



# Medical China Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 8186

Medical China

First Quarterly Report 2006



## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“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.

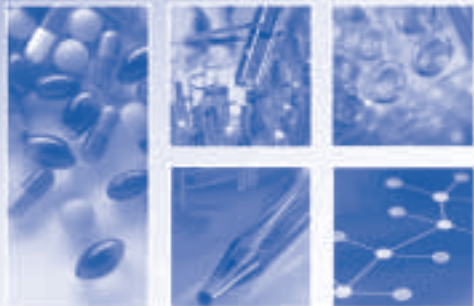
Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 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 Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the “GEM Listing Rules”) 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.

# Medical China



## HIGHLIGHTS

- Turnover for the three months ended 31 March 2006 amounted to approximately HK\$9,220,000, representing an increase of 108% as compared to that of the corresponding period in 2005.
- For the three months ended 31 March 2006, the Group's profit attributable to equity holders of the Company amounted to approximately HK\$445,000, while a loss attributable to equity holders of the Company of approximately HK\$922,000 was recorded by the Group during the corresponding period in 2005.
- For the three months ended 31 March 2006, earning per share was 0.05 Hong Kong cents (2005: loss per share of 0.11 Hong Kong cents).
- The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: 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 the three months ended 31 March 2006, together with the comparative unaudited figures for the corresponding period of 2005, as follows:

### CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 31 March	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
<b>TURNOVER</b>	2	<b>9,220</b>	4,442
Cost of services/sales		<b>(4,293)</b>	(2,599)
Gross profit		<b>4,927</b>	1,843
Other income		<b>114</b>	1,084
Selling and distribution expenses		<b>(1,089)</b>	(1,337)
Administrative expenses		<b>(2,339)</b>	(2,067)
Other operating expenses		<b>(502)</b>	(472)
Profit/(loss) from operations		<b>1,111</b>	(949)
Finance costs	3	<b>(86)</b>	(34)
Profit/(loss) before taxation		<b>1,025</b>	(983)
Income tax	4	<b>-</b>	(204)
Profit/(loss) for the period		<b>1,025</b>	(1,187)
Profit/(loss) attributable to:			
Equity holders of the Company		<b>445</b>	(922)
Minority interests		<b>580</b>	(265)
		<b>1,025</b>	(1,187)
Earnings/(loss) per share (in Hong Kong cents)			
- Basic	5	<b>0.05</b>	(0.11)

Notes:

## 1. BASIS OF PREPARATION

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

The financial information has been prepared in accordance with the same accounting policies adopted in the 2005 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 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 utilisation of such medical equipment after deducting the related direct expenses.

Turnover recognised during the period is analysed as follows:

	<b>For the three months ended 31 March</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Medical equipment service fees and sale of related accessories	<b>2,539</b>	2,257
Sale of testing equipment	<b>6,681</b>	1,963
Research and development services	–	222
	<b>9,220</b>	4,442

### 3. FINANCE COSTS

	For the three months ended 31 March	
	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings wholly repayable within five years	86	34
	86	34

### 4. INCOME TAX

#### (a) Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made for the three months ended 31 March 2006 (2005: HK\$Nil) as the Group did not have any assessable profits chargeable to Hong Kong profits tax during the period.

#### (b) 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 PRC income tax at the reduced rate of 15% (2005: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax at the rate of 33% (2005: 33%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment and Sinnowa 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.

An overprovision of PRC income tax in the amount of HK\$204,000 for the three months ended 31 March 2005 by Tat Lung Treatment was written back in the third quarter of that year.

No provision for PRC income tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), China Best Pharmaceutical (Nanjing) Company Ltd. ("CB Pharmaceutical") and Guilin Simei Biotechnology Ltd. (Guilin Simei") as they did not have assessable profits for the three months ended 31 March 2006 determined in accordance with the relevant income tax rules and regulations in the PRC.

No provision for deferred taxation has been made as the Group did not have any material deductible or taxable temporary differences for the three months ended 31 March 2006 (2005: HK\$Nil).

## 5. EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months ended 31 March 2006 is based on the profit attributable to equity holders of the Company of HK\$445,000 (2005: loss of HK\$922,000) divided by the weighted average number of 835,000,000 (2005: 835,000,000) ordinary shares in issue during the period.

### (b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share for the three months ended 31 March 2006 and 2005 have been presented because there were no potential dilutive ordinary shares in existence during the respective periods.

