



THIRD QUARTERLY  
REPORT

06/07



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*

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## **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.**

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

## **CORPORATE INFORMATION**

### ***Executive Directors***

Mr. KAM Yuen (*Chairman*)

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

EFG Bank

DBS Bank (Hong Kong) Limited

CITIC Ka Wah Bank Limited

Bank of China (Hong Kong) Limited

***Public Relations Consultant***

A-World Consulting Limited

***Website***

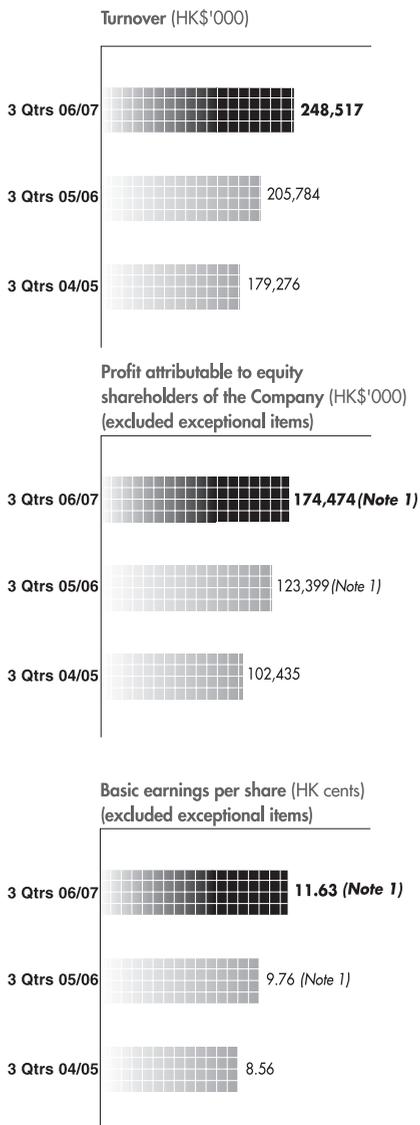
[www.goldenmeditech.com](http://www.goldenmeditech.com)

## **CORPORATE PROFILE**

**Golden Meditech Company Limited** (“Golden Meditech”; stock code: 8180.HK) is a leading hi-tech integrated healthcare service provider in China. Its major business areas are 1) the research and development, manufacture and distribution of medical devices and personal healthcare products; 2) blood stem cell storage and applications; 3) the research and development, manufacture and sale of Chinese herbal medicines. The Group’s mission is to create value for its shareholders while contributing to society through improving people’s health.

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 healthcare service provider.

## PERFORMANCE HIGHLIGHTS



### Notes:

1. The adjusted profit attributable to equity shareholders of the Company and basic earnings per share for these periods excluded any exceptional gain arising during the periods.
2. New accounting policies on share-based payments and financial instruments were adopted in 05/06 and 06/07 and the figures for 04/05 have not been restated to reflect the new accounting policies.
3. The basic earnings per share for 04/05 has been restated for the 2004 Bonus Issue.

### THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months ended 31 December 2006 together with the comparative unaudited figures for the corresponding period in 2005 as follows:

#### CONSOLIDATED INCOME STATEMENT

	Note	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
		2006	2005	2006	2005
		HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)
Turnover	2	92,504	74,113	248,517	205,784
Cost of sales		(31,626)	(21,893)	(88,551)	(58,743)
Gross profit		60,878	52,220	159,966	147,041
Other revenue	4	23,118	4,916	46,554	13,544
Selling expenses		(4,192)	(3,664)	(13,170)	(9,384)
Administrative expenses		(15,266)	(12,613)	(44,482)	(36,285)
Profit from operations		64,538	40,859	148,868	114,916
Finance costs		(2,809)	(3,373)	(8,340)	(9,480)
Gain on deemed disposal of a subsidiary		38,597	—	38,597	—
Gain on deemed disposal of an associate		—	—	—	116,571
Share of profits of an associate		1,074	10,128	1,303	26,319
Share of profits of a jointly-controlled entity		26,886	—	50,433	—
Profit before taxation		128,286	47,614	230,861	248,326
Taxation	5	(4,022)	(2,907)	(10,239)	(8,577)
Profit for the period		124,264	44,707	220,622	239,749
Attributable to:					
Equity shareholders of the Company		121,881	44,299	213,071	239,970
Minority interests		2,383	408	7,551	(221)
		124,264	44,707	220,622	239,749
Earnings per share					
- Basic	7	8.04 cents	3.50 cents	14.21 cents	18.97 cents
- Diluted	7	7.67 cents	3.39 cents	13.67 cents	18.19 cents

The notes on pages 8 to 14 form part of the third quarterly results.

