



# **MEDICAL CHINA LIMITED**

*(Incorporated in Bermuda with limited liability)*

## **First Quarterly Report 2003**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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## HIGHLIGHTS

- Turnover for the three months ended 31 March 2003 amounted to approximately HK\$6,420,000 representing an decrease of 39.94% as compared to that of the corresponding period in 2002.
- For the three months ended 31 March 2003, the Company achieved a net profit of approximately HK\$1,207,000 representing an decrease of approximately 80% as compared to that of the corresponding period in 2002.
- For the three months ended 31 March 2003, earning per share is 0.14 Hong Kong cents.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003.

## 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 the three months ended 31 March 2003, together with the comparative unaudited figures for the corresponding period of 2002 as follows:

	Notes	For the three months ended 31 March	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
<b>TURNOVER</b>	2	<b>6,420</b>	10,689
Cost of services/sales		<b>(2,802)</b>	(2,925)
<b>Gross Profit</b>		<b>3,618</b>	7,764
Other income		<b>1,209</b>	971
Selling and distribution expenses		<b>(1,189)</b>	(458)
Administration expenses		<b>(1,911)</b>	(1,084)
Other operating expenses		<b>(44)</b>	(18)
Profit from operation		<b>1,683</b>	7,175
Finance cost		<b>-</b>	(1)
Share of loss of associate		<b>(1)</b>	-
Profit before taxation		<b>1,682</b>	7,174
Taxation	3	<b>(475)</b>	(1,139)
Profit attributable to shareholders		<b>1,207</b>	6,035
Earning per share	4		
Basic (in Hong Kong Cents)		<b>0.14</b>	0.75

Notes:

## 1. BASIS OF PRESENTATION

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 and the sales of testing equipment, net of value added tax.

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

Turnover recognized during the period may be analyzed as follows:

	For the three months ended 31 March	
	2003 HK\$'000	2002 HK\$'000
Medical services fees	3,818	7,845
Sales of LeVein Electrodes	1,647	2,789
Sales of electric plates	32	55
Sales of testing equipment	923	0
	<u>6,420</u>	<u>10,689</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 ended 31 March 2003 (2002: \$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% (2002: 15%).

No provision for PRC Income Tax has been made for the Company's subsidiaries, China Best Drugs Research (Nanjing) Limited and Sino-Innova Medical Science & Technology Company Limited as they did not have assessable profits for the period determined in accordance with relevant income tax rules and regulations in the PRC.

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

#### 4. EARNINGS PER SHARE

##### (a) Basic earning per share

The calculation of basic earning per share for the three months ended 31 March 2003 is based on the profit attributable to shareholders of HK\$1,207,000 divided by the weighted average number of 835,000,000 ordinary shares in issue during the relevant period.

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 shares in issue during the relevant period.

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

No diluted earnings per share for the three months ended 31 March 2003 and 2002 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

#### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: \$Nil).

#### 6. RESERVE

	Share Premium	Contributed surplus	Exchange reserve	General reserve	Retained profits	Total
At 1 January 2002	51,824	5,265	17	2,954	24,283	84,343
Currency translation Differences	-	-	(47)	-	-	(47)
Net profit for The period	-	-	-	-	6,035	6,035
At 31 March 2002 And at 1 April 2002	<u>51,824</u>	<u>5,265</u>	<u>(30)</u>	<u>2,954</u>	<u>30,318</u>	<u>90,331</u>
At 1 January 2003	70,733	5,265	(12)	5,783	44,433	126,202
Currency translation Difference	-	-	(24)	-	-	(24)
Net profit for The period	-	-	-	-	1,207	1,207
At 31 March 2003	<u>70,733</u>	<u>5,265</u>	<u>(36)</u>	<u>5,783</u>	<u>45,640</u>	<u>127,385</u>

## 7. POST BALANCE SHEET EVENT

On 6 December 2002, the Company entered into a research projects acquisition and reorganization agreement (“the Agreement”) with Miss Guo Ping for the acquisition of 75% interest in 16 medicine research projects for a consideration of US\$8,000,000. The acquisition will be completed within six months from the date of the Agreement and the Company had paid HK\$50,206,000 to Miss Guo Ping as at 31 March 2003. Details of the said acquisition and reorganization were set out in the Company’s announcement “Disclosable Transaction” dated 6 December 2002.

On 3 April 2003 the Group received a letter dated 19 March 2003 from Boston Scientific Asia Pacific Pte Ltd. (“Boston”), which the Directors believe is the operating company in Singapore of the holding company of Radio Therapeutics Corporation, in relation to its supply of RFAS and LeVein Electrodes. In order to be in consistent with its decision in relation to supply of its products in the PRC directly by its local trading company, Boston would be no longer in a position to supply the Group with the RFAS and LeVein Electrodes, but the hospitals which have entered into cooperation contracts with the Group in relation to the operation of the RFAS treatment centers may contact Boston directly to acquire the RFAS and LeVein Electrodes. The Group is now seeking legal advice on this matter. Further announcement will be made by the Company when appropriate.

## BUSINESS REVIEW

As at 31 March 2003, the Group was principally engaged in supplying radio frequency therapeutic equipment (“RFAS”) and technology (“RFAS technology”) to hospitals in the PRC, and reaped its profits by setting up cooperation centres with hospitals in various regions and expanding the application of RFAS technology.

The Group conducted its RFAS business through Tat Lung Medical Treatment Technology (Shenzhen) Limited (“Tat Lung Shenzhen”), a wholly-owned subsidiary of the Company. Meanwhile, with a view to further growth, the Group strengthened the exploration of new products and projects, such as the production development of Chinese and western medicines and biochemical test equipment, through its subsidiaries China Best Drugs Research (Nanjing) Limited (“China Best”) and Sino-Innova Medical Science & Technology Co., Limited (“Sino-Innova”) respectively.

