



Medical China Limited

(Incorporated in Bermuda with limited liability)

First Quarterly Report 2005

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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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Medical China Limited. The directors of Medical China Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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 2005 amounted to approximately HK\$4,442,000 representing a decrease of 37% as compared to that of the corresponding period in 2004.
- For the three months ended 31 March 2005, the Group's net loss attributable to shareholders amounted to approximately HK\$922,000, versus a net profit of approximately HK\$828,000 for the corresponding period in 2004.
- For the three months ended 31 March 2005, loss per share is 0.11 Hong Kong cents (2004: Earnings per share: 0.10 Hong Kong cents).
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: 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 2005, together with the comparative unaudited figures for the corresponding period of 2004 as follows:

| | Note | For the three months ended 31 March | |
|---|------|--|---------------------------------|
| | | 2005 HK\$'000 (Unaudited) | 2004 HK\$'000 (Unaudited) |
| TURNOVER | 2 | 4,442 | 7,097 |
| Cost of services/sales | | (2,599) | (4,165) |
| Gross profit | | 1,843 | 2,932 |
| Other income | | 1,084 | 1,224 |
| Selling and distribution expenses | | (1,337) | (907) |
| Administration expenses | | (2,067) | (2,007) |
| Other operating expenses | | (472) | – |
| (Loss)/profit from operations | | (949) | 1,242 |
| Finance cost | | (34) | – |
| Share of profit of an associate | | – | 8 |
| (Loss)/profit before taxation | | (983) | 1,250 |
| Income tax | 3 | (204) | (428) |
| (Loss)/profit after taxation | | (1,187) | 822 |
| Loss shared by minority interests | | 265 | 6 |
| (Loss)/profit attributable to shareholders | | (922) | 828 |
| (Loss)/earnings per share (In Hong Kong cents) | | | |
| – Basic | 4 | (0.11) | 0.10 |



Note:

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 Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not adopted these new HKFRSs in the financial statements for the three months ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

This financial information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities of the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “GEM Listing Rules”).

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 2004.

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 medical 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 recognised during the period may be analysed as follows:

| | For the three months ended 31 March | |
|--|--|-------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Medical service fees and sale of related accessories | 2,257 | 4,560 |
| Sale of testing equipment | 1,963 | 2,236 |
| Research and development services | 222 | 301 |
| | 4,442 | 7,097 |

3. INCOME TAX

No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2005 (2004: nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

The Company's subsidiary, Tat Lung Medical Treatment (Shenzhen) Ltd. ("Tat Lung Treatment") located in the Shenzhen Special Economic Zone in the PRC is subject to PRC income tax at a reduced rate of 15% (2004: 15%).

No provision for income tax has been made in respect of the Company's other PRC subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), Sinnowa Medical Science & Technology Co., Ltd. ("Sinnowa") and China Best Pharmaceutical (Nanjing) Company Limited ("CB Pharmaceutical"), as they did not have assessable profits for the three months ended 31 March 2005 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 (2004: nil).



4. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 31 March 2005 is based on the loss attributable to shareholders of HK\$922,000 (2004: profit of HK\$828,000) divided by the weighted average number of 835,000,000 (2004: 835,000,000) ordinary shares in issue during the relevant period.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share has not been presented as there was no dilutive potential ordinary share in existence during the periods.

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: nil).

6. RESERVES

| | Share Premium <i>HK\$'000</i> | Contributed Surplus <i>HK\$'000</i> | Exchange Reserve <i>HK\$'000</i> | General Reserve <i>HK\$'000</i> | Retained Profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------|-------------------------------------|---|--|---------------------------------------|--|--------------------------|
| 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 | 70,733 | 5,265 | (50) | 5,783 | 23,945 | 105,676 |
| At 1 January 2005 | 70,733 | 5,265 | (100) | - | 32,460 | 108,358 |
| Exchange difference | - | - | 79 | - | - | 79 |
| Net loss for the period | - | - | - | - | (922) | (922) |
| At 31 March 2005 | 70,733 | 5,265 | (21) | - | 31,538 | 107,515 |



FINANCIAL REVIEW

The Group's turnover for the three months ended 31 March 2005 amounted to approximately HK\$4,420,000 representing a decrease of 37% as compared with the corresponding period of last year. The decrease was mainly attributed to the decrease in the share of revenue from the co-operation contracts entered with the hospitals and the continuous increasing competition of RFAS treatment business in the PRC.

The Group's net loss attributable to shareholders for the three months ended 31 March 2005 amounted to approximately HK\$922,000, whereas the Group recorded a net profit of approximately HK\$828,000 for the corresponding period of last year.

The operating expenditures for the three months ended 31 March 2005 amounted to approximately HK\$3,876,000, representing an increase of 33% as compared with the corresponding period of last year. The increase was mainly attributed to the increase in exhibition expenses for medical testing equipment business and research and development expenses for drugs and medicine business.

As at 31 March 2005, the Group obtained a bank loan amounted to approximately HK\$1,885,000 (2004: nil). The bank loan was secured by a charge on the land of the Group with an aggregate carrying value of HK\$1,083,000 at 31 March 2005.

BUSINESS REVIEW

For the period ended 31 March 2005, the Group's revenue was generated from its principal operating subsidiaries, namely, Tat Lung Treatment, Sinnowa and China Best.

As at 31 March 2005, the number of RFAS tumour therapeutic centers established by the Group with hospitals in the PRC remained at 56. However, the share of revenues from the existing co-operation contracts entered with the PRC hospitals had decreased to 60%.



The production of a new series of automatic biochemical analyzers was completed. Three models of BS-series semi-automatic biochemical analyzers has been in batch production. Some patents and biochemical reagents were applied and developed by the Group during the period.

The Group has proceeded with the research and development of various Chinese and Western drugs and medicines as planned.

OUTLOOK

The directors believe the market demand for the Group's products and services will grow continuously. Therefore, the Group will keep on diversifying its business into provision of the RFAS tumour equipment and relevant services to various hospitals in the PRC; manufacture and sales of medical testing equipment and provision of research and development services of drugs and medicines.

The Group is looking for opportunities in the PRC and will utilize its expertise and connections with the hospital network aiming to increase its revenues.

OTHER INFORMATION

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

At 31 March 2005, the interests and 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")) 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 standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Interests 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 | Personal | 3.93% |
| | <u>212,320,000</u> | Corporate (Note) | <u>25.43%</u> |
| | Aggregate: <u>245,120,000</u> | | Aggregate: <u>29.36%</u> |
| Mr. Li Tai To, Titus | 16,400,000 | Personal | 1.96% |

Note: 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. At 2 February 2005, Mr. Li Wo Hing purchased 7,142 shares of PMM, which represented 35.71% of total issued shares of PMM, from Mr. Ng Kwai Sang. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 shares held directly by PMM.



Save as disclosed above, as at 31 March 2005, 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 any of 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 minimum standard of dealings 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 a 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 2005, none of the directors or chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries or its holding company a party to any arrangement to enable the 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 DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2005, 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 2005, 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 64.28% 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. 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 2005, so far as is known to any directors 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' INTERESTS 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 2005.



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

During the three months ended 31 March 2005, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) 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.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the three months ended 31 March 2005, 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.

As required by the Rules 5.28 to 5.33 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 Tat and Tam Wai Leung, Joseph.

The Committee members have reviewed the quarterly report for the three months ended 31 March 2005.



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 three months ended 31 March 2005. Having made specific enquiry of all directors of the Company, the Company's directors confirmed that they have complied with such code of conduct and required standard of dealings throughout the three months ended 31 March 2005.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 12 May 2005