## NOTES TO THE THIRD QUARTERLY RESULTS

### 1. **Basis of preparation and accounting policies**

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 and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

All intra-group transactions and balances have been eliminated in preparing these results.

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those adopted in the preparation of the consolidated annual financial statements of the Group for the year ended 31 March 2006 except as described below.

In the current reporting period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after either 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the Group's results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments is required.

## 2. Turnover

The Group is principally engaged in the manufacture and sales of autologous blood recovery machines (“ABRS Machines”) and the disposable blood processing chambers and related accessories (“Disposable Chambers”), the provision of storage and accessory services for blood stem cells extracted from the umbilical cords of newborn babies (“Cord Blood Bank”), and the development, manufacture and sales of proprietary Chinese herbal 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 period may be analysed as follows:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>For the three months</b>		<b>For the nine months</b>	
	<b>ended 31 December</b>		<b>ended 31 December</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Sales of ABRS Machines	<b>58,328</b>	53,833	<b>156,127</b>	151,012
Sales of Disposable Chambers	<b>12,872</b>	11,107	<b>36,848</b>	32,703
Cord Blood Bank services	<b>17,083</b>	9,164	<b>47,064</b>	22,056
Sales of proprietary Chinese herbal medicines	<b>4,221</b>	9	<b>8,478</b>	13
	<hr/> <b>92,504</b> <hr/>	<hr/> 74,113 <hr/>	<hr/> <b>248,517</b> <hr/>	<hr/> 205,784 <hr/>

### 3. Segment information

(i) *Primary reporting format - business segments*

The Group comprises the following main business segments:

- Medical Device Segment - the development, manufacture and sales of medical devices;
- Cord Blood Bank Segment - the provision of blood stem cell storage and accessory services; and
- Chinese Herbal Medicine Segment - the development, manufacture and sales of proprietary Chinese herbal medicines.

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

	<b>Unaudited</b>			
	<b>For the nine months ended</b>			
	<b>31 December 2006</b>			
	<b>HK\$'000</b>			
	<b>Medical Device Segment</b>	<b>Cord Blood Bank Segment</b>	<b>Chinese Herbal Medicine Segment</b>	<b>Consolidated</b>
Turnover	<u>192,975</u>	<u>47,064</u>	<u>8,478</u>	<u>248,517</u>
Segment results	<b>138,052</b>	<b>18,376</b>	<b>(21,611)</b>	<b>134,817</b>
Unallocated income less costs				<u>14,051</u>
Profit from operations				<b>148,868</b>
Finance costs				<b>(8,340)</b>
Share of profits of an associate and a jointly-controlled entity	<b>51,736</b>	—	—	<b>51,736</b>
Gain on deemed disposal of a subsidiary				<u>38,597</u>
Profit before taxation				<b>230,861</b>
Taxation				<b>(10,239)</b>
Profit for the period				<u><b>220,622</b></u>
Attributable to:				
Equity shareholders of the Company				<b>213,071</b>
Minority interests				<b>7,551</b>
				<u><b>220,622</b></u>

### 3. Segment information (continued)

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

	Unaudited For the nine months ended 31 December 2005 HK\$'000 (Restated)				
	Medical Device Segment	Cord Blood Bank Segment	Chinese Herbal Medicine Segment	Tumour Treatment Division	Consolidated
Turnover	183,715	22,056	13	—	205,784
Segment results	130,352	6,827	(6,947)	—	130,232
Unallocated income less costs					(15,316)
Profit from operations					114,916
Finance costs					(9,480)
Share of profits of associates	394	—	—	25,925	26,319
Gain on deemed disposal of an associate					116,571
Profit before taxation					248,326
Taxation					(8,577)
Profit for the period					239,749
Attributable to:					
Equity shareholders of the Company					239,970
Minority interests					(221)
					239,749

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

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

#### 4. Other revenue

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest income	6,986	434	21,993	988
VAT refund	4,808	4,482	12,854	12,556
Realised gain on trading securities	10,110	—	10,493	—
Others	1,214	—	1,214	—
	<u>23,118</u>	<u>4,916</u>	<u>46,554</u>	<u>13,544</u>

#### 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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Current tax - Outside Hong Kong</b>				
PRC income tax for the period	<u>4,022</u>	<u>2,907</u>	<u>10,239</u>	<u>8,577</u>

(i) *PRC income tax*

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

In accordance with the relevant tax rules and regulations in the PRC, one of the subsidiaries 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.

