



# **MEDICAL CHINA LIMITED**

*(Incorporated in Bermuda with limited liability)*

## **Third Quarterly Report 2003**

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

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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 the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Medical China Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and beliefs— 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.*

## HIGHLIGHTS

- Turnover for the nine months ended 30 September 2003 amounted to approximately HK\$20,099,000 representing a decrease of 44.9% as compared to that of the corresponding period in 2002.
- For the nine months ended 30 September 2003, the Company achieved a net profit of approximately HK\$3,735,000 representing a decrease of approximately 80.3% as compared to that of the corresponding period in 2002.
- For the nine months ended 30 September 2003, earning per share was 0.45 Hong Kong cents.
- The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2003.

## RESULTS (UNAUDITED)

The board (“the Board”) of directors (“the Directors”) 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 2003, together with the comparative unaudited figures for the corresponding periods of 2002, as follows:

		For the three months ended 30th September		For the nine months ended 30th September	
		2003 (Unaudited) \$'000	2002 (Unaudited) \$'000	2003 (Unaudited) \$'000	2002 (Unaudited) \$'000
	<i>Notes</i>				
TURNOVER	2	8,138	13,800	20,099	36,484
Cost of services/sales		(2,629)	(4,351)	(8,436)	(10,365)
Gross Profit		5,509	9,449	11,663	26,119
Other income		1,637	1,183	4,119	3,733
Selling and distribution expenses		(1,600)	(564)	(3,133)	(2,895)
Administration expenses		(2,730)	(1,478)	(7,077)	(4,223)
Other operating expenses		(1)	(15)	(49)	(75)
Profit from operation		2,815	8,575	5,523	22,659
Finance cost		–	0	–	(1)
Share of loss of associate		(33)	0	(209)	0
Profit before taxation		2,782	8,575	5,314	22,658
Taxation	3	(644)	(1,425)	(1,494)	(3,740)
Profit before minority interests		2,138	7,150	3,820	18,918
Minority interests		(63)	0	(85)	0
Profit attributable to shareholders		2,075	7,150	3,735	18,918
Earnings per share	4				
Basic and diluted (in Hong Kong Cents)		0.25	0.89	0.45	2.34

## NOTES:

### 1. BASIS OF PREPARATION

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").

The accounting policies and basis of preparation adopted for the preparation of the third quarterly financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002. Certain comparative figures in financial report has been reclassified to conform with the current period's presentation.

### 2. TURNOVER

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

The Group's turnover and operating profit are almost entirely derived from the provision of medical equipment, sales of related accessories 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 analysed as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Medical services fees	4,690	7,639	11,304	24,287
Sales of medical accessories and equipment	3,448	6,161	8,795	12,197
	<b>8,138</b>	<b>13,800</b>	<b>20,099</b>	<b>36,484</b>

### 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 2003 (2002: \$Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the periods.

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% (2002: 15%).

No provision for PRC Income Tax has been made for the Company's subsidiaries, China Best Drugs Research (Nanjing) Limited, Sino-Innova Medical Science & Technology Company Limited and Tat Lung Treatement (Shenzhen) Limited as they did not have assessable profits for the periods 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 earnings per share

The calculation of basic earnings per share for the three months and nine months ended 30 September 2003 is based on the profit attributable to shareholders of HK\$2,075,000 (2002: HK\$7,150,000) and HK\$3,735,000 (2002: HK\$18,918,000) respectively divided by the weighted average number of 835,000,000 (2002: 807,051,282) ordinary shares in issue during the relevant periods.

#### (b) Diluted earnings per share

No diluted earnings per share for the three months and nine months ended 30 September 2003 and 30 September 2002 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

## 5. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2003 (2002: nil).

## 6. RESERVE

	Share Premium \$'000	Contributed Surplus \$'000	Exchange reserve \$'000	General reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2002	51,824	5,265	17	2,954	24,283	84,343
Issue of share upon Private placement	19,600					19,600
Share issue Expenses	(691)					(691)
Currency translation Differences			43			43
Net Profit for the Period					18,918	18,918
At 30 September 2002	<u>70,733</u>	<u>5,265</u>	<u>60</u>	<u>2,954</u>	<u>43,201</u>	<u>122,213</u>
At 1 January 2003	70,733	5,265	(12)	5,783	44,433	126,202
Currency translation Differences			(586)			(586)
Net profit for the Period					3,735	3,735
At 30 September 2003	<u>70,733</u>	<u>5,265</u>	<u>(598)</u>	<u>5,783</u>	<u>48,168</u>	<u>129,351</u>

