



MEDICAL CHINA LIMITED

(incorporated in Bermuda with limited liability)

FIRST QUARTERLY REPORT 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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 further 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.

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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 three months ended 31 March 2004 amounted to approximately HK\$7,097,000 representing an increase of 11% as compared to that of the corresponding period in 2003.
- For the three months ended 31 March 2004, the Company achieved a net profit of approximately HK\$828,000 representing a decrease of approximately 31% as compared to that of the corresponding period in 2003.
- For the three months ended 31 March 2004, earnings per share is 0.10 Hong Kong cents (2003: 0.14 Hong Kong cents).
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: Nil).

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 2004, together with the comparative unaudited figures for the corresponding period of 2003 as follows:

	Notes	For the three months ended 31 March	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
TURNOVER	2	<u>7,097</u>	<u>6,420</u>
Cost of services/sales		<u>(4,165)</u>	<u>(2,802)</u>
Gross Profit		2,932	3,618
Other income		1,224	1,209
Selling and distribution expenses		(907)	(1,189)
Administration expenses		(2,007)	(1,911)
Other operating expenses		<u>-</u>	<u>(44)</u>
Profit from operations		1,242	1,683
Finance cost		-	-
Share of profit/(loss) of an associate		<u>8</u>	<u>(1)</u>
Profit before taxation		1,250	1,682
Income tax	3	<u>(428)</u>	<u>(475)</u>
Profit after taxation		822	1,207
Loss shared by minority interests		<u>6</u>	<u>-</u>
Profit attributable to shareholders		<u>828</u>	<u>1,207</u>
Earnings per share (<i>In Hong Kong cents</i>)	4		
– Basic		<u>0.10</u>	<u>0.14</u>

Notes:

1. BASIS OF PRESENTATION

The financial information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable statements of Standard Accounting Practice and Interpretation) issued by the Hong Kong Society of Accountants, 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") of the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the Company's annual financial statements for the year ended 31 December 2003.

2. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and related accessories, net of respective taxes; the sale value of testing equipment, net of value added tax, and service fees arising from the provision of research and development services, net of business tax.

Pursuant to various agreements with hospitals in the PRC, the Group agrees to provide certain medical equipment at the relevant hospitals and in return, share the medical service fees arising from the utilization of the medical equipment after deducting the related direct expenses.

Turnover recognised during the period may be analysed as follows:

	For the three months ended 31 March	
	2004	2003
	HK\$'000	HK\$'000
Medical service fee and sale of related accessories	4,560	5,497
Sale of testing equipment	2,236	923
Research and development services	301	-
	<u>7,097</u>	<u>6,420</u>

3. INCOME TAX

No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2004 (2003: nil) as the Group did not have assessable profits subject to Hong Kong Profit 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% (2003: 15%).

No provision for income tax has been made in respect of the Company's other PRC subsidiaries, China Best Drugs Research (Nanjing) Limited ("China Best"), Sino-Innova Medical Science & Technology Company Limited ("Sino-Innova") and Tat Lung Treatment (Shenzhen) Limited ("Tat Lung Treatment"), as they did not have assessable profits for the three months ended 31 March 2004 determined in accordance with relevant income tax rules and regulations in the PRC.

No provision has been made for deferred taxation as the Group does not have any material deductible or taxable temporary differences. (2003: nil).

4. EARNINGS PER SHARE

(a) *Basic earnings per share*

The calculation of basic earnings per share for the three months ended 31 March 2004 is based on the profits attributable to shareholders of HK\$828,000 (2003: HK\$1,207,000) divided by the weighted average number of 835,000,000 (2003: 835,000,000) ordinary shares in issue during the relevant period.

(b) *Diluted earnings per share*

No diluted earnings per share for the three months ended 31 March 2004 and 2003 respectively have been presented because there were no dilutive potential 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 2004 (2003: nil).

6. RESERVES

	Share Contributed Premium HK\$'000	Surplus HK\$'000	Exchange Reserve HK\$'000	General Reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1 January 2003	70,733	5,265	(12)	5,783	44,433	126,202
Exchange 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>
At 1 January 2004	70,733	5,265	(405)	5,783	23,117	104,493
Exchange difference	-	-	355	-	-	355
Net profit for the period	-	-	-	-	828	828
At 31 March 2004	<u>70,733</u>	<u>5,265</u>	<u>(50)</u>	<u>5,783</u>	<u>23,945</u>	<u>105,676</u>

BUSINESS REVIEW

For the period ended 31 March 2004, the Group's revenue was generated from its principal operating subsidiaries, namely Tat Lung Shenzhen, Tat Lung Treatment, Sino-Innova and China Best.

In the quarter under review, sales revenue of the Group was approximately HK\$7,097,000, representing a growth of 11% as compared to the corresponding period last year. However, due to the decrease of Group's average profit margin, the Group's profit for the quarter was HK\$828,000, representing a decrease of 31% as compared to that of the corresponding period last year.