## 5. **Taxation** *(continued)*

### *(ii) Hong Kong Profits Tax*

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

## 6. **Dividend**

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005: 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 2006 is based on the unaudited consolidated profit attributable to equity shareholders of the Company of HK\$121,881,000 and HK\$213,071,000 respectively divided by the weighted average number of 1,515,392,281 and 1,499,771,962 shares respectively in issue during the periods.

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 shareholders 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.

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

The calculation of diluted earnings per share for the three months and nine months ended 31 December 2006 is based on the unaudited consolidated profit attributable to equity shareholders of the Company of HK\$122,843,000 and HK\$215,946,000 respectively, as adjusted for the interest on convertible bonds of HK\$962,000 and HK\$2,875,000 respectively, divided by the weighted average number of 1,600,928,874 and 1,579,917,725 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 2005 is based on the unaudited consolidated profit attributable to equity shareholders of the Company of HK\$45,197,000 and HK\$242,653,000 respectively, as adjusted for the interest on 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.

## 8. Reserves

### Attributable to equity shareholders of the Company

	Capital								
	Share redemption		Merger	Exchange	Surplus	Capital	Fair value	Retained	Total
	premium	reserve	reserve	reserve	reserve	reserve	reserve	profits	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 April 2006	450,039	—	54,193	28,028	44,677	14,722	513,587	823,131	1,928,377
Issue of shares on placement	581,495	—	—	—	—	—	—	—	581,495
Share issuance expenses	(19,254)	—	—	—	—	—	—	—	(19,254)
Shares repurchased and cancelled	(29,542)	1,523	—	—	—	—	—	(1,523)	(29,542)
Changes in fair value of available-for-sale equity securities	—	—	—	—	—	—	(63,350)	—	(63,350)
Exchange differences	—	—	—	17,328	—	—	—	—	17,328
Equity-settled share-based transactions	—	—	—	—	—	3,294	—	—	3,294
Transfer to surplus reserve	—	—	—	—	14,905	—	—	(14,905)	—
Profit for the period	—	—	—	—	—	—	—	213,071	213,071
As at 31 December 2006	<u>982,738</u>	<u>1,523</u>	<u>54,193</u>	<u>45,356</u>	<u>59,582</u>	<u>18,016</u>	<u>450,237</u>	<u>1,019,774</u>	<u>2,631,419</u>
As at 1 April 2005	437,028	—	54,193	(1,287)	29,487	9,263	—	301,044	829,728
Exchange differences	—	—	—	10,563	—	—	—	—	10,563
Equity-settled share-based transactions	—	—	—	—	—	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
Dividend	—	—	—	—	—	—	—	(26,547)	(26,547)
As at 31 December 2005	<u>439,176</u>	<u>—</u>	<u>54,193</u>	<u>9,276</u>	<u>43,912</u>	<u>13,531</u>	<u>—</u>	<u>500,042</u>	<u>1,060,130</u>

## MANAGEMENT DISCUSSION & ANALYSIS

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i> <i>(Restated)</i>	Change
<b>Turnover</b>			
Medical Device	<b>192,975</b>	183,715	5%
Cord Blood Bank	<b>47,064</b>	22,056	113%
Chinese Herbal Medicine	<b>8,478</b>	13	65,115%
	<u><b>248,517</b></u>	<u>205,784</u>	21%
<b>Operating profit/(loss) from continuing operations</b>			
Medical Device	<b>189,788</b>	130,746	45%
Cord Blood Bank	<b>18,376</b>	6,827	169%
Chinese Herbal Medicine	<b>(21,611)</b>	(6,947)	(211%)
	<u><b>186,553</b></u>	<u>130,626</u>	43%
<b>Operating profit from discontinued operation</b>			
Tumour Treatment	<u>—</u>	<u>25,925</u>	N/A
<b>Profit attributable to equity shareholders of the Company</b> (excluded exceptional items)	<u><b>174,474</b></u>	<u>123,399</u>	41%

## BUSINESS REVIEW

### Overview

Golden Meditech's two main objectives are to maintain a robust rate of business growth and enhance returns for shareholders. During the period under review, the Group continued to successfully deliver on both objectives.

