



MEDICAL CHINA LIMITED
(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2004

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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 six months ended 30 June 2004 amounted to approximately \$17,460,000, representing an increase of 46% as compared to that of the corresponding period in 2003.
- For the six months ended 30 June 2004, the Group achieved a net profit attributable to shareholders of approximately \$3,100,000, representing an increase of approximately 87% as compared to that of the corresponding period in 2003.
- For the six months ended 30 June 2004, earnings per share is 0.37 cents.
- The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

INTERIM RESULTS (UNAUDITED)

(Expressed in Hong Kong dollars)

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 six months ended 30 June 2004, together with the comparative figures for the corresponding periods of 2003 as follows:

CONSOLIDATED INCOME STATEMENTS

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2004 (Unaudited) \$'000	2003 (Unaudited) \$'000	2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
TURNOVER	2	10,363	5,541	17,460	11,961
Cost of services/sales		(4,124)	(3,005)	(8,289)	(5,807)
Gross profit		6,239	2,536	9,171	6,154
Other income	4	1,118	1,273	2,342	2,482
Selling and distribution expenses		(731)	(344)	(1,638)	(1,533)
Administrative expenses		(2,659)	(2,436)	(4,666)	(4,347)
Other operating expenses		(1,032)	(4)	(1,032)	(48)
Profit from operation		2,935	1,025	4,177	2,708
Finance cost		(4)	-	(4)	-
Share of loss of an associate		(13)	(175)	(5)	(176)
Profit before taxation	5	2,918	850	4,168	2,532
Income tax	6	(767)	(375)	(1,195)	(850)
Profit after taxation		2,151	475	2,973	1,682
Loss/(profit) shared by minority interests		121	(22)	127	(22)
Profit attributable to shareholders		2,272	453	3,100	1,660
Earnings per share	8	0.27	0.05	0.37	0.2
Basic (in Hong Kong cents)					

CONSOLIDATED BALANCE SHEET
(Expressed in Hong Kong dollars)

		At 30 June 2004 (Unaudited)		At 31 December 2003 (Audited)	
	Note	\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	9	21,977		24,243	
Construction in progress		1,433		825	
Intangible assets	10	58,363		58,537	
Interest in an associate		430		435	
Negative goodwill	11	(4,502)	77,701	(5,942)	78,098
Current assets					
Inventories	12	5,463		4,685	
Trade receivables	13	5,162		5,442	
Other receivables and prepayments		5,901		3,415	
Amount due from a related company	14	75		75	
Deposits with banks	15	82,948		79,760	
Cash and cash equivalents		14,226		8,139	
		113,775		101,516	
Current liabilities					
Trade and other payables	17	54,053		48,771	
Amounts due to related companies	16	1,363		1,278	
Short term loan		1,885		–	
Current taxation	18	13,836		12,660	
		71,137		62,709	
Net current assets			42,638		38,807
Minority interests			(3,953)		(4,062)
NET ASSETS			116,386		112,843
CAPITAL AND RESERVES					
Share capital	19		8,350		8,350
Reserves			108,036		104,493
			116,386		112,843

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

	Six months ended 30 June 2004 \$'000 (Unaudited)	Six months ended 30 June 2003 \$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	7,884	8,440
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(3,679)	6,397
NET CASH INFLOW FROM FINANCING ACTIVITIES	1,882	9,421
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,087	24,258
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	8,139	13,730
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14,226	37,988
Analysis of cash and cash equivalents		
Cash at bank and in hand	14,226	8,784
Deposits with banks	—	29,204
	14,226	37,988

