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MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

DISCLOSEABLE TRANSACTION AND SUSPENSION AND RESUMPTION OF TRADING

The Board is pleased to announce that, Tat Lung HK, which is the wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Ms. Wang on 20 December 2004 pursuant to which Tat Lung HK has agreed to sell the Equity Interest in Tat Lung Shenzhen, a wholly-owned subsidiary of Tat Lung HK, to Ms. Wang.

Pursuant to the Equity Transfer Agreement, the consideration in respect of the Disposal is in the sum of HK\$5,000,000. On completion of the transfer of the Equity Interest, Tat Lung Shenzhen will be wholly owned by Ms. Wang and cease to be the wholly-owned subsidiary of Tat Lung HK and the indirect wholly-owned subsidiary of the Company.

The terms of the Equity Transfer Agreement were negotiated on an arm's length basis with reference to the unaudited net asset value of Tat Lung Shenzhen as at 1 December 2004. The Directors consider that the terms of the Equity Transfer Agreement are fair and reasonable and the Disposal is in the interest of the Group and the Shareholders as a whole.

The Company confirms that to the best of the knowledge, information and belief of the Board and the board of Tat Lung HK having made all reasonable enquiries, Ms. Wang is a third party independent of the Company and connected persons of the Company.

As the Disposal constitutes a discloseable transaction of the Company under the GEM Listing Rules, a circular containing details of the Disposal shall be despatched to the Shareholders within 21 days after the publication of this announcement.

The Board has noted the decrease in the price of the Company on Monday, 20 December 2004. Yet the Board is not aware of any reason for such unusual movement.

Save and except for what has been stated in this announcement, the Board also confirms that there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Chapters 19 and 20 of the GEM Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by rule 17.10 of the GEM Listing Rules, which is or may be of a price-sensitive nature.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 21 December 2004, pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 24 December 2004.

EQUITY TRANSFER AGREEMENT

Date

20 December 2004

Parties

- (1) Vendor: Tat Lung HK
- (2) Purchaser: Ms. Wang

The Company confirms that to the best of the knowledge, information and belief of the Board and the board of Tat Lung HK having made all reasonable enquiries, Ms. Wang is a third party independent of the Company and connected persons of the Company. Save and except for being the Purchaser under the Equity Transfer Agreement, Ms. Wang has no previous business dealings with the Group or its connected persons. The Company understands that Ms. Wang is a merchant carrying on business in the PRC.

Disposal

Pursuant to the Equity Transfer Agreement, Tat Lung HK, which is the wholly-owned subsidiary of the Company, has agreed to sell the Equity Interest in Tat Lung Shenzhen, a wholly-owned subsidiary of Tat Lung HK, to Ms. Wang and Ms. Wang has agreed to purchase the Equity Interest from Tat Lung HK.

Consideration

The consideration of the Disposal was HK\$5,000,000. The consideration is to be paid in cash or via the transfer of funds into bank account within 20 days from the date of the Equity Transfer Agreement. The consideration was determined after arm's length negotiations between Tat Lung HK and Ms. Wang with reference to the unaudited net asset value of Tat Lung Shenzhen as at 1 December 2004.

As at 1 December 2004, the unaudited net asset value of Tat Lung Shenzhen approximately amounted to RMB5,307,750 (approximately equivalent to HK\$5,007,311). The consideration under the Equity Transfer Agreement, which was in the sum of HK\$5,000,000, is about the same as the unaudited net asset value of Tat Lung Shenzhen and equals to the investment cost of Tat Lung HK towards Tat Lung Shenzhen.

As at 1 December 2004, approximately 95% of the assets of Tat Lung Shenzhen consist of the trade receivables and other receivables, and the remaining asset of Tat Lung Shenzhen is cash. Approximately 45% of the liabilities of Tat Lung Shenzhen consists of other payables and approximately 54% of the liabilities of Tat Lung Shenzhen is tax payables. The trade receivables represent all trading receivables generated by the business operation carried out by Tat Lung Shenzhen for the period from 1 January 2004 to 30 November 2004. The other receivables represent non-trading loans, advances created or made by Tat Lung Shenzhen to debtors other than trade related debtors (such as corporate members of the Group). The other payables represent non-trading debts of Tat Lung Shenzhen due to creditors other than trade related creditors (such as service providers and utilities companies). The tax payables represent the tax payable by Tat Lung Shenzhen to the tax authorities in the PRC. The other payables and tax payables are disposed of with Tat Lung Shenzhen.