For the nine months ended 31 December 2006 the Group's overall turnover rose 21% compared with the same period last year, while profit attributable to equity shareholders of the Company excluding exceptional items increased substantially by 41%.

The Group's Cord Blood Bank operation in Beijing continued to show outstanding growth, with revenue doubling during the first three quarters of 2006 over the same period in the previous year. This tremendous growth made the Segment one of the 50 fastest growing hi-tech enterprises in China and one of the top 500 in the Asia-Pacific region, according to a survey published by Deloitte Touche Tohmatsu in November 2006. The Segment is moving forward with plans to expand its business to Guangdong Province, following the success of its Beijing operation.

The subsidiary that operates the Cord Blood Bank Segment — China Stem Cells Holdings Limited completed the placement of new shares on 22 November 2006. US\$20 million of capital was raised to fund future business development. China Stem Cells Holdings Limited's valuation has surged by 233% — from US\$30 million to US\$100 million — in the three years since Golden Meditech took over management of its operations.

While the Cord Blood Bank Segment performed extraordinarily well, the management was also pleased to report the Group's Chinese Herbal Medicine Segment had recorded satisfactory growth even though it is at an early stage of commercialising its product. Its flagship product, TangHerb<sup>®</sup>, was launched last year and has been recognised by a number of PRC media organisations<sup>1</sup> as one of the "100 Most Influential Innovations in China" in December 2006.

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<sup>1</sup> Jointly organized by the Publisher of *China Business Times* (《中華工商時報》社), the Publisher of *Science Technology Industry of China* (《中國科技產業》雜誌社), the Publisher of *Science Chinese* (《科學中國人》雜誌社) and the China National Radio (中央人民廣播電台).

To enhance shareholder's value, the Group seized a number of opportunities during the period under review to repurchase its shares and intends to continue doing its utmost to create value for shareholders. Indeed, the management reports it is currently studying various suggestions regarding the Group's future direction presented by shareholders and investors and may integrate some of these ideas into its business strategy with the goal of ensuring the Group's share price fully reflects its intrinsic value.

The Group's continuing business success has been reflected in accolades from a number of prestigious publications; with honours from *Forbes Asia* and *Yazhou Zhoukan* arriving in October 2006, followed by a Hong Kong Outstanding Enterprise award from respected local financial journal *Economic Digest* in November 2006.

### **The Medical Device Segment**

Turnover generated by the Medical Device Segment amounted to HK\$192,975,000 in the first three quarters of 2006, representing an increase of 5% over the same period the year before.

Growth in the sales of ABRS machines continued to be affected by the audit programmes introduced by the central government earlier in 2006 to increase the efficiency and transparency of hospital purchasing procedures. Hospitals will need time to adapt to these new regulations, but the Group's management is confident any delays in sales will eventually be recovered.

The Segment's overall profit reached HK\$189,788,000 during the first nine months of 2006, up 45% from the previous year. This growth was fuelled by contributions from the Segment's nationwide personal health monitoring device distribution network and the medical equipment distribution network.

Looking forward, the management believes the Segment will maintain its leading position in the market for the ABRS. At the same time, the sales team is actively seeking ways to optimise its ABRS sales strategy for the changing regulatory environment.

## **The Cord Blood Bank Segment**

The Group's Cord Blood Bank Segment performed exceptionally well during the nine months under review, with turnover surging by 113% to HK\$47,064,000 and operating profit up by 169% to HK\$18,376,000, compared with the same period the year before. This impressive growth was driven by effective marketing promotions, the central government's continued adoption of the one-child policy, and widening media coverage on stem cell research. The management believes understanding and acceptance of cord blood storage has improved markedly in China.

