



# Medical China Limited

(Incorporated in Bermuda with limited liability)

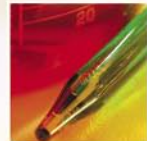
Stock Code : 8186



Medical China

50 mL  
± 5%

Third Quarterly Report 2006



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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 (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 nine months ended 30 September 2006 amounted to approximately HK\$26,675,000, representing an increase of 16% as compared to that of the corresponding period in 2005.
- For the nine months ended 30 September 2006, the Group's profit attributable to equity holders of the Company amounted to approximately HK\$2,128,000, while a loss of approximately HK\$1,951,000 was recorded during the corresponding period in 2005.
- For the nine months ended 30 September 2006, earnings per share is 0.25 Hong Kong cents (2005: loss per share of 0.23 Hong Kong cents).
- The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 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 each of the three months and nine months ended 30 September 2006, together with the comparative unaudited figures for the corresponding periods of 2005, as set out below:

### CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
<b>TURNOVER</b>	2	<b>9,779</b>	10,489	<b>26,675</b>	23,027
Cost of services/sales		(3,298)	(3,967)	(11,356)	(11,181)
<b>Gross profit</b>		<b>6,481</b>	6,522	<b>15,319</b>	11,846
Other income		369	624	821	1,517
Selling and distribution expenses		(1,466)	(1,726)	(3,620)	(4,953)
Administrative expenses		(2,522)	(2,612)	(7,867)	(7,015)
Other operating expenses		(55)	(2,173)	(662)	(3,329)
<b>Profit/(loss) from operations</b>		<b>2,807</b>	635	<b>3,991</b>	(1,934)
Finance costs	3	(81)	(100)	(205)	(211)
<b>Profit/(loss) before taxation</b>		<b>2,726</b>	535	<b>3,786</b>	(2,145)
Income tax	4	–	584	–	–
<b>Profit/(loss) for the period</b>		<b>2,726</b>	1,119	<b>3,786</b>	(2,145)
<b>Profit/(loss) attributable to:</b>					
Equity holders of the Company		1,921	910	2,128	(1,951)
Minority interests		805	209	1,658	(194)
		<b>2,726</b>	1,119	<b>3,786</b>	(2,145)
<b>Earning/(loss) per share (in Hong Kong cents)</b>					
– Basic	5	<b>0.23</b>	0.11	<b>0.25</b>	(0.23)

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 Enterprise 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 the related 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 relevant periods is analysed as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Medical equipment service fees and sale of related accessories	503	5,552	5,323	12,100
Sale of testing equipment	7,898	4,937	19,974	10,705
Research and development services	1,378	–	1,378	222
	9,779	10,489	26,675	23,027

### 3. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	81	100	205	211

### 4. INCOME TAX

Taxation in the consolidated income statement represents:

	For the three months ended 30 September		For the nine months ended 30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax – Over-provision of PRC Income Tax for a prior period	–	(584)	–	–

#### (a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 30 September 2006 (2005: HK\$Nil) as the Group did not have assessable profits chargeable to Hong Kong Profits Tax for 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 ("SSEZ") 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 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 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 2005.

#### 4. INCOME TAX *(continued)*

##### (b) PRC Income Tax *(continued)*

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 and nine months ended 30 September 2006 determined in accordance with the relevant income tax rules and regulations in the PRC.

