kent C. MCCARTHY <sup>(2)</sup>	Controlled corporation	215,242,735	17.00
Jayhawk China Fund (Cayman), Ltd. <sup>(2)</sup>	Investment manager	203,550,735	16.08

#### Notes:

- (1) Bio Garden is an investment holding company incorporated in the BVI. Mr. KAM Yuen was the sole beneficial shareholder of the entire issued share capital of Bio Garden as at 31 December 2005.
- (2) The interests held by Mr. Kent C. MCCARTHY include the 203,550,735 shares of the Company disclosed by Jayhawk China Fund (Cayman), Ltd.

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

<b>Name of other persons who have more than 5% interest</b>	<b>Capacity and nature of interest</b>	<b>Number of issued shares</b>	<b>Approximate percentage of the Company's issued share capital</b>
Nordea Far Eastern Value Fund	Investment manager	88,157,846	6.97

Save as disclosed above, as at 31 December 2005, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## **COMPETING INTERESTS**

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

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

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

## **SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **AUDIT COMMITTEE**

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

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

The audit committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed accounting issues, internal control and financial reporting matters with the Directors, including a review of the unaudited third quarterly report for the nine months ended 31 December 2005.

By order of the Board

**KAM Yuen**

*CHAIRMAN*

HONG KONG, 13 February 2006

## GLOSSARY

### Terms used

### Brief description

#### ***General***

Group	Golden Meditech Company Limited, together with its subsidiaries
Company	Golden Meditech Company Limited
Subsidiary	A company in which the Group holds a greater than 50% equity interest and of which the Group has controls
Associate company	A company in which the Group holds an equity interest of equal to or less than 50% and over which the Group exerts significant influence
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
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
HK\$	The Hong Kong dollar, the currency of Hong Kong
New HKFRSs	The new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards

#### ***Medical Device Segment***

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

### ***Cord Blood Bank Segment***

Haematopoietic stem cells/blood stem cells	Haematopoietic stem cells, from which all haematopoietic and immune cell types are derived, 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, fetal liver, umbilical cord blood and peripheral blood. Not only can they develop into red blood cells, white blood cells, and platelets, they can also develop into cells for tissues or organs and are therefore considered multi-functional stem cells
Cord blood	The blood left in the umbilical cord and placenta after the umbilical cord of a newborn is clamped. Although only a small amount of cord blood is left, it has a high concentration of stem cells. Compared to stem cells in bone marrow and peripheral blood, cord blood stem cells have weaker rejection and immunogenicity, but a regenerative ability that is 10 to 20 times higher
Cord blood bank	A professional medical institution offering extraction and banking services for cord blood hematopoietic stem cells and answering patients' enquiries
Storage of blood stem cells	Cryopreserving, or preservation by freezing, blood stem cells in liquid nitrogen at -196°C for a long period of time

### ***Chinese Herbal Medicine Segment***

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 and the target of HIV infection. Normal HIV-negative adult values for CD4 cell counts range from 500 to 1,500 cells per microlitre of blood
HIV carrier	An HIV-positive person whose CD4 cell count is above 200 per microlitre of blood
AIDS patient	An HIV-positive person whose CD4 cell count is less than 200 per microlitre of blood
CTC	Clinical Trials Centre, Faculty of Medicine, The University of Hong Kong