



# **MEDICAL CHINA LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Third Quarterly Report 2002**

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*This report, 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 report 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 report misleading; and (iii) 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.*

## HIGHLIGHT

- Turnover for the nine months ended 30 September 2002 amounted to approximately HK\$36,484,000 representing an increase of 26% as compared to that of the corresponding period in 2001.
- For the nine months ended 30 September 2002, the Company achieved a net profit of approximately HK\$18,918,000 representing an increase of approximately 10% as compared to that of the corresponding period in 2001.
- For the nine months ended 30 September 2002, earnings per share is 2.34 Hong Kong cents.
- The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2002.

## RESULTS

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 each of the three months and nine months ended 30 September 2002, together with the comparative unaudited figures for the corresponding period of 2001 as follows:

	Notes	For the three months ended 30th September,		For the nine months ended 30th September,	
		2002 (Unaudited) \$'000	2001 (Unaudited) \$'000	2002 (Unaudited) \$'000	2001 (Unaudited) \$'000
<b>TURNOVER</b>	2	<b>13,800</b>	12,425	<b>36,484</b>	28,982
Cost of services/sales		<b>(4,351)</b>	(1,966)	<b>(10,365)</b>	(7,175)
<b>Gross Profit</b>		<b>9,449</b>	10,459	<b>26,119</b>	21,807
Other income		<b>1,183</b>	725	<b>3,733</b>	2,171
Selling and distribution expenses		<b>(564)</b>	(503)	<b>(2,895)</b>	(1,408)
Administration expenses		<b>(1,478)</b>	(531)	<b>(4,223)</b>	(1,649)
Other operating expenses		<b>(15)</b>	0	<b>(75)</b>	(192)
<b>Profit from operation</b>		<b>8,575</b>	10,150	<b>22,659</b>	20,729
Finance cost		<b>-</b>	(100)	<b>(1)</b>	(316)
<b>Profit before taxation</b>		<b>8,575</b>	10,050	<b>22,658</b>	20,413
Taxation	3	<b>(1,425)</b>	(1,519)	<b>(3,740)</b>	(3,155)
<b>Profit attributable to shareholders</b>		<b>7,150</b>	8,531	<b>18,918</b>	17,258
<b>Earnings per share</b>	4				
Basic (in Hong Kong Cents)		<b>0.89</b>	1.83	<b>2.34</b>	3.71
Diluted (in Hong Kong Cents)		<b>N/A</b>	1.68	<b>N/A</b>	2.87

## NOTES ON THE UNAUDITED THIRD QUARTERLY FINANCIAL RESULTS

### 1. BASIS OF PRESENTATION

#### (a) Group reorganization

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 reorganization (the “Reorganisation”).

#### (b) Basis of preparation

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.

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 with the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (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 has been provided.

Turnover recognized during the period is analysed as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2002 \$’000	2001 \$’000	2002 \$’000	2001 \$’000
Medical services fees	7,639	9,647	24,287	20,644
Sales of Le Veen Electrodes	6,059	2,622	11,978	7,787
Sales of electric plates	102	156	219	551
	<u>13,800</u>	<u>12,425</u>	<u>36,484</u>	<u>28,982</u>

### 3. TAXATION

Taxation represents the provision for PRC income tax.

No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 30 September 2002 (2001: \$Nil) 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, located in the Shenzhen Special Economic Zone in the PRC, is subject to PRC income tax at a reduced rate of 15% (2001: 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 and nine months ended 30 September 2002 is based on the profit attributable to shareholders of HK\$7,150,000 and HK\$18,918,000 respectively divided by the weighted average number of 807,051,282 ordinary shares in issue during the relevant period.

The calculation of basic earnings per share for the three months and nine months ended 30 September 2001 is based on the profit attributable to shareholders of HK\$8,531,197 and HK\$17,257,916 respectively divided by 465,687,912 shares, prior to the placing but after adjusting the effect of the capitalization issue on 20 December 2001.

#### (b) Diluted earnings per share

No diluted earnings per share for the three months and nine months ended 30 September 2002 have been presented because there was no potential dilutive ordinary shares in existence during the relevant period.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2001 is based on adjusted profit attributable to shareholders of HK\$8,641,185 and HK\$17,584,295 respectively and the weighted average number of ordinary shares of 515,292,295 and 612,883,528 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 to the noteholders to convert the paid up principal into 30% enlarged issued share capital of the Tat Lung Medical Treatment Technology Limited upon conversion.

**5. DIVIDEND**

The Board of directors does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: \$Nil).

**6. RESERVE**

	Share Premium	Contributed surplus	Exchange reserve	General reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2001	-	-	7	564	4,270	4,841
Currency translation differences	-	-	(8)	-	-	(8)
Net profit for the period	-	-	-	-	8,727	8,727
At 30 June 2001						
And at 1 July 2001	-	-	(1)	564	12,997	13,560
Net profit for the period	-	-	-	-	8,531	8,531
At 30 September 2001	-	-	(1)	564	21,528	22,091
At 1 January 2002	51,824	5,265	17	2,954	24,283	84,343
Currency translation differences	-	-	4	-	-	4
Net profit for the period	-	-	-	-	11,768	11,768
At 30 June 2002						
And 1 July 2002	51,824	5,265	21	2,954	36,051	96,115
Issue of share upon private placement	19,600	-	-	-	-	19,600
Share issue expenses	(691)	-	-	-	-	(691)
Currency translation differences	-	-	39	-	-	39
Net profit for the period	-	-	-	-	7,150	7,150
At 30 September 2002	70,733	5,265	60	2,954	43,201	122,213

## BUSINESS REVIEW

During the period under review, the Group's revenue was principally generated from supplying radio frequency therapeutic ("RFAS") equipment and technology to hospitals in the PRC and reaped profit by setting up RFAS cooperation centres with hospitals in the nation to provide therapeutic services to patients.