China Stem Cells Holdings Limited, the subsidiary under which the cord blood bank business operates, completed the placement of new shares on 22 November 2006, successfully raising US\$20 million. The proceeds of the fundraising exercise will be used to establish new cord blood banks and as general working capital. Golden Meditech's shareholdings in China Stem Cells Holdings Limited has been diluted from 68% to 56% by the share placement. The valuation of the business after share enlargement is approximately US\$120 million.

Going forward, the management believes the Segment can maintain if not improve upon its remarkable rate of growth by expanding its operations into new provincial markets.

The Group is currently preparing to open up a new cord blood bank in Guangdong Province in the coming financial year, a market which has been identified as having excellent potential. The management expects the Segment's revenues to grow even faster once the new cord blood bank comes on stream. This expectation is based on the fact that Guangdong is one of the country's wealthiest provinces and boasts ten times as many births as Beijing. The Group has made the launch of the new blood bank, scheduled for the coming financial year, a top priority.

Awareness and acceptance of umbilical blood stem cell storage and medical applications is increasing in China. The management believes this bodes well for continued improvements in the penetration of the business in various regions across China.

## **The Chinese Herbal Medicine Segment**

The Chinese Herbal Medicine Segment recorded a turnover of HK\$8,478,000 for the first three quarters of 2006 and turnover for the third quarter rose spectacularly by 58% compared to the second quarter. The Segment, which is engaged in the development and manufacture of Chinese natural herbal medicines, is currently at an early stage of commercialising its first product.

It began commercial production of its proprietary herbal treatment for AIDS, TangHerb®, in March 2006. TangHerb® is currently being supplied to the central government and to charitable organisations involved in the fight against AIDS in China, for them to distribute for free to people in need.

The Chinese government is actively educating the public about the threat of AIDS and is committed to the containment and treatment of the disease. Through TangHerb®, the Group hopes to contribute to this initiative and help the 650,000 people infected with HIV in China. The management is confident of TangHerb®'s market potential, given the product is closely aligned with the government's AIDS prevention policy.

## **FINANCIAL REVIEW**

### **Turnover**

The Group's turnover increased by 21% to HK\$248,517,000 during the nine months ended 31 December 2006, as compared with the same period a year earlier. This robust growth was in line with the management's expectations and was driven partly by the tremendous growth in the Cord Blood Bank Segment.

The contribution from the Cord Blood Bank Segment expanded to 19% of the Group's total turnover, while the contribution from the Medical Device Segment contracted to 78%. The management anticipates contributions from the Cord Blood Bank and Chinese Herbal Medicine segments will continue to increase as a proportion of total turnover.

### **Gross profit margin**

While the gross profit margins of both the Medical Device and Cord Blood Bank segments remained at a similarly high level to the previous year, Group's overall gross margin fell to 64% during the nine months under review. This margin contraction, which was caused by start-up costs and the amortisation of intangible assets in the Chinese Herbal Medicine Segment, is considered temporary.

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

The Group maintained its earnings momentum, with profit attributable to equity shareholders of the Company amounting to HK\$213,071,000 during the reporting period. Following the partial disposal of its interest in China Medical Technologies, Inc. in March 2006, the Group no longer recognises any earnings contributions from the Tumour Treatment Division. Nonetheless, if exceptional items are excluded, profit attributable to equity shareholders of the Company still increased impressively by 41%, compared with the corresponding period in 2005. The earnings growth was driven by organic growth across all operating units, the profit contribution from our personal health monitoring device distribution network and an increase in interest income.

## **Selling and administrative expenses**

Selling and administrative expenses amounted to HK\$57,652,000 for the nine months ended 31 December 2006. The increase was largely attributable to the increase in business activities across all operating units. The Group will continue to monitor its cost structure closely, adopt prudent cost control measures, and look for ways to generate cost savings.

## **PROSPECTS**

The Group's businesses all occupy leading positions in their sectors and their growth prospects are considered among the strongest in the industry. Against this backdrop, the management is confident the Group will deliver even better results going forward, allowing its shareholders to continue to benefit from the rapid expansion of China's medical and healthcare industry.

While nurturing its core businesses, the Group remains dedicated to pursuing diversification as its main business development strategy. As always, the Group will approach business diversification prudently by investing only in hi-tech medical projects which have excellent growth prospects, high entry barriers, and potential synergies with existing businesses.