As the assignments and transfers of the trade receivables and some other receivables are subject to the consents or approvals of various third party debtors, third party creditors and/or the relevant governmental authorities, such consents or approvals are difficult to procure or obtain. Invoices for the trade receivables were issued by the relevant creditors. The creditors are very reluctant to change the invoices. Such change in invoices may be in breach of the laws of the PRC without consent of the relevant governmental or other authorities of PRC. However, disposal of the trade receivables under the Disposal is not subject to any consent or approval of any PRC governmental or other authorities. So the trade receivables and other receivables are not transferred to Tat Lung Technology and are disposed of with Tat Lung Shenzhen and the credit risks associated with such receivables are transferred to Ms. Wang (without recourse to Tat Lung HK and the Company) upon completion of the Equity Transfer Agreement.

The trade payables (representing the trading payables to vendors and suppliers created by the business operation carried out by Tat Lung Shenzhen for the period from 1 January 2004 to 30 November 2004) have been transferred to Tat Lung Technology by way of novation with consents of all the relevant creditors. As such those trade payables are in the name of Tat Lung Technology and not in Tat Lung Shenzhen.

From 1 December 2004, the assets and businesses previously carried out by Tat Lung Shenzhen were taken over by Tat Lung Technology. As such all trade receivables and trade payables of such businesses from 1 December 2004 are under Tat Lung Technology.

No prior approval of relevant PRC governmental or other authority is required for the Disposal (including trade receivables, other receivables and cash, and other payables and tax payables as mentioned above) contemplated by the Equity Transfer Agreement, though there are some administrative approvals and registration procedures to follow so as to complete the formalities of the Disposal. Following the full payment of the consideration and the completion of the said approvals and procedures, the Equity Interest in Tat Lung Shenzhen will be transferred from Tat Lung HK to Ms. Wang, and Tat Lung Shenzhen will cease to be the wholly-owned subsidiary of Tat Lung HK and the indirect wholly-owned subsidiary of the Company.

Reason for and benefit of entering into the Equity Transfer Agreement

In the period from about or around November 2003 to 30 November 2004, the Group has undergone a corporate restructuring whereby the businesses carried out, all business contracts concluded by Tat Lung Shenzhen and all medical equipment were transferred and assigned to Tat Lung Technology, a wholly-owned subsidiary of the Company, upon the necessary consents of the third parties concerned. Such transfers and assignments completed on 30 November 2004. Since then, Tat Lung Shenzhen has ceased to carry on any business for the Group. As at the date of this announcement, Tat Lung Shenzhen is no longer one of the main business arms of the Group as stated in the Third Quarterly Report 2004 of the Company and Tat Lung Technology, having acquired the businesses, the business contracts and medical equipment of Tat Lung Shenzhen, becomes one of the key business arms of the Group.

As all the businesses of the Group previously carried out and conducted through Tat Lung Shenzhen have been transferred and assigned to Tat Lung Technology and remain in and are retained by the Group, the Directors do not expect there is any material change in the profits and revenue of the Group as a result of the Disposal.

To simplify the corporate structure of the Group and realize the investment cost (i.e. registered capital of Tat Lung Shenzhen paid by the Group in the sum of HK\$5,000,000) of the Group in Tat Lung Shenzhen, Tat Lung HK has agreed to dispose of the Equity Interest pursuant to the Equity Transfer Agreement. The Directors consider that the terms of the Agreement are fair and reasonable and in the interest of the Shareholders as a whole. As at the date of this announcement, the proceeds from the Disposal, which is in the sum of HK\$5,000,000, are intended for general working capital of the Group. Nonetheless, the Group will look for favourable investment opportunities and make good use of the proceeds where appropriate. Given the fact that the consideration under the Equity Transfer Agreement is about the same as the unaudited net asset value of Tat Lung Shenzhen as at 1 December 2004 and approximately equals to the investment cost of Tat Lung HK towards Tat Lung Shenzhen, the Directors do not expect that there is any gain or loss accrued to the Company. After the Disposal Tat Lung HK will only hold interest in a PRC joint venture company engaging in the business of selling health products. The Company will disclose details of the above corporate restructuring in its forthcoming annual report for the year 2004.