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Contributed surplus	Exchange reserve	General reserve	Retained profit	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2003	8,350	70,733	5,265	(12)	5,783	44,433	134,552
Net gains and losses not recognised in the consolidated income statement							
– Currency translation differences	-	-	-	(27)	-	-	(27)
Net profit for the period	-	-	-	-	-	1,660	1,660
At 30 June 2003	8,350	70,733	5,265	(39)	5,783	46,093	136,185
At 1 January 2004	8,350	70,733	5,265	(405)	5,783	23,117	112,843
Net gains and losses not recognised in the consolidated income statement							
– Currency translation differences	-	-	-	443	-	-	443
Net profit for the period	-	-	-	-	-	3,100	3,100
At 30 June 2004	8,350	70,733	5,265	38	5,783	26,217	116,386

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

The unaudited interim financial report is unaudited, but has been reviewed by the Company's audit committee. The interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practices ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on the statutory financial statements for the year ended 31 December 2003 in their report dated 29 March 2004.

The accounting policies and basis of preparation used in the preparation of the interim financial report are the same as those used in the 2003 annual financial statements.

2. TURNOVER

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

Pursuant to various agreements with hospitals in the People's Republic of China (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 recognized during the period may be analyzed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Medical services fees and sales of related accessories	7,609	4,080	12,169	9,577
Sales of testing equipment	2,752	1,461	4,988	2,384
Research and development services	2	-	303	-
	<u>10,363</u>	<u>5,541</u>	<u>17,460</u>	<u>11,961</u>

3. Segment Information

Business segments

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

	Medical services		Sale of medical equipment		Research and development		Consolidated	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from external customers	12,194	9,577	4,963	2,384	303	-	17,460	11,961
Segment result	6,512	4,750	158	56	(1,545)	-	5,125	4,806
Unallocated operating income and expenses							(948)	(2,098)
Profit from operations							4,177	2,708
Finance cost							(4)	-
Share of loss of an associate							(5)	(176)
Income tax							(1,195)	(850)
Loss/(profit) shared by minority interests							127	(22)
Profit attributable to shareholders							<u>3,100</u>	<u>1,660</u>

Geographical segments

The Group operates mainly in the PRC and accordingly no geographical segment information is presented.

4. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Interest income	438	286	718	689
Amortization of negative goodwill	720	720	1,441	1,441
Net (loss)/gain on sale of fixed assets	(113)	251	(113)	251
Miscellaneous	73	16	296	101
	<u>1,118</u>	<u>1,273</u>	<u>2,342</u>	<u>2,482</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Cost of inventories	2,757	1,868	5,605	3,494
Depreciation	1,508	1,136	2,832	2,497
Auditors' remuneration	300	200	300	209
Operating lease charges in respect of office premises	274	228	425	541
Research and development costs	1,165	33	1,185	56
Staff costs (including directors' remuneration)				
– salaries and wages	1,026	983	2,146	1991
– staff retirement benefits	64	48	110	92
Amortization of negative goodwill	(720)	(720)	(1,441)	(1,441)
Amortization of intangible assets	96	–	192	–

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Current tax – PRC Tax for the period	<u>767</u>	<u>375</u>	<u>1,195</u>	<u>850</u>

(i) Hong Kong profits tax

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2004 (2003: \$nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

(ii) PRC income tax

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 PRC Income Tax has been made for 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 Medical Treatment (Shenzhen) Limited ("Tat Lung Treatment"), as they did not have assessable profits for the period determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) No provision has been made for deferred taxation as the Group does not have any material deductible or taxable temporary difference.

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: \$nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months and six months ended 30 June 2004 is based on the profit attributable to shareholders of \$2,272,000 (2003:\$453,000) and \$3,100,000 (2003: \$1,660,000) respectively divided by the weighted average number of 835,000,000 (2003: 835,000,000) ordinary shares in issue during the relevant periods.