## FINANCIAL REVIEW

The Group's turnover for the nine months ended 30 September 2003 was approximately HK\$20,099,000, representing a decrease of 44.9% as compared with the corresponding period in 2002. The profits attributable to shareholders was approximately HK\$3,735,000, a decrease of 80.3% over the corresponding period in 2002. The decrease in turnover and profits were primarily attributable to the continuous bad effect of SARS which cropped up in first half of this year. However, the situation has improved during the third quarter. The Group's turnover for the three months ended 30 September 2003 was approximately HK\$8,138,000, representing an increase of 26.8% and 46.9% as compared with the first and second quarters of 2003 respectively. The profits attributable to shareholders for the three months ended 30 September 2003 was approximately HK\$2,075,000, representing an increase of 71.9% and 358.1% as compared with the first and second quarter of 2003 respectively.

## BUSINESS REVIEW

As at 30 September 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 centers (“RFAS Centers”) with hospitals in various regions.

In the meantime, the Chinese and western drugs and biochemical and test instruments developed and produced by China Best Drugs Research (Nanjing) Ltd. (“China Best”) and Sino-Innova Medical Science & Technology Co., Ltd.. (“Sino-Innova”), both subsidiaries of the Group, had made further progress.

Business development of RFAS Centers in Mainland China has been gradually resumed after the recovery from SARS. Meanwhile, research and development and transformation of Chinese and western drugs and the production and sale of pharmaceutical and test instruments continue to develop respectively. Total turnover of the Group in this quarter amounted to approximately HK\$8,138,000, while profit amounted to HK\$2,075,000, representing an increase of 46.9% and 358.1% respectively over the second quarter, though a decrease of 41% and 71% respectively as compared to the corresponding period last year. The decrease is mainly attributed to the fact that the RFAS Center’s operation was not completely assumed to normal from the effect of SARS.

Major achievements of the Group during the period under review:

1. The Group has actively promoted the use of RFAS technology to patients and reaped profits by curing them through the RFAS Centers, which were established by the Company’s subsidiary Medical Treatment Technology (Shenzhen) Limited (“Tat Lung Shenzhen”), and hospitals in Mainland China.
2. China Best has proceeded with the research and development of Chinese and western medicines as planned and reported its new medicines under categories I and II to the State. The project has been reported to Jiangsu Provincial State Administration for Drug Supervision. In addition, the company is under negotiation with several pharmaceutical factories and planning to jointly set up a medium-sized pharmaceutical factory, which will be able to produce powder, injection and tablets of Chinese medicines, and to produce anti-cancer Chinese medicines with its own technology.



3. Sino-Innova is still specializing in the production of hi-tech medical test equipment, including various biochemical analyzers, immunity analyzers, germ analyzers and blood analyzers. The company's factory has a site area of approximately 8,000 sq.m.. Currently construction of the infrastructure of the factory has basically completed and the production is continuously shifting into the new-built factory.

The Company has participated in the World Clinical and Inspection Annual Meeting held in the U.S.A. to promote the Group's medical test equipment. Meanwhile, the Company has participated in international medical treatment exhibitions held in Vietnam. Sino-Innova has been accredited with the certification of ISO9001 and the application for the certification of European CB and FDA certification in the U.S.A. of biochemical analyzer are under process.

The Company has signed cooperation agreements with various foreign companies for the export of the Group's medical test equipment to U.S.A., Italy, Poland, India, Pakistan and Thailand etc.

4. 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.
5. The Group's development of 3-dimentional laparoscope has continued to be in progress as planned.

## OUTLOOK

China's rapid economic growth 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 research and development of new radio frequency therapeutic equipment and accessories which has similar function and effect as RFAS in curing cancer and tumor. To achieve this goal, the Group will utilize its existing patents and new products for cooperation with various medical institutes to develop a new generation of mini-invasive therapy technology and equipment for tumor, and will prepare subsequent products for the Group in the research centre, so as to maintain its competition edge.
3. The Group will strengthen sales of Sino-Innova's products and development of new products. By controlling cost, the Group aims to increase its output and profit margin.
4. The Group will continue its research and development of both Chinese and western drugs and complete application of new medicine and drugs for approval. In the meantime, the Group will enhance commercialization of its matured products to secure profits.
5. The Group will strengthen the development of software for medical devices and complete the application of RFAS Software and Biochemistry Analyzer Controlling Software for approval.