Major achievements of the Group during the quarter under review are as follows:

1. The Group has reaped profits by curing patients through the RFAS Centers, which were established by the Company's subsidiary Tat Lung Shenzhen and hospitals in Mainland China.
2. Sino-Innova has been accredited with the certification of European CE and has entered into co-operation agreements with various foreign companies for the export of products to the U.S.A, Italy, Poland, India, Pakistan, and Thailand etc.
3. The Group has signed an agency agreement with Rex Medical in the USA for the exclusive sales in mainland China of its products, another surgery instrument for MicroPort treatment of lung and liver cancers. The agency agreement was for a term of three years. Conferences for enhancement of technology were held in Beijing, Shanghai and Guangzhou for the promotion of the products.
4. China Best has proceeded with the research and development of Chinese and western medicines as planned and its new medicines under category I have been approved by Jiangsu Provincial State Administration for Drug Supervision and the application to the State for clinical trial has been under process. In addition, another two Chinese medicines have also been approved for clinical trial.
5. The Group's development of 3-dimensional laparoscope has continued to be in progress as planned.

OUTLOOK

On the base of its existing RFAS business, the Group shall further ride on and expand its current business network to include more medical treatment instruments and service projects as follows:

1. The Group will further promote the ray frequency tumour therapeutic technology to enhance the curing effects and increase revenues.
2. Active promotion will be carried out for the MicroPort tumour therapeutic instruments of the Rex Medical in the USA. Examination and approval procedures as well as preliminary promotion for the products will be completed as soon as possible. Action will be pursued for the sales of the products to hospital in the third quarter of this year.
3. The Group has obtained patents for its newly developed RFAS tumour therapeutic instruments and auxiliary devices, and will apply for approval of clinical trial in due course, so as to formally put the product to mass production in the year of 2004.
4. Production capacity of Sino-Innova will be further enhanced to increase the sales of medical instruments at home and abroad. Meanwhile, it planned to develop two to three new products in the year of 2004 and to reduce production cost, increase sales and to enhance profit margin.
5. China Best will continue to complete the research and development of a new drug under category I and the application procedures for approval have been completed. Meanwhile, China Best will also make use of its well-established development technology to provide services to clients in China so as to increase the Group's revenue.
6. Effort will be made to accelerate completion of the trial of 3-dimensional laparoscope and its examination and approval procedures, so that mass production can be carried out as soon as possible.

FINANCIAL REVIEW

The Group's turnover for the three months ended 31 March 2004 was approximately HK\$7,097,000, representing an increase of 11% as compared with the corresponding period in 2003. The profits attributable to shareholders was approximately HK\$828,000, a decrease of 31% over the corresponding period in 2003.

During the review period, the Group's cost of services/sales was increased by 49% and the Group's turnover was only increased about 11%. Therefore, the Group's profit was decreased as the result of decreasing average profit margin of the Group.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2004, 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 standard of dealings by directors of listed issuer as referred to in rule 5.46 of GEM Listing rules were as follows:

Interest in the Company:

Name	Number of ordinary shares of HK\$0.01 each (the "Shares") in the share capital of the Company held	Nature of interests	Percentage of interest
Li Nga Kuk, James	32,800,000	Personal	3.93%
Li Wo Hing	32,800,000 212,320,000	Personal Corporate (Note 1)	3.93% 25.43%
	Aggregate: 245,120,000		Aggregate: 29.36%
Ng Kwai Sang	32,800,000 212,320,000	Personal Corporate (Notes 1 & 2)	3.93% 25.43%
	Aggregate: 245,120,000		Aggregate: 29.36%
Li Tai To, Titus	16,400,000	Personal	1.96%
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 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. 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 31 March 2004, none of the Directors or 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 5.46 of the GEM Listing Rules relating to standard of dealings by directors of listed issuer, to be notified to the Company and the Stock Exchange.

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 31 March 2004, 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 SFO Ordinance.

Save as disclosed above, at no time during the year 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 respective associates, including 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.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2004, 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:

Name of Substantial Shareholder	No of Shares held	Capacity	Percentage of interests
1. PMM (<i>note</i>)	212,320,000	Beneficial owner	25.43%
2. China Equity Associates L.P.	85,200,000	Beneficial owner	10.20%

Note: As at 31 March 2004, 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 Erth. 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 31 March 2004, 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' INTEREST IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the three months ended 31 March 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 31 March 2004, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company had conditional approved and adopted a share option scheme (“the Share Option Scheme”).

The principal terms of the Share Option Scheme are set out in the Company’s prospectus dated 19 December 2001.

During the review period, no option was granted by the Company under the Share Option Scheme. As at 31 March 2004, there was no share options outstanding.

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 during the three months ended 31 March 2004.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the three months ended 31 March 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

As required by the Rule 5.28 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 three months ended 31 March 2004.

By order of the Board
Li Ngau Kuk, James
Chairman

Hong Kong 12 May 2004