- (c) No provision for deferred taxation has been made as the Group did not have any material deductible or taxable temporary difference for the three months and nine months ended 30 September 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 and nine months ended 30 September 2006 is based on the profit attributable to equity holders of the Company of HK\$1,921,000 (2005: HK\$910,000) and HK\$2,128,000 (2005: loss of HK\$1,951,000) respectively divided by the weighted average number of 835,000,000 (2005: 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 2006 and 30 September 2005 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

#### 6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: HK\$Nil).

## 7. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005	70,733	5,265	(100)	32,460	108,358	3,784	112,142
- Adjustment to retained profits in respect of amortisation 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
At 1 January 2006	70,733	5,265	2,724	33,382	112,104	3,734	115,838
Net gains and losses not recognised in the consolidated income statement							
- Currency translation differences	-	-	1,777	-	1,777	115	1,892
Net profit for the period	-	-	-	2,128	2,128	1,658	3,786
At 30 September 2006	70,733	5,265	4,501	35,510	116,009	5,507	121,516



## FINANCIAL REVIEW

The Group's turnover for the nine months ended 30 September 2006 amounted to approximately HK\$26,675,000, representing an increase of 16% 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. Sales of testing equipment for the nine months ended 30 September 2006 increased by approximately HK\$9,269,000 which was partially offset by a decrease of approximately HK\$6,777,000 in medical equipment service fees and sales of related accessories.

The profit attributable to equity holders of the Company for the nine months ended 30 September 2006 amounted to approximately HK\$2,128,000, whereas the Group recorded a loss attributable to equity holders of approximately HK\$1,951,000 for the corresponding period last year.

The operating expenses for the nine months ended 30 September 2006 decreased by 21% from HK\$15,297,000 to HK\$12,149,000 as compared with that of the corresponding period last year. Other income for the nine months ended 30 September 2006 amounted to approximately HK\$821,000, representing a decrease of 46% as compared with the corresponding period last year. The decrease was mainly attributable to reduced interest income for the period.

As at 30 September 2006, the Group had a bank loan outstanding in the amount of approximately HK\$3,447,000 (31 December 2005: HK\$4,326,000). The loan was obtained from a PRC Authorised Credit Union and was secured by the buildings and prepaid lease payments of the Group with an aggregate carrying value of HK\$8,062,000 at 30 September 2006.

## BUSINESS REVIEW

The number of RFAS tumour therapeutic centers operated by the Group with hospitals in the PRC dropped from 21 to 8 during the nine months ended 30 September 2006. Revenue from the provision of medical equipment services for the three months ended 30 September 2006 only amounted to approximately HK\$503,000.

The Group's sale of testing equipment reached HK\$7,898,000 during the third quarter of 2006, an increase of 60% as compared to that of the corresponding period last year. Revenue from the provision of research and development services amounted to approximately HK\$1,378,000 for the third quarter of 2006.

## OUTLOOK

The Group will continue developing its existing businesses and forecasts that sales of testing equipment and revenue from provision of research and development services will further increase during the fourth quarter of 2006. Also, the first phase of construction of the factory for manufacturing drugs and medicine will be completed by the end of 2006 with the production line for drugs and medicine expected to be put on trial during the second quarter of 2007.

The Group also continues to look for other business opportunities in the PRC and utilise its expertise and connections with hospitals in order to boost the revenues of the Group.

## OTHER INFORMATION

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

As at 30 September 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	32,800,000 212,320,000	Personal Corporate ( <i>Note</i> )	3.93% 25.43%
	<b>245,120,000</b>		<b>29.36%</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 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 30 September 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 30 September 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 arrangements 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 30 September 2006, so far as is known to any of the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

<b>Name of substantial shareholder</b>	<b>Number of shares held</b>	<b>Capacity</b>	<b>Percentage of interest</b>
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 30 September 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 is 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 2006, so far as is known to any of the directors 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' 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 nine months ended 30 September 2006.

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

During the nine months ended 30 September 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 interests with the Group.

## CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the nine months ended 30 September 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 deals with its authority and duties. The Committee’s primary duties are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the directors.

The Committee comprises three independent non-executive directors, namely, Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel.

During the nine months ended 30 September 2006, the Committee held three meetings for the purpose of reviewing the Company’s reports and financial statements, and providing advice and recommendations to the board of directors.

The Committee members reviewed the Company’s quarterly report for the nine months ended 30 September 2006 and are of the opinion that the preparation of such results complied with applicable accounting standards