## OTHER INFORMATION

### **Directors' and Chief Executive's Interests and Short Positions in Share, Underlying Shares and Debentures**

At 30 September 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the

Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.40 of the GEM Listing Rules were as follows:

**Interest in the Company:**

<b>Name</b>	<b>Number of ordinary shares of HK\$0.01 each (the “Shares”) in the share capital of the Company held</b>	<b>Nature of interests</b>	<b>Percentage of interest</b>
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
Mr. Li Wo Hing	32,800,000 212,320,000	Personal Corporate (Note 1)	3.93% 25.43%
	<hr/>		<hr/>
	Aggregate: 245,120,000		Aggregate: 29.36%
Mr. Ng Kwai Sang	32,800,000 212,320,000	Personal Corporate (Notes 1 & 2)	3.93% 25.43%
	<hr/>		<hr/>
	Aggregate: 245,120,000		Aggregate: 29.36%
Mr. Li Tai To, Titus	16,400,000	Personal	1.96%
Mr. Chan Siu Sun	32,800,000	Personal	3.93%

*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 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 owned as to 35.71% by Mr. Ng Kwai Sang. Details of the interest of PMM in these Shares are also set out in the paragraph headed “Interest Disclosable Under the SFO and Substantial Shareholders” below.

Save as disclosed above, as at 30 September 2003, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to rule 5.40 of the GEM Listing Rules relating to minimum standards of dealing by Directors, to be notified to the Company and the Stock Exchange.

## Interests Disclosable Under the SFO and Substantial Shareholders

At 30 September 2003, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

	<b>Name of Substantial shareholder</b>	<b>Number of Shares held</b>	<b>Capacity</b>	<b>Percentage of interests</b>
1.	PMM ( <i>Note</i> )	212,320,000	Beneficial owner	25.43%
2.	China Equity Associates L.P.	129,840,000	Beneficial owner	15.50%

*Note:* As at 30 September 2003, PMM owned 212,320,000 Shares, representing approximately 25.43% of the issued share capital of the Company. The issued share capital of PMM is owned as to 35.71% by Mr. Ng Kwai Sang, as to 28.57% by Mr. Li Wo Hing, as to 17.86% by Dr. Li Nga Kuk, James, as to 8.93% by Mr. Li Tai To, Titus and as to 8.93% by Mr. Li Yue Erh. Mr. Ng Kwai Sang and Mr. Li Wo Hing's indirect interests in these 212,320,000 Shares through PMM are also disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 30 September 2003, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## 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.

During the nine months ended 30 September 2003, no option was granted by the Company under the Share Option Scheme.

In addition, as at 30 September 2003, none of the directors or chief executive or their respective associates had any interest or rights to subscribe for any securities of the Company or any of its associated corporations.

Save as disclosed above, 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 or any of their respective associate 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 period under review.

### **Disclosure in Pursuant to Rule 17.22 of the GEM Listing Rules**

As at 30 September 2003, Ms. Guo Ping, who is independent parties not connected to any of the Directors, the chief executive of the Company, the substantial shareholders and the management shareholders (both within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules) (other than being a director of a subsidiary of the Company), had acquisition deposit balance with the Group of approximately HK\$62,131,000 representing approximately 43% of the audited consolidated net tangible assets of the Group of approximately HK\$143,568,000 at 31 December 2002. The said deposit balance is interest free and unsecured.

Ms. Guo Ping, a PRC citizen, to whom the Company signed an agreement ("Agreement") on 6 December 2002 for the acquisition of a 75% interest in 16 medicine research projects. Such acquisition deposit balance was the consideration for the said acquisitions and will be transferred to investment cost in the shares of Believe Investments Limited on completion of the reorganization of certain companies of the Group. The Directors believe the reorganization will be completed within this year. Details of the Agreement and reorganisation are set out in the circular of "Discloseable Transaction" dated 8 January 2003.

### **Interest of Sponsor**

As at 30 September 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 of its subsidiaries, 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 acts 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 nine months ended 30 September 2003, 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 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 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 Audit Committee Members have reviewed the quarterly report for the nine months ended 30 September 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 period.

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

Hong Kong 11 November 2003