(b) Diluted earnings per share

No diluted earnings per share for the three months and six months ended 30 June 2004 and 30 June 2003 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

9. FIXED ASSETS

	Medical equipment \$'000	Office, computer and other equipment \$'000	Machinery \$'000	Land & buildings \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 January 2004	30,057	1,462	–	6,292	1,723	39,534
Additions	173	52	106	–	269	600
Disposals	(406)	–	–	–	–	(406)
Exchange adjustment	63	6	–	28	4	101
At 30 June 2004	<u>29,887</u>	<u>1,520</u>	<u>106</u>	<u>6,320</u>	<u>1,996</u>	<u>39,829</u>
Aggregate depreciation						
At 1 January 2004	(14,531)	(305)	–	(49)	(406)	(15,291)
Charge for the period	(2,404)	(103)	(10)	(141)	(174)	(2,832)
Written back on disposal	293	–	–	–	–	293
Exchange adjustment	(20)	(1)	–	–	(1)	(22)
At 30 June 2004	<u>(16,662)</u>	<u>(409)</u>	<u>(10)</u>	<u>(190)</u>	<u>(581)</u>	<u>(17,852)</u>
Net book value						
30 June 2004	<u>13,225</u>	<u>1,111</u>	<u>96</u>	<u>6,130</u>	<u>1,415</u>	<u>21,977</u>
31 December 2003	<u>15,526</u>	<u>1,157</u>	<u>–</u>	<u>6,243</u>	<u>1,317</u>	<u>24,243</u>

10. INTANGIBLE ASSETS

	Medical research projects	Others	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost			
At 1 January 2004	83,893	2,327	86,220
Additions	–	–	–
Exchange adjustment	8	10	18
	<u>83,901</u>	<u>2,337</u>	<u>86,238</u>
At 30 June 2004	83,901	2,337	86,238
	<u>83,901</u>	<u>2,337</u>	<u>86,238</u>
Accumulated amortisation			
At 1 January 2004	(27,625)	(58)	(27,683)
Charge for the period	–	(192)	(192)
	<u>(27,625)</u>	<u>(192)</u>	<u>(27,817)</u>
At 30 June 2004	(27,625)	(250)	(27,875)
	<u>(27,625)</u>	<u>(250)</u>	<u>(27,875)</u>
New book value			
At 30 June 2004	<u>56,276</u>	<u>2,087</u>	<u>58,363</u>
At 31 December 2003	<u>56,268</u>	<u>2,269</u>	<u>58,537</u>

11. NEGATIVE GOODWILL

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Negative goodwill	(16,029)	(16,029)
Less: Accumulated amortisation	11,527	10,087
	<u>(4,502)</u>	<u>(5,942)</u>

The balance represents the negative goodwill arising from the Group's acquisition of the medical equipment business together with the relevant assets from Guangxi Wuzhou Tat Lung Medical Equipment Company Limited ("Wuzhou Tat Lung"). It is recognized as income on a straight-line basis over five years.

12. INVENTORIES

	At 30 June	At 31 December
	2004	2003
	\$'000	\$'000
Raw materials	1,573	1,143
Work in progress	670	1,094
Finished goods	3,220	2,448
	<u>5,463</u>	<u>4,685</u>

All inventories are stated at cost.

13. TRADE RECEIVABLES

All of the trade receivables are expected to be recovered within one year.

An ageing analysis of trade receivables (net of provision for bad debts) is as follows:

	At 30 June	At 31 December
	2004	2003
	\$'000	\$'000
Within 3 months of the date of billing	5,044	5,208
3 to 6 months of the date of billing	44	83
6 to 12 months of the date of billing	74	151
	<u>5,162</u>	<u>5,442</u>

Debts are normally due within 60 days from the date of billing.

14. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company is unsecured, interest free, and has no fixed terms of repayment. The maximum amount outstanding during the six months ended 30 June 2004 was \$75,000 (the year ended 31 December 2003: \$75,000).

15. DEPOSITS WITH BANKS

All deposits with banks are denominated in Renminbi ("RMB") and kept in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balance out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

16. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free, and have no fixed terms of repayment.