Discloseable Transaction

As the Disposal constitutes a discloseable transaction of the Company pursuant to Chapter 19 of the GEM Listing Rules, a circular containing details of the Transactions shall be despatched to the Shareholders within 21 days after the publication of this announcement.

INFORMATION ABOUT THE GROUP

The Company is an investment holding company of the Group. The Group is principally engaged in the research, development and provision of medical devices for cancer treatment, including RFAS (a system that employs radio frequency ablation to cause necrosis of targeted tissue by heating it to high temperatures) and 3-dimensional laparoscope, and promotion of sales of anti-cancer drugs in the PRC. At present, the Group provides its assets, being RFAS, for the setting up of cancer treatment centers with the contracted hospitals in the PRC. Tat Lung HK is an investment holding company. Tat Lung Shenzhen only operated for the period from 1 January 2004 to 30 November 2004 and has no operation since 1 December 2004.

Prior to the corporate restructuring mentioned hereinabove, Tat Lung Shenzhen was engaged in the provision of medical equipment and related services to provide technical support for the operation of the medical equipment. For the year ended 31 December 2002, the audited net profits before and after taxation were approximately RMB37,626,827 (approximately equivalent to HK\$35,497,007) and RMB31,982,803 (approximately equivalent to HK\$30,172,456) respectively. For the year ended 31 December 2003, the audited net profits before and after taxation were approximately RMB18,976,465 (approximately equivalent to HK\$17,902,325) and RMB16,129,996 (approximately equivalent to HK\$15,216,977) respectively.

Also, prior to the corporate restructuring mentioned hereinabove, Tat Lung Technology, a wholly-owned subsidiary of the Company, was established to focus on various kinds of medical software development. After completion of the said corporate restructuring, Tat Lung Technology, in addition to its existing business, is engaged in businesses previously carried out by Tat Lung Shenzhen as mentioned above.

The Board has noted the decrease in the price of the Company on Monday, 20 December 2004, and wish to state that the Board is not aware of any reason for such unusual movement.

Save and except for what has been stated in this announcement, the Board also confirms that there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Chapters 19 and 20 of the GEM Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by rule 17.10 of the GEM Listing Rules, which is or may be of a price-sensitive nature.

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DEFINITIONS

The following terms are used in this announcement:

“Board”	the board of directors of the Company
“Company”	Medical China Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the GEM
“connected person”	has the meaning as defined in the GEM Listing Rules
“Directors”	the directors of the Company
“Disposal”	the sale of the Equity Interest by Tat Lung HK to Ms. Wang
“Equity Interest”	all the equity interest in the registered capital of Tat Lung Shenzhen registered in the name of Tat Lung HK
“Equity Transfer Agreement”	the agreement entered into between Tat Lung HK and Ms. Wang on 20 December 2004 in respect of the Disposal

“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Ms. Wang”	Ms. Wang You Ling, an individual who has agreed to purchase the Equity Interest under the Equity Transfer Agreement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tat Lung HK”	Tat Lung Medical Treatment Technology Limited, an indirect wholly-owned subsidiary of the Company and an investment holding company incorporated in Hong Kong with limited liability
“Tat Lung Shenzhen”	達隆醫療科技(深圳)有限公司 (Tat Lung Medical Treatment Technology (Shenzhen) Limited*), a wholly-owned subsidiary of Tat Lung HK and an indirect wholly-owned subsidiary of the Company and a company registered and established in Shenzhen, the PRC with limited liability in 2000
“Tat Lung Technology”	達隆醫學技術(深圳)有限公司 (Tat Lung Medical Technology (Shenzhen) Limited*), a wholly-owned subsidiary of the Company and a company established in Shenzhen, the PRC with limited liability in 2003

Conversion of RMB to HK\$ is based on the exchange rate of RMB1.06 = HK\$1.00.

On behalf of the Board
Li Wo Hing
Executive Director

Hong Kong, 23 December 2004

As at the date of this announcement, the board of directors of the Company comprises Mr. Li Nga Kuk, James, Mr. Li Wo Hing and Mr. Li Tai To Titus as Executive Directors, Mr. Chen Minshan as Non-executive Director and Mr. Guo Guoqing, Mr. Fan Wan Tat and Mr. Tam Wai Leung, Joseph as Independent Non-executive Directors.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Company Announcement” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its publication.

* *For identification purpose only*