## 6. DIVIDEND

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: HK\$Nil).

## 7. RESERVES

	Share premium	Contributed surplus	Exchange reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	70,733	5,265	(100)	32,460	108,358	3,784	112,142
Exchange differences	-	-	79	-	79	-	79
Net loss for the period	-	-	-	(922)	(922)	(265)	(1,187)
At 31 March 2005	70,733	5,265	(21)	31,538	107,515	3,519	111,034
At 1 January 2006	70,733	5,265	2,724	33,382	112,104	3,734	115,838
Exchange differences	-	-	458	-	458	28	486
Net profit for the period	-	-	-	445	445	580	1,025
At 31 March 2006	70,733	5,265	3,182	33,827	113,007	4,342	117,349

## FINANCIAL REVIEW

The Group's turnover for the three months ended 31 March 2006 amounted to approximately HK\$9,220,000, representing an increase of 108% as compared with the corresponding period last year. The increase was mainly attributable to the increase in the volume of sales of testing equipment during the period.

The profit attributable to equity holders of the Company for the three months ended 31 March 2006 amounted to approximately HK\$445,000, whereas the Group recorded a loss attributable to equity holders of the Company of approximately HK\$922,000 for the corresponding period last year.

The operating expenses for the three months ended 31 March 2006 amounted to approximately HK\$3,930,000, representing a slight increase of 1% as compared with that of the corresponding period last year. Other income for the three months ended 31 March 2006 amounted to approximately HK\$114,000, representing a decrease of 89% as compared with the corresponding period last year. The decrease was mainly attributable to a decrease in interest income and the amortisation of negative goodwill for the period.



As at 31 March 2006, the Group had a bank loan outstanding in the amount of approximately HK\$4,356,000 (2005: HK\$1,885,000). The bank loan was secured by a charge on the interest in leasehold land held for own use under an operating lease of the Group with an aggregate carrying value of HK\$1,073,000 at 31 March 2006.

## **BUSINESS REVIEW**

The Group's revenue for the three months ended 31 March 2006 was mainly generated by its principal operating subsidiaries, namely, Tat Lung Treatment and Sinnowa. Despite keen competition in the testing equipment market, the Group's sales of testing equipment increased by 240% as compared to that of the corresponding period last year.

The Group is continuing with its research and development projects for various Chinese and Western drugs and medicines as planned.

## **OUTLOOK**

The Group will continue developing its existing businesses and forecasts that sales of testing equipment will increase further in future. In addition, the Group will seek to diversify its business into provision of RFAS tumour equipment and relevant services to various hospitals in the PRC, as well as the provision of research and development services for drugs and medicines.

The Group is also looking for other opportunities in the PRC and will utilise the expertise and connections with its hospital network in its efforts to increase revenues.

## OTHER INFORMATION

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

As at 31 March 2006, the interests and short positions of the directors and the 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 Rules 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%
	<u>212,320,000</u>	Corporate (Note)	<u>25.43%</u>
	<b><u>245,120,000</u></b>		<b><u>29.36%</u></b>
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 the 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 of the Company held directly by PMM.

Save as disclosed above, as at 31 March 2006, none of the directors or the 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards 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.

As at 31 March 2006, none of the directors or the 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.

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 the 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

At 31 March 2006, so far as is known to the directors or the chief executive of the Company, the following persons (other than a director or the 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 interest
1. PMM ( <i>note</i> )	212,320,000	Beneficial owner	25.43%
2. China Equity Associates L.P.	84,040,000	Beneficial owner	10.06%

*Note:* As at 31 March 2006, 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 interest in the 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 2006, so far as is known to any director or the chief executive of the Company, no other person (other than a director or the 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 2006.

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

During the three months ended 31 March 2006, 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 any of their respective associates (as defined in the GEM Listing Rules) has engaged in any businesses that compete or may compete with the business of the Group or has any other conflicts of interest with the Group.

## **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

During the three months ended 31 March 2006, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

As required by 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 deal with its authority and duties. The Committee's primary duties are to review and 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 Company's quarterly report for the three months ended 31 March 2006.

The Company adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the three months ended 31 March 2006. The Company's directors confirmed that they have complied with such code of conduct and required standards for dealings throughout the three months ended 31 March 2006.

By order of the Board  
**Li Nga Kuk, James**  
*Chairman*

Hong Kong, 13 May 2006