17. TRADE AND OTHER PAYABLES

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Trade payable	12,281	9,379
Other payable and accrued liabilities	41,772	39,392
	<u>54,053</u>	<u>48,771</u>

All of trade and other payables are expected to be settled within one year.

An aging analysis of trade payable is as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Due within 3 months or on demand	<u>12,281</u>	<u>9,379</u>

18. INCOME TAX IN THE BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Provision for taxation:		
Hong Kong	—	—
Outside Hong Kong	13,836	12,660
	<u>13,836</u>	<u>12,660</u>

19. SHARE CAPITAL

	No. of shares ('000)	At 30 June 2004 and 31 December 2003 \$'000
<i>Authorised:</i>		
Ordinary shares of \$0.01 each	2,000,000	20,000
<i>Issued and fully paid:</i>		
At 1 January and 30 June 2004	835,000	8,350

20. COMMITMENTS

Capital commitments in respect of capital contributions to a subsidiary, outstanding at 30 June 2004 not provided for in the interim financial report were \$3,900,000 (at 31 December 2003: \$11,700,000).

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Capital contributions to the subsidiaries	3,900	11,700

21. Related party transactions

During the period, the Group had the following transactions with related parties:

	<i>Note</i>	Three months ended 30 June 2004		Six months ended 30 June 2004	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Sales	<i>(i)</i>	732	–	738	–
Purchases	<i>(ii)</i>	51	–	73	–

Notes:

- (i) The Group sold certain medical equipment and accessories to a minority shareholder of a subsidiary during the six months ended 30 June 2004 amounting to \$738,000 (2003: Nil).
- (ii) A minority shareholder of a subsidiary sold certain medical equipment and accessories to the Group during the six months ended 30 June 2004 amounting to \$73,000 (2003: Nil).
- (iii) At 30 June 2004, the Group had an outstanding balance of advance from the minority shareholder of a subsidiary which amounted to \$746,000 (2003: Nil). The maximum balance of advance from the minority shareholder during the period was \$1,454,000 (during the year 2003: Nil). The borrowing is interest free, unsecured and has no fixed repayment terms.

The Directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

Apart from the above there were no other material related party transactions entered into by the Group during the period.

BUSINESS REVIEW

For the six months ended 30 June 2004, the Group's revenue was generated from its principal operating subsidiaries, namely Tat Lung (Shenzhen), Tat Lung Treatment, Sino-Innova and China Best.

Since the second half of 2003, the negative impact on the revenues of the Group resulting from SARS has subsided. During the period under review, the Group recorded sales revenue and profit attributable to shareholders amounting to approximately \$17,460,000 (2003: \$11,961,000) and approximately \$3,100,000 (2003: \$1,660,000) respectively, up 46% and 87% as compared to the corresponding period of 2003.

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

1. During the first half of 2004, the Group paid visits, performed studies and research with respect to applications of RFAS equipment in hospitals and concluded the overall operation was satisfactory. The cooperation agreement entered into between the Group and 上海東方肝膽外科醫院 has expired. According to the said agreement, the relevant equipment was transferred to 上海東方肝膽外科醫院 at no consideration. 上海東方肝膽外科醫院 will continue to purchase related accessories from the Group. In addition, there were three hospitals, which had not been developing RFAS treatment for a long period of time, returning the RFAS equipment to the Group after negotiations with the Group. The Group shall repair the returned equipment and seek suitable hospitals in an effort to forge cooperation. As at 30 June 2004, there were still 61 RFAS treatment centers in hospitals which co-operated with the Group.
2. Fully automatic biochemical analyzers, namely B200 and B300, and the full series of semi-automatic biochemical analyzers, namely BS3000, BS3100 and BS3000P, manufactured by Sino-Innova are accredited with the certification of European CE. The full series of semi-automatic biochemical analyzers, namely BS3000, BS3100 and BS3000P was also registered and approved to be sold in the People's Republic of China ("PRC"). The ER series of Microplate reader ("酶標儀") passed the clinical test and its application for registration and distribution in China has been filed.
3. China Best has proceeded with the research and development of Chinese and western drugs as planned. Not only two Chinese drugs have been given clinical approval, but also there are four Chinese drugs undergoing toxin tests. Two Chinese drugs and one western drug pending for approval for clinical trial, one of which is a new drug under Category I, as well as one western drug ready for production approval.

