



MEDICAL CHINA LIMITED

(Incorporated in Bermuda with limited liability)

First Quarterly Report 2002

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This announcement, for which the directors of MEDICAL CHINA LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to MEDICAL CHINA LIMITED. The directors of MEDICAL CHINA LIMITED, having made all reasonable enquires, confirm that, to the best of their knowledge and beliefs; (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would take any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the three months ended 31 March 2002, earnings per share is HK\$0.75 cents.
- Turnover for the three months ended 31 March 2002 amounted to approximately HK\$10,689,000, representing an increase of 28%.
- For the three months ended 31 March 2002, the Company achieved a net profit of approximately HK\$6,035,000 representing an increase of approximately 29% as compared to that of the corresponding period in 2001 .
- The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (“the Board”) of Medical China Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2002 together with the comparative figures for the corresponding period of 2001 as follows:

	<i>Notes</i>	For the three months ended 31 March 2002 HK\$'000	For the three months ended 31 March 2001 HK\$'000
TURNOVER	2	10,689	8,365
Cost of services/sales		(2,925)	(2,487)
Gross profit		7,764	5,878
Other income		971	722
Selling and distribution expenses		(458)	(342)
Administration expenses		(1,084)	(520)
Other operating expenses		(18)	(72)
Profit from operations		7,175	5,666
Finance cost		(1)	(108)
Profit before taxation		7,174	5,558
Taxation	3	(1,139)	(874)
Profit attributable to shareholders		6,035	4,684
Earnings per share	4		
Basic (in Hong Kong cents)		0.75	1.02
Diluted (in Hong Kong cents)		N/A	0.94

Notes:

1. BASIS OF PRESENTATION

(a) Reorganisation

The Company was incorporated in Bermuda on 15 August 2001 as an exempted company with limited liability under the Companies Act of Bermuda. The Company became the holding company of the Group on 10 December 2001 through a reorganisation (the “Reorganisation”) to rationalise the Group’s structure in preparation for the public listing of the Company’s shares on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company acquired by share exchange the entire share capital of Future Asia Management Limited (“Future Asia”), the then holding company of the subsidiaries included in the Reorganisation, and thereby became the holding company of the companies now comprising the Group.

(b) Basis of presentation

The Company and its subsidiaries (the “Group”) resulting from the Reorganisation has been regarded as a continuing group. Accordingly the consolidated results have been prepared on the basis of merger accounting, as if the current group structure had been in existence since 1 January, 2001 and throughout both accounting period.

(c) Statement of compliance

The financial information has been prepared in accordance with all applicable statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. This financial information also complies will the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange.

2. TURNOVER

Turnover represents service fees arising from the provision of medical equipment, net of business tax and the sales value of medical accessories to customers, net of value added tax.

The Group’s turnover and operating profit are almost entirely derived from the provision of medical equipment and related accessories services in the People’s Republic of China (“PRC”). Accordingly, no analysis by geographical and business services segments has been provided.

3. TAXATION

Taxation represents the provision for PRC income tax.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

The Company's subsidiary, Tat Lung Medical Treatment Technology (Shenzhen) Limited ("Tat Lung Shenzhen"), located in the Shenzhen Special Economic Zone in the PRC, is subject to PRC income tax at a reduced rate of 15%.

No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

4. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2002 is based on the profit attributable to shareholders of HK\$6,035,000 divided by the weighted average number of 800,000,000 ordinary shares in issue during the quarter.

The calculation of basic earnings per share for the three months ended 31 March 2001 is based on the profit attributable to shareholders of HK\$4,684,000 divided by 459,200,000 shares, prior to the placing but after adjusting the effect of the capitalisation issue on 20 December 2001.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 31 March 2002 and 31 March 2001 is based on the adjusted profit attributable to shareholders of HK\$6,035,000 and HK\$4,791,598 respectively and the weighted average number of ordinary shares of 800,000,000 and 507,726,027 shares respectively after adjusting for the effects of the dilutive potential ordinary shares committed under the convertible loan issued on 8 September 2000 which entitled the noteholders to convert the paid up principal into 30% enlarged issued share capital of Tat Lung Medical Treatment Technology Limited ("Tat Lung Hong Kong") upon conversion.

5. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).

6. RESERVES

Other than the net profit for the three months ended 31 March 2002 and an amount of approximately HK\$13,000 transfer to the exchange reserve, there were no movements to or from reserves of the Company during the quarter (2001: none).

BUSINESS REVIEW

On 31 December 2001, the shares of the Company successfully listed on the GEM of the Stock Exchange, which is a milestone in the Group's development. This is extremely important step to the development of Group's investment and the expansion of business in future.

Following more contracts have been entered with hospitals in the PRC, the sales of RFAS, as the Group's flagship product, and the related sales has increased significantly. The Group's flagship product, RFAS has registered significant growth in sales, leading to the Group's business expansion.

The increase in sales is mainly due to the fact that the Company has commenced a series of technical exchange and promotion activities for its RFA treatment technology. These activities on one hand serve to improve the standard of RFA treatment of the partner hospitals and provide more alternatives to curable patients. On the other hand, they lead to a boost in confidence of patients in the treatment of cancer by RFA, whereby increasing the number of treatment cases.

1. Through the ten cooperative agreements entered into between its subsidiary Tat Lung Medical Treatment Technology (Shenzhen) Limited ("Tat Lung Shenzhen") and ten hospitals respectively, the Group is able to increase the number of its RFA cancer treatment cooperative centers to 59. Part of the centers have installed the said equipment and commenced provision of treatment to patients.
2. The Group has entered in to cooperation with the Chengtu Military Area General Hospital (成都軍區總醫院) under the PRC's Liberal Army for the joint establishment of research centers in the treatment of cancers in liver, gallbladder and pancrea. The main functions of the research centers include but not limited to the further research of RFA technology in the treatment of the aforesaid cancers, the training of doctors in the Group's cooperative centers using the beds and equipments available, the research and development of a new generation of RFA treatment equipments and accessories as well as other devices necessary for the treatment of the aforesaid cancers, and the completion of software development in the part of medical treatment to cope with the progress of software development of Tat Lung Shenzhen.

3. The Group's Shanghai office is established in the name of Tat Lung Shenzhen to effect administration of the RFA treatment cooperative centers in northern PRC. Meanwhile, new projects such as the sales of RFA devices and the promotion of anti-cancer drugs was launched to cope with the preparation of construction works of tumor treatment centers by the relevant departments of the Group.
4. The new generation of software developed by Tat Lung Shenzhen has been approved by the relevant department of Shenzhen to be used not only in RFA treatment devices in the existing cooperative centers, but to put to sale in market as an exclusive product. Meanwhile, the final assessment of customer demand in the 3D celoscope is under progress.
5. The Group has active discussions with 2 hospitals in Shanghai and Tienjin for the joint establishment of tumor treatment centers.
6. The Group has discussions with several wholesale and retailing companies for the joint sales of anti-cancer drugs and other healthcare medical products.

Financial Review

The Group's turnover for the three months ended 31 March 2002 was approximately HK\$10,689,000, representing an increase of 28% over the corresponding period in 2001. The Group's net profits attributable to shareholders amounting to HK\$6,035,000 approximately representing an increase of 29% as compared with the corresponding period in 2001.

During the period under review, the basic earnings per share has decreased by 26% to HK\$0.75 cents as compared to the corresponding period in 2001 as a result of GEM listing. The Directors do not recommend the payment of any interim dividend for the three months ended 31 March 2002.