The Group’s total turnover amounted to HK\$6,420,000 for the quarter.

The major achievements of the Group include:

1. The Group has actively promoted the use of RFAS technology to patients and reaped profits by curing them through the RFAS radio-frequency therapeutic centre, which was established by Tat Lung (Shenzhen), and hospitals in China Mainland.

2. The Liver Gall Pancreas Disease Laboratory, established by the Group in the Chengdu Military Area General Hospital of the People's Liberation Army (“成都軍區總醫院”), has developed a new RFAS on the base of the original one. A patent has been duly granted to the equipment, and the prototype of which is made and on trial.
3. In order to develop the business of medical software development, the Group has established Tat Lung Medical Technology (Shenzhen) Limited (“達隆醫學技術(深圳)有限公司”) to focus on various kinds of medical software, including RFAS software, biochemical analyzer control software, software of medical imaging analysis series, etc. The application of some software has been made to the relevant authorities in Shenzhen for being approved as software products.
4. China Best has proceeded with the R&D of Chinese and western medicines as planned and reported its new medicines under categories I and II to the State. In addition, the company has also launched such health care products as China Best Ke Ai Dried Tangerine Peel Pill (神州佳美克艾陳皮片) and Fukung Best Ginger & Date Pill (福康佳美姜棗片), and carried out sales operation in line with the current market demand. The company is planning to set up a medium-sized pharmaceutical factory, which will be able to produce powder, injection and tablets of Chinese medicines, and to produce Chinese anticancer medicines with its own technology.
5. Sino-Innova is a factory specializing in the production of hi-tech medical test equipment, including various biochemical analyzers, immunity analyzers, germ analyzers and blood analyzers. The factory, with a site area of approximately 8,000 sq.m., is expected to be completed by the middle of 2003. Currently the construction of the infrastructure of the factory is on schedule. Meanwhile, to have an early grasp of market share, the company has started production and sale through the existing factory of the joint-venture party. “Automatic biochemical analyzer series”, the company's major product, has obtained the approval for production from the State Administration for Drug Supervision. Moreover, several products have obtained the relevant technological recognition, and an application for the production license of such products is underway. Sino-Innova has possessed the proprietary rights of each product. A sales network has been established in the PRC. The products are not only available for domestic sale, but also distributed to Europe, America, South Asia and Middle East. The company has participated in some international medical treatment exhibitions held in United Arab Emirates and Korea to promote its products, and has received high praise. Businesses with such countries as Italy, Spain, United Arab Emirates, India and Poland have already commenced.



6. The sale of Anti-Smoking Drug (戒煙寶), produced by Jiang Xi J&P Biological Products Limited in which Tat Lung Medical Treatment Technology Limited of the Group has shareholdings, has been carried out on schedule.
7. The Group's development of 3-dimentional laparoscope has been in progress as planned.

## OUTLOOK

China's rapid economic growth and the expected further deregulation in its medical market will justify the Group's existing business model. On the base of the RFAS business, the Group will further utilize its current business network to develop more medical service projects, which are summarized as follows:

1. The Group will keep promoting RFAS technology and combine it with the intervention therapy technology to enhance curative effects and income.
2. The Group will put more effort into the R&D of new RFAS and accessories for tumor. To achieve this goal, the Group will utilize its existing patents and cooperate with various medical institutes to develop a new generation of software and prepare subsequent products for the Group in the research centre in Chengdu Military Area General Hospital (成都軍區總醫院), so as to maintain its competition edge.
3. The Group will further push the infrastructure construction of Sino-Innova's factory. In the meantime, the Group will strengthen its sale of products and application of new products for approval. Moreover, the Group will participate in a number of large exhibitions held at home or abroad at the second quarter.
4. The Group will continue its R&D of both Chinese and western drugs. In particular, the R&D of healthcare products for antiphlogosis and better immunity will be additionally enhanced. For the healthcare food products including China Best Ke Ai Dried tangerine Peel Pill (神州佳美克艾陳皮片), Fukang Best Ginger & Date Pill (福康佳美姜棗片) and Anti-Smoking Drug (戒煙寶), the sales activities will be carried out in line with the market demand.
5. The Group will strengthen the development of medical software and complete the application of new products for approval.

## FINANCIAL REVIEW

The Group's turnover for the three months ended 31 March 2003 was HK\$6,420,000, representing a decrease of 39.94% as compared with the corresponding period in 2002. The profits attributable to shareholders was HK\$1,207,000, a decrease of 80% over 2002.

During the period under review, due to the wide spread of SARS virus in mainland China, the RFAS radio-frequency therapeutic centres of the Group suffered a substantial drop in income. As a direct result, the Group could not attain the expected targets of turnover and profits attributable to shareholders, which recorded decreases of 39.94% and 80% respectively over the corresponding period of last year.

## OTHER INFORMATION

### Directors' and Chief Executive Interests in Securities

As at 31 March 2003, referring 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	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:

- 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 2003, 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 2003, 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	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 Kuk, James, 8.93%, by Mr. Li Tai To, Titus and 8.93% by Mr. Li Yue Erh.

### Directors' Rights to Acquire Shares or Debt Securities

On 14 December 2001, the Company conditionally 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 31 March 2003, 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.

Save as disclosed above, at no time during the three 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' 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 three months ended 31 March 2003.

### **Interest of Sponsor**

As at 31 March 2003, 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**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2003.

### **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 Tai and Han K. Huang.

The Committee's members have reviewed the quarterly report for the three months ended 31 March 2003.

### **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 three months ended 31 March 2003.

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

Hong Kong, 14 May 2003