



MEDICAL CHINA LIMITED

(incorporated in Bermuda with limited liability)

THIRD 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2004 amounted to approximately HK\$25,459,000, representing an increase of 26.7% as compared to that of the corresponding period in 2003.
- For the nine months ended 30 September 2004, the Group achieved a net profit attributable to shareholders of approximately HK\$4,768,000, representing an increase of approximately 27.6% as compared to that of the corresponding period in 2003.
- For the nine months ended 30 September 2004, earnings per share is 0.57 HK cents.
- The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2004.

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 nine months ended 30 September 2004, together with the comparative figures for the corresponding period of 2003 is as follows:

CONSOLIDATED INCOME STATEMENTS

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2004 (Unaudited) \$'000	2003 (Unaudited) \$'000	2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
TURNOVER	2	7,999	8,138	25,459	20,099
Cost of services/sales		(2,716)	(2,629)	(11,005)	(8,436)
Gross Profit		5,283	5,509	14,454	11,663
Other income		1,069	1,637	3,411	4,119
Selling and distribution expenses		(1,382)	(1,600)	(3,020)	(3,133)
Administration expenses		(1,927)	(2,730)	(6,593)	(7,077)
Other operating expenses		(843)	(1)	(1,875)	(49)
Profit from operation		2,200	2,815	6,377	5,523
Finance cost		(34)	-	(38)	-
Share of loss of an associate		-	(33)	(5)	(209)
Profit before taxation		2,166	2,782	6,334	5,314
Taxation	3	(420)	(644)	(1,615)	(1,494)
Profit before Minority Interests		1,746	2,138	4,719	3,820
Minority interests		(78)	(63)	49	(85)
Profit attributable to shareholders		1,668	2,075	4,768	3,735
Earnings per share	4				
Basic and diluted (in Hong Kong cents)		0.20	0.25	0.57	0.45

NOTES ON THE UNAUDITED FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

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 sales 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 fee 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 September		Nine months ended 30 September	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Medical services fees and sales of related accessories	4,395	6,487	16,564	16,064
Sales of testing equipment	2,159	1,651	7,147	4,035
Research and development services	1,445	—	1,748	—
	<u>7,999</u>	<u>8,138</u>	<u>25,459</u>	<u>20,099</u>

3. TAXATION

Taxation in the consolidated income statement represents:

	Three months ended 30 September		Nine months ended 30 September	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Current tax – PRC Tax for the period	<u>420</u>	644	<u>1,615</u>	1,494
	<u>420</u>	<u>644</u>	<u>1,615</u>	<u>1,494</u>

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 30 September 2004 (2003: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the periods.

(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 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 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.

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 2004 is based on the profit attributable to shareholders of \$1,668,000 (2003: \$2,075,000) and \$4,768,000 (2003: \$3,735,000) 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 nine months ended 30 September 2004 and 2003 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 nine months ended 30 September 2004 (2003: Nil).

6. RESERVES

	Share premium	Contributed surplus	Exchange reserve	General reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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>
At 1 January 2004	70,733	5,265	(405)	5,783	23,117	104,493
Currency translation differences	-	-	382	-	-	382
Net profit for the period	-	-	-	-	4,768	4,768
At 30 September 2004	<u>70,733</u>	<u>5,265</u>	<u>(23)</u>	<u>5,783</u>	<u>27,885</u>	<u>109,643</u>

FINANCIAL REVIEW

The Group's turnover for the nine months ended 30 September 2004 was approximately \$25,459,000, representing an increase of 26.7% as compared to the corresponding period 2003. The profits attributable to shareholders for nine months ended 30 September 2004 was approximately \$4,768,000, increase of 27.6% over the corresponding period in 2003.

The Group's turnover for three months ended 30 September 2004 was approximately \$7,999,000, representing a slight decrease as compared to the corresponding period in 2003. The profits attributable to shareholders for the three months ended 30 September, 2004 was approximately \$1,668,000, representing a decrease of 19.6% as compared to the corresponding period in 2003.

BUSINESS REVIEW

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

During the period under review, the Group recorded sales revenue and profit attributable to shareholders amounting to approximately \$25,459,000 (2003: \$20,099,000) and approximately \$4,768,000 (2003: \$3,735,000) respectively, up 26.7% and 27.6% as compared to the corresponding period of 2003.

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

1. The Group recorded revenue from RFAS treatment of patients at RFAS treatment centers established by its subsidiary Tat Lung (Shenzhen) and hospitals in PRC. A cooperation agreement entered into between the Group and a hospital has expired during the period under review. According to the said agreement, the relevant equipment was transferred to the hospital at no consideration. The hospital will continue to purchase related accessories from the Group. In addition, there were seven 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 September 2004, there were still 57 RFAS treatment centers in hospitals which cooperated with the Group.
2. Sino-Innova continued to manufacture and sell self-made automatic and semi-automatic biochemical analyzers. It also expanded the sales of its products to a number of overseas countries and the PRC market.
3. China Best continued to proceed with the research and development of Chinese and western drugs as planned and filed related applications for approval with the relevant drug regulatory authorities.
4. The Group has been further developing as planned the 3-dimensional laparoscope to speed up the pace 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.

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 during the period under review 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 2004.

Research and development 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, including in particular 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 in PRC of its product "Quadra-Fuse Multi-Pronged Injection Needle", a new equipment for treating liver cancer with tumour in diameter of over 4cm. 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.

OTHER INFORMATION

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 30 September 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 the GEM Listing Rules were as follows:

Long position in the Company's shares:

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
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: <u>245,120,000</u>		Aggregate: <u>29.36%</u>
Mr. Ng Kwai Sang	32,800,000 212,320,000	Personal Corporate (Notes 1 & 2)	3.93% 25.43%
	Aggregate: <u>245,120,000</u>		Aggregate: <u>29.36%</u>
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 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 September 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 rule 5.46 of the GEM Listing Rules relating to minimum 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 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 30 September 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 September 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 30 September 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 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 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 nine months ended 30 September 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 nine months ended 30 September 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 dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 September 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 nine months ended 30 September 2004.

AUDIT COMMITTEE

As required by 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 30 September 2004, Dr. Tam Wai Leung, Joseph was appointed as an independent non-executive director and a member of the Company's audit committee. Subsequent to Dr. Tam Wai Leung, Joseph's appointment, the Company's audited committee is composed of three independent non-executive directors, namely Messrs. Guo Guoqing, Fan Wan Tai and Dr. Tam Wai Leung, Joseph.

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

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong 11 November 2004