The Group's results reflect the effectiveness of this strategy and the efficiency of the management.

To promote the real value of the Group's various business segments to the market, the management will, following the success of China Medical Technologies, Inc., actively explore more options aimed at enhancing the Group's intrinsic value.

## DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31 December 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 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 were as follows:

### (a) Interests of the Directors in shares and underlying shares of the Company — Long positions/(Short position)

Name of Directors	Capacity and nature of interests	Number of ordinary shares of HK0.1 each	Number of underlying shares held under equity derivatives	Total interests (Short position)	Approximate percentage of the Company's issued share capital
Mr. KAM Yuen	Interest of controlled corporation	433,916,000 <sup>(1)</sup>	—	433,916,000	28.66
		(61,832,000) <sup>(2)</sup>	—	(61,832,000)	(4.08)
	Beneficial owner	—	63,206,245 <sup>(3)</sup>	63,206,245	4.18
Mr. LU Tian Long	Beneficial owner	—	400,000 <sup>(3)</sup>	400,000	0.03
Ms. ZHENG Ting	Beneficial owner	—	2,000,000 <sup>(3)</sup>	2,000,000	0.13

#### 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 December 2006.
- (2) Mr. KAM Yuen was deemed under the SFO to have a short position in the shares of the Company by virtue of his interest in Bio Garden.
- (3) These interests represent the Directors' beneficial interests in the underlying shares in respect of share options granted by the Company to the Directors as beneficial owners, details of which are set out in the section headed "Share Option Schemes" below.

(b) **Interests of the Directors in shares and underlying shares of China Stem Cells Holdings Limited (“CSC”), a subsidiary of the Company — Long positions**

<b>Name of Directors</b>	<b>Capacity and nature of interests</b>	<b>Number of underlying ordinary shares of US\$1 each held under equity derivatives</b>	<b>Total interests</b>	<b>Approximate percentage of the issued share capital of CSC</b>
Mr. KAM Yuen	Beneficial owner	10,000	10,000	0.69
Ms. ZHENG Ting	Beneficial owner	30,000	30,000	2.07

*Note:*

These interests represent the Directors’ beneficial interests in the underlying shares in respect of share options granted by CSC 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 2006, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEMES

### (a) Share option schemes adopted by the Company

- Principal terms of the share option schemes of the Company are set out in note 33 to the financial statements as included in the annual report of the Company for the year ended 31 March 2006.
- A summary of movements of share options under the share option schemes of the Company for the nine months ended 31 December 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 2006	Number of underlying shares in respect of which share options were outstanding as at 31 Dec. 2006	Exercise price HK\$
Mr. KAM Yuen	30 March 2005 <sup>(1)</sup>	63,206,245	63,206,245	1.76
Mr. LU Tian Long	4 March 2005 <sup>(2)</sup>	400,000	400,000	1.60
Ms. ZHENG Ting	4 March 2005 <sup>(2)</sup>	2,000,000	2,000,000	1.60
Full-time employees (other than Directors)	4 March 2005 <sup>(2)</sup>	11,970,000	11,970,000	1.60
		77,576,245	77,576,245	

#### Notes:

- The share options are exercisable as to:
  - up to 20% after 6 months from the date of grant;
  - up to 60% after 18 months from the date of grant;
  - up to 100% after 30 months from the date of grant; and
  - the share options will expire at the close of business on 3 March 2015.
- The share options are exercisable in full immediately after 3 months from the date of grant and will expire at the close of business on 28 February 2015.
- No share options granted under the share option schemes adopted by the Company on 30 July 2002 and 30 March 2005 respectively were exercised, cancelled or lapsed during the period ended 31 December 2006.