4. The Group has been developing the 3-dimensional laparoscope and made its prototype. After four substantial modifications, the development for 3-dimensional laparoscope has been in its finalized stage, pending for clinical trial.

OUTLOOK

RFAS treatment

The Group will continue to maintain and consolidate its relationship with existing hospitals, and actively promotes applications for RFAS technologies and builds consolidated relationship with suitable hospitals. However, future revenues of RFAS treatment are subject to the following factors:

- i. According to contracts entered into with hospitals, co-operations with hospitals have entered into the third stage, representing a decrease in the share of revenues from hospitals by the Group from 70% to 60%.
- ii. Certain similar products manufactured overseas and domestically have been launched in the Chinese market, leading to increasingly fierce competition, thereby causing impact and negative influence on revenues of the Group's RFAS treatment.
- iii. Some hospitals and doctors would be interested in experimenting new alternative equipment.

Manufacture and sales of medical testing equipment

The Group will continue to promote domestic and overseas sales of automatic and semi-automatic biochemical analyzers and Coagulometer. There are various new products which passed expert reviews in July 2004 pending for production approvals, including F series Food component analyzers, Fully automatic immunology analyzers and blood analyzers. With respect to the ER series of Microplate reader, application for registration and distribution in China has been filed. It is expected to obtain such approval by the end of September of 2004.

Research, development and sales of drugs

The Group will continue to obtain the clinical trial approvals for a new drug under Category I. In the meantime, the Group will speed up the pace for development and research of Chinese and western drugs in an effort to promptly meet and pass requirements imposed by the relevant authorities, thereby deriving revenues to the Group from results of development and research.

Further development

The Group is actively exploring and introducing medical equipment with therapeutic merits and advanced technologies from overseas, incurring medical expenses which can be borne by the majority of the Chinese patients. The Group is negotiating with the relevant companies regarding to the sole distribution and sales of products, in particular including a contract entered into with a U.S. company, Rex Medical in the beginning of this year, according to which the Group was granted sole distribution and sales of its products in PRC. The Group is filing an application for registration of the above products to the State regulation authority for radio frequency therapeutic equipment. It is expected to complete the application and prepare the launch of those products in the fourth quarter of 2004.

FINANCIAL REVIEW

During the period under review, the basic earnings per share has increased by 85% to cents 0.37 (2003: cents 0.2) as compared to the corresponding period in 2003. The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004.

As at 30 June 2004, shareholders' funds of the Group amounted to approximately \$116,386,000 (2003: \$112,843,000). Current assets amounted to approximately \$113,775,000 (2003: \$101,516,000) of which approximately \$97,174,000 (2003: \$87,899,000) were cash and bank deposits. The Group's current liabilities amounted to approximately \$71,137,000 (2003: \$62,709,000) of which trade and other payable and short term loan represented approximately \$54,053,000 (2003: \$48,771,000) and \$1,885,000 (2003: \$nil) respectively. The Group obtained the said short term loan from a PRC Authorized Credit Union with pledge and security on June 2004. The gearing ratio of the Group calculated on the basis of short term loan over total assets. As at 30 June 2004, the Group had a gearing ratio of 0.98% (2003: nil).

The Group's transaction are denominated in Renminbi, Hong Kong dollars and US dollars. During the six months ended 30 June 2004, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangement.

A leasehold land at value of RMB1,168,000 is charged to secure the Group's short term loan.

Apart from the aforesaid, the Group held no other significant investment and made no other acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2004.

As at 30 June 2004, the Group had no material contingent liabilities.

