



Medical China Limited

(Incorporated in Bermuda with limited liability)

Third Quarterly Report 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 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 of Medical China Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; 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 2005 amounted to approximately HK\$23,027,000, representing a decrease of 9.6% as compared to that of the corresponding period in 2004.
- For the nine months ended 30 September 2005, the Group sustained a net loss attributable to shareholders of approximately HK\$1,951,000, versus a net profit of approximately HK\$4,768,000 for the corresponding period in 2004.
- For the nine months ended 30 September 2005, loss per share is 0.23 Hong Kong cents (2004: Earnings per share 0.57 Hong Kong cents).
- The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: HK\$Nil).



RESULTS (UNAUDITED)

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 2005, together with the comparative unaudited figures for the corresponding periods of 2004 as follows:

CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)	2005 \$'000 (Unaudited)	2004 \$'000 (Unaudited)
TURNOVER	2	10,489	7,999	23,027	25,459
Cost of services/sales		(3,967)	(2,716)	(11,181)	(11,005)
Gross profit		6,522	5,283	11,846	14,454
Other income		624	1,069	1,517	3,411
Selling and distribution expenses		(1,726)	(1,382)	(4,953)	(3,020)
Administration expenses		(2,612)	(1,927)	(7,015)	(6,593)
Other operating expenses		(2,173)	(843)	(3,329)	(1,875)
Profit/(loss) from operations		635	2,200	(1,934)	6,377
Finance cost		(100)	(34)	(211)	(38)
Share of loss of an associate		–	–	–	(5)
Profit/(loss) before taxation		535	2,166	(2,145)	6,334
Income tax	3	584	(420)	–	(1,615)
Profit/(loss) after taxation		1,119	1,746	(2,145)	4,719
Attributable to:					
Equity holders of the parent		910	1,668	(1,951)	4,768
Minority interests		209	78	(194)	(49)
Profit/(loss) after taxation		1,119	1,746	(2,145)	4,719
Earnings/(loss) per share	4				
Basic (in Hong Kong cents)		0.11	0.20	(0.23)	0.57



Notes:

1. BASIS OF PREPARATION

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (which also include Hong Kong Accounting Standards (“HKAS”) and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The financial information has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies have been set out in the interim report, dated 10 August 2005, of the Company for the six months ended 30 June 2005.

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 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:

	Three months ended 30 September		Nine months ended 30 September	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Medical equipment service fees and sale of related accessories	5,552	4,395	12,100	16,564
Sale of testing equipment	4,937	2,159	10,705	7,147
Research and development services	–	1,445	222	1,748
	10,489	7,999	23,027	25,459



3. INCOME TAX

Taxation in the consolidated income statement represents:

	Three months ended 30 September		Nine months ended 30 September	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current tax – PRC Income Tax for the period	(584)	420	–	1,615
	(584)	420	–	1,615

(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 2005 (2004: HK\$Nil) as the Group did not have assessable profits chargeable to Hong Kong Profits Tax during the periods.

(ii) PRC Income Tax

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 income tax at a reduced rate of 15% (2004: 15%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment obtained approval from the state tax bureau that they are entitled to a 100% relief from PRC Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any. The over-provision of PRC Income Tax in an amount of HK\$584,000 for the first half year of 2005 by Tat Lung Treatment has been written back in the third quarter of the year.

No provision for PRC Income Tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), Sinoowa Medical Science & Technology Company Ltd. ("Sinoowa") and China Best Pharmaceutical (Nanjing) Company Limited ("CB Pharmaceutical"), as they did not have assessable profits for the nine months ended 30 September 2005 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 did not have any material deductible or taxable temporary difference (2004: HK\$Nil).



4. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 30 September 2005 is based on the profit attributable to equity shareholders of HK\$910,000 (2004: profit of HK\$1,668,000) and the loss attributable to equity shareholders of HK\$1,951,000 (2004: profit of HK\$4,768,000) respectively divided by the weighted average number of 835,000,000 (2004: 835,000,000) ordinary shares in issue during the relevant periods.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share for the three months and nine months ended 30 September 2005 and 30 September 2004 respectively has 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 2005 (2004: HK\$Nil).