Outlook

The Group will effect rapid expansion of RFA application in the hospitals in the PRC to further expand its market share. It will also utilize its existing business network to develop more medical services projects, which are summarized below:

1. The Group will continue to introduce RFA treatment devices to all large-medium sized hospitals, to establish RFA treatment centers and to sell those devices to small-medium sized hospitals and the hospitals in the remote areas.
2. It will enhance the reputation of the Company through the participation in all kinds of international medical devices exhibitions and the organization of RFA training courses in different places. It will also improve the function of its RFA treatment and decide which diseases to apply, so as to increase treatment and enable a steady growth in the Group's income.
3. To sharpen its competitive edge, the Group will focus on the research and development of new RFA treatment devices and ancillaries so as to prepare for the development of a new generation of software.
4. It will realize the establishment of a cancer treatment center, and will as soon as possible engages practically in matters such as the purchase of devices and the deployment of staff.
5. It will implement cooperation with the pharmaceutical companies for the sales of anti-cancer and cancer preventive drugs and health products.

OTHER INFORMATION

Directors' Interests in Securities

At 31 March 2002, according to the register kept under Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance"), the interests of the Company's directors and their associates in shares of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows:

Name of Director	Personal interest	Family interests	Corporate interests	Other interests	Total
Li Nga Kuk, James	32,800,000	–	–	–	32,800,000
Li Tai To, Titus	16,400,000	–	–	–	16,400,000
Li Wo Hing	32,800,000	–	212,320,000	–	245,120,000
			(Note 1)		
Ng Kwai Sang	32,800,000	–	212,320,000	–	245,120,000
			(Notes 1&2)		
Chan Siu Sun	32,800,000	–	–	–	32,800,000

Notes:

- By a letter of undertaking dated 14 December 2001, Mr. Ng Kwai Sang undertook to grant a right of first refusal to Mr. Li Wo Hing regarding his 5% shareholding in the share capital of People Market Management Limited ("PMM"), which is in turn owned as to 28.57% by Mr. Li Wo Hing. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 Shares held directly by PMM.
- 212,320,000 Shares are owned by PMM, which is in turn owned as to 35.71% by Mr. Ng Kwai Sang.

Save as disclosed above, as at 31 March 2002, none of the directors or chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Substantial Shareholders

Other than interests disclosed above in respect of directors and their associates, as at 31 March, 2002, according to the register of interests kept by the Company under section 16(1) of the SDI Ordinance, the following persons were interested in 10 percentage or more of the issued share capital of the Company:

Name	No of issued share	Percentage of shareholding
PMM (<i>note</i>)	212,320,000	26.54%
China Equity Associates L.P.	118,720,000	14.84%

Note: PMM is beneficially owned as to 35.71% by Mr. Ng Kwai Sang, 28.57% by Mr. Li Wo Hing, 17.86% by Dr. Li Nga Kuk, James, 8.93% by Mr. Li Tai To, Titus and 8.93% by Mr. Li Yue Erh. PMM acquired the Shares through the Reorganisation.

Directors' Rights to Acquire Shares or Debt Securities

On 14 December 2001, the Company had conditional approved and adopted the Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for Shares of the Company. During the quarter, no option has been granted by the Company under the Share Option Scheme.

Save as disclosed above, as at 31 March 2002, none of the directors or chief executive or their associates had any interest or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the quarter was the Company or any of its subsidiaries or its holding company a party to any arrangement to enable the Company's directors or chief executive 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 debentures of the Company or any other body corporate.

Directors' Interest in Contracts

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to which the Company, its holding companies or any of its subsidiaries was a party during the period under review.

Interest of Sponsor

As at 31 March 2002, the Sponsor of the Company, Celestial Capital Limited, its directors, employees and its associates did not have any interest in the securities of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Celestial Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Celestial Capital Limited will act as the Company's continuing sponsor for the period from 31 December 2001 to 31 December 2003.

Purchase, Sale or Redemption of the Company's Listed Securities

During the three months ended 31 March 2002, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Companies listed securities.

Competition and Conflict of Interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that compete or may compete with the business of the Group or has any other conflict of interests with the Group.

Audit Committee

As required by the Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee ("Committee") with written terms of reference which deal with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Directors.

The Committee comprises three independent non-executive directors, namely Messrs. Guo Guoqing, Fan Wan Tat and Han K. Huang.

Compliance with Rules 5.28 to 5.39 of the GEM listing Rules

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 15 May 2002