Employees' information

As at 30 June 2004, the Group has 132 (2003: 147) employees. The total of employee remuneration, including that of the Directors, for the six months ended 30 June 2004 amounted to \$2,256,000 (2003: \$2,083,000).

In addition to the Share Option Scheme had conditional approved and adopted by the Company on 14 September 2001, the Group also provide a mandatory provident fund scheme for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation of the PRC.

USE OF PROCEEDS FROM THE PLACING OF NEW SHARES

From the date of listing on 31 December 2001, the Group invested approximately \$10.3 million, \$12.5 million and \$2.2 million on various business plans in the financial years ended 2002, 2003 and for the period ended 30 June 2004 respectively. The use of proceeds for the period ended 30 June 2004 was as follows.

Continual expansion of the the market and application of RFAS in the PRC	0.4 million
Research, development and sales of drugs	1.0 million
Research, development and production of medical testing instruments	0.8 million
	<hr/>
	total: <u>2.2 million</u>

The unused proceeds from Placing of new shares of approximately \$53,970,000 have been deposited in the Group's account in licensed banks.

OTHER INFORMATION

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

As at 30 June 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 minimum standards of dealing by Directors as referred to in rule 5.46 of GEM Listing rules were as follows:

Long position in the Company's shares

Name	Number of ordinary shares of \$0.01 each (the "Shares") in the share capital of the Company held	Nature of interests	Percentage of interest
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
Mr. Li Wo Hing	32,800,000 212,320,000	Personal Corporate (Notes 1 & 2)	3.93% 25.43%
	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%
	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	2.93%

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 Discloseable Under the SFO and Substantial Shareholders" below.

Save as disclosed above, as at 30 June 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 the required standards of dealing by Directors, 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 30 June 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 review period 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.

INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 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	Number of Shares held	Capacity	Percentage of interests
1. PMM (Note)	212,320,000	Beneficial owner	25.43%
2. China Equity Associates L.P.	85,200,000	Beneficial owner	10.20%

Note: As at 30 June 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 30 June 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 period under review.

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

During the six months ended 30 June 2004, 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

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the six months ended 30 June 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.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2004. Having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and required standard of dealings throughout the six months ended 30 June 2004.

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 deals 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.

On 8 June 2004, Mr. Han K. Huang resigned as independent non-executive director and a member of the Company's audit committee. Subsequent to Mr. Han K. Huang's resignation, the Company's audit committee is composed of the two remaining independent non-executive directors, namely Messrs. Guo Guoqing and Fan Wan Tat.

We understand that according to the transactional provisions set out in Rules 5.08 and 5.28 the GEM Listing Rules, by 30 September 2004, a listed issuer whose securities were admitted to listing on or before 31 March 2004 (i) must have three independent non-executive directors and at least one of them must have appropriate professional qualifications or accounting or related financial management expertise; and (ii) must establish an audit committee which must comprise a minimum of 3 members and at least one of them should be an independent non-executive director with appropriate professional or accounting or related financial management expertise. Since the share of the Company was admitted to listing on 31 December 2001, such transactional provisions applies; hence, the Company will appoint at least one additional independent non-executive director and audit committee member who has appropriate professional qualifications or accounting or related financial management expertise by 30 September 2004.

The Group's unaudited consolidated results for the six months ended 30 June 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standard.

CORRECTION OF ERRATUM OF ANNUAL REPORT 2003

Reference is made to the Annual Report 2003. The date of the Chairman Statement and the Auditors' Report of the Annual Report 2003 were wrongly stated as 29 March 2003 and 3 March 2003 respectively due to a printing error, and the correct date of the said Statement and Report should be 29 March 2004.

The Company would like to apologize for any inconvenience caused by the above-mentioned erratum on the Annual Report 2003.

By order of the Board
Li Ngau Kuk, James
Chairman

Hong Kong 13 August 2004