6. RESERVES

	Share premium \$'000	Con- tributed surplus \$'000	Exchange reserve \$'000	General reserve \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total \$'000
At 1 January 2004	70,733	5,265	(405)	5,783	23,117	104,493	4,062	108,555
Net gains and losses not recognised in the consolidated income statement								
– Currency translation differences	–	–	382	–	–	382	17	399
Net profit/(loss) for the period	–	–	–	–	4,768	4,768	(49)	4,719
At 30 September 2004	70,733	5,265	(23)	5,783	27,885	109,643	4,030	113,673
At 1 January 2005	70,733	5,265	(100)	–	32,460	108,358	3,784	112,142
– Adjustment on retained profits in respect of amortization of negative goodwill	–	–	–	–	3,089	3,089	–	3,089
– As restated	70,733	5,265	(100)	–	35,549	111,447	3,784	115,231
Net gains and losses not recognised in the consolidated income statement								
– Currency translation differences	–	–	734	–	–	734	74	808
Net loss for the period	–	–	–	–	(1,951)	(1,951)	(194)	(2,145)
At 30 September 2005	70,733	5,265	634	–	33,598	110,230	3,664	113,894



FINANCIAL REVIEW

The Group's turnover for the nine months ended 30 September 2005 amounted to approximately HK\$23,027,000, representing a decrease of 9.6% as compared with the corresponding period of last year. The Group's net loss attributable to shareholders for the nine months ended 30 September 2005 amounted to approximately HK\$1,951,000, whereas the Group recorded a net profit of approximately HK\$4,768,000 for the corresponding period of last year.

The Group's turnover for three months ended 30 September 2005 amounted to approximately HK\$10,489,000 representing an increase of 31.1% as compared with the corresponding period of last year. The profit attributable to shareholders for the three months ended 30 September 2005 amounted to approximately HK\$910,000 representing a decrease of 45.4% as compared with the corresponding period of last year.

As at 30 September 2005, the Group obtained a bank loan amounted to approximately HK\$4,794,000 (31 December 2004: HK\$1,880,000). The bank loan was pledged and secured by the interest in leasehold land held for own use under an operating lease at carrying value of HK\$1,082,000 at 30 September 2005 (31 December 2004: HK\$1,089,000).

BUSINESS REVIEW

For the nine months ended 30 September 2005, the Group's turnover was generated from provision of RFAS tumour equipment and relevant auxiliary services to various hospitals in the PRC; manufacture and sale of medical testing equipment and software; and provision of research and development services of Chinese and western drugs and medicines.

As at 30 September 2005, the number of RFAS tumour therapeutic centers established by the Group jointly with hospitals in the PRC decreased to 40. Further, the number of such centers will continue to decrease in the fourth quarter of 2005.

The production and sale of automatic biochemical analyzers, semi-automatic biochemical analyzers and coagulometer have been increased during the three months ended 30 September 2005 to HK\$4,937,000. The registration process of 10 biochemical reagents was completed.



The Group has continued to proceed with the research and development of various Chinese and western drugs and medicines as planned.

OUTLOOK

The Group will keep on strengthening and expanding the existing businesses. The Group forecast the sale of testing equipment will be increased in the fourth quarter of 2005.

In order to achieve business diversification, the Group continues to seek further business opportunities with development potential in order to increase the future stream of revenue of the Group.

OTHER INFORMATION

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

As at 30 September 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 standards of dealings by directors as referred to in Rule 5.46 to 5.67 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%
	212,320,000	Corporate (<i>Note</i>)	25.43%
	Aggregate: 245,120,000		Aggregate: 29.36%
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 30 September 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 to 5.67 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 30 September 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 DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 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 (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 September 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 30 September 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 nine months ended 30 September 2005.

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

During the nine months ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPETING OF 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 nine months ended 30 September 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 (the "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.

The Committee comprises three independent non-executive directors, namely Messrs. Guo Guoqing, Fan Wan Tat and Tam Wai Leung, Joseph.

The Group's unaudited consolidated results for the nine months ended 30 September 2005 have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with applicable accounting standards.

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 nine months ended 30 September 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 nine months ended 30 September 2005.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 11 November 2005