(b) **Share option scheme adopted by CSC**

1. The Company's shareholders approved at the extraordinary general meeting held on 21 September 2006 the adoption of a share option scheme by CSC (the "CSC Scheme"). The CSC Scheme became effective on 21 September 2006 (the "Effective Date").
2. A summary of movements of share options under the CSC Scheme for the nine months ended 31 December 2006 is as follows:

Name of Directors and employees	Date of grant	Number of underlying shares in respect of which share options were granted during the period	Number of underlying shares in respect of which share options were outstanding as at 31 December 2006	Exercise price HK\$
Mr. KAM Yuen	21 September 2006 <sup>(1)</sup>	10,000	10,000	450
Ms. ZHENG Ting	21 September 2006 <sup>(1)</sup>	30,000	30,000	450
Full-time employees (other than Directors) <sup>(2)</sup>	21 September 2006 <sup>(1)</sup>	60,000	60,000	450
		100,000	100,000	

*Notes:*

- (1) The share options are exercisable as to:
  - (i) up to 30% after the Effective Date;
  - (ii) up to 60% after 12 months from the Effective Date;
  - (iii) up to 100% after 18 months from the Effective Date; and
  - (iv) the share options will expire at the close of business on 27 August 2016.
- (2) The employees include Mr. KONG Kam Yu, a director of CSC, who was granted with an option to subscribe for 29,000 ordinary shares of US\$1 each of CSC, representing approximately 2% of CSC's issued share capital as at 31 December 2006.
- (3) No share options granted under the CSC Scheme were exercised, cancelled or lapsed during the period ended 31 December 2006.

## 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 2006, the interests and short positions of the shareholders (not being Directors or chief executives of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

### (a) Substantial shareholder — Long position/(Short position)

Name	Capacity and nature of interest	Number of issued shares	Approximate percentage of the Company's issued share capital
Bio Garden <sup>(1)</sup>	Beneficial owner	433,916,000 (61,832,000)	28.66 (4.08)
Mr. Kent C. McCarthy <sup>(2)</sup>	Interest of controlled corporation	288,226,735	19.04
Jayhawk China Fund (Cayman), Ltd. <sup>(2)</sup>	Investment manager	240,798,735	15.91

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 2006.
- (2) The interests disclosed by Mr. Kent C. McCarthy include 240,798,735 shares of the Company held by Jayhawk China Fund (Cayman), Ltd.

(b) **Long position 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>
OZ Management, L.L.C.	Investment manager	113,000,000	7.46

Save as disclosed above, as at 31 December 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.

**COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors or the management 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 nine months ended 31 December 2006, the Company repurchased 15,231,892 shares on the Stock Exchange as follows:

<b>Month of purchase</b>	<b>Number of shares repurchased</b>	<b>Price per share</b>		<b>Aggregate price paid</b>
		<b>Highest</b>	<b>Lowest</b>	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
August 2006	5,748,000	2.07	1.94	11,646,000
September 2006	6,919,892	1.93	1.89	13,151,000
November 2006	2,172,000	2.48	2.30	5,173,000
December 2006	392,000	2.55	2.48	978,000
	<u>15,231,892</u>			<u>30,948,000</u>

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid for the repurchase of the shares and the related expenses were charged to the extent of HK\$29,542,000 to the share premium account and HK\$1,523,000 to the retained earnings account.

The repurchases were made for the benefit of the shareholders as a whole as they enhanced the earnings per share of the Company.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 31 December 2006.

## **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, 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 2006.

By order of the Board  
**KAM Yuen**  
*Chairman*

HONG KONG, 9 February 2007

## **GLOSSARY**

<b>Terms used</b>	<b>Brief description</b>
<b><i>General</i></b>	
Group	Golden Meditech Company Limited, together with its subsidiaries.
Company	Golden Meditech Company Limited.
PRC/China	The People's Republic of China, excluding the Hong Kong and Macau Special Administrative Regions of the PRC, and Taiwan.
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.
Director(s)	The director(s) of the Company.
GEM	The Growth Enterprise Market operated by the Stock Exchange.
HK\$	The Hong Kong dollar, the currency of Hong Kong.
RMB	Renminbi, the currency of China.
SFDA	The State Food and Drug Administration of China.
Shares	Ordinary shares of HK\$0.10 each in the capital of the Company.
Stock Exchange	The Stock Exchange of Hong Kong Limited.

### ***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 ABRS Machine and the Disposable Chambers.
ABRS Machine	The machine of the Autologous Blood Recovery System, having different 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***

Blood stem cells/ Haematopoietic stem cells	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 baby is clamped.
Cord blood bank	A professional healthcare institution offering extraction and banking services for cord blood haematopoietic 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***

TangHerb®	First proprietary Chinese herbal medicine approved by the SFDA to alleviate AIDS symptoms.
CD4 cell	Also known as a T-cell, a key immune cell of the immune system.