For the nine months ended 30 September 2002, the group's turnover and profit attributable to shareholders amounted to approximately HK\$36,484,000 and HK\$18,918,000 respectively, representing increases of 26% and 10% respectively as compared to those of the corresponding period in 2001.

The encouraging result is mainly due to the fact that RFAS equipment and technology are acquired and adopted by more hospitals when, after intense promotion by the Group, RFAS technology is acknowledged by specialists from various PRC hospitals and recognized by more patients as an important means for liver and lung cancers treatment. The promising development brings a brilliant future to the Group.

The major achievements of the Group during the period include:

1. RFAS training courses prepared for 16 hospitals, which were concluded in the first half year, have been completed, and the RFAS centres in those hospitals have commenced operations separately.
2. Two major Beijing hospitals were newly signed up, and specialists will study the further development of RFAS technology for treatment of various focus of affection.
3. Hangzhou National Cancer Treatment Conference was attended, where the RFAS equipment has been shown, and the Second Class Award and Excellence Award are granted to the thesis on RFAS treatment for liver cancer released by the specialists from the Group.
4. The Chengdo Military Area Liver Gall Pancreas Disease Laboratory, which were jointly established by the Group and Chengdo Military Area General Hospital (成都軍區總醫院), has succeeded in animal tests on the prototype of its newly developed radio frequency therapeutic instrument for pancreas cancer (射頻胰腺癌治療儀). A filing to the State Drug Administration Bureau will be made when various product standards are met. Meanwhile, the first presentation of the theory of radio frequency therapeutic treatment for pancreas cancer was made at the National Pancreas Disease Conference held in Shamen City, Fujian Province, and the theory aroused great interest among the delegates.



5. Several specialist seminars in respect of the 3-dimensional laparoscope have been held, with a view to find out the development direction in this field.
6. China Best Drugs Research (Nanjing) Ltd. (神州佳美藥物研究有限公司) has been incorporated in Nanjing City as a foreign wholly-owned enterprise, which will be principally engaged in the research and development of anti-cancer drugs with proprietary brand name and other medicine, such as cardiovascular treatment and respiratory system treatment medicine.
7. Sino-Innova Medical Science & Technology Co., Ltd. (神州英諾華醫療科技有限公司) has been set up to manufacture various pharmaceutical and test instruments, including Automatic Biochemical Analyser (全自動生化分析儀), Automatic Immunity Analyser (全自動免疫分析儀), Immunity Meter (酶標儀), etc., which are the most wanted test instruments by the PRC hospitals at present.

## OUTLOOK

As RFAS technology has won wider recognition in PRC hospitals and an urgent need for equipment renovation exists in the hospitals there, the Group will capture this opportunity to further promote its RFAS equipment, and, taking advantage of its R & D network among the PRC hospitals, manufacture various biochemical test equipment and medicines. Details are as follows:

1. More effort will be put on the promotion of RFAS technology. The number of RFAS cancer treatment cooperation centres will increase. In the meantime, the RFAS equipment and technology will be introduced to small and medium size hospitals.
2. RFAS technology training courses will be organized, so as to enhance treatment technology, increase the number of treatment case and boost the Group's revenue.
3. The development of the radio frequency therapeutic instrument for pancreas cancer (射頻胰腺癌治療儀) will be speeding up, with a view to submit clinic test application to the State Drug Administration Bureau in this year.
4. The incorporation of China Best Drugs Research (Nanjing) Ltd., including project formation, staff deployment and equipment acquisition will be completed.

5. The formation of Sino-Innova Medical Science & Technology Co., Ltd., including factory construction, R & D project identification, production equipment acquisition, staff recruitment will be completed, with a view to finish all the preparation works in this year.
6. Market research will be made for the products such as 3-dimensional laparoscope, Neustim and IP6, etc. so as to ensure their development direction.

## OTHER INFORMATION

### Directors' and Chief Executive Interests in Securities

At 30 September, 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 were as follows :

Name of Director	Personal interest	Family interests	Corporate interests	Other interests	Total
Li Nga Kuk, James	32,800,000	0	0	0	32,800,000
Li Tai To, Titus	16,400,000	0	0	0	16,400,000
Li Wo Hing	32,800,000	0	212,320,000	0	245,120,000
			(Note 1)		
Ng Kwai Sang	32,800,000	0	212,320,000	0	245,120,000
			(Notes 1 & 2)		
Chan Siu Sun	32,800,000	0	0	0	32,800,000

#### Notes :

1. 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.
2. 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 30 September, 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 30 September, 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 shares	Percentage of shareholding
PMM ( <i>note</i> )	212,320,000	25.43%
China Equity Associates L.P.	116,720,000	13.98%

*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 Kok, James, 8.93%, by Mr. Li Tai To, Titus and 8.93% by Mr. Li Yue Erth. 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 under the Share Option Scheme.

As at 30 September, 2002, none of the directors or chief executive or 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.

At no time during the nine months 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's 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 nine months ended 30 September 2002.

**Interest of Sponsor**

As at 30 September 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 of 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**

On 7 August 2002, 35,000,000 new ordinary shares of HK\$0.01 each were issued under the placing of existing shares and subscription of new shares agreement.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's 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 competes 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 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 Tai and Han K. Huang.

The members of the Committee have reviewed the quarterly report for the nine months ended 30 September 2002.

**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 nine months ended 30 September 2002.

By order of the Board  
**Li Nga Kuk, James**  
*Chairman*

Hong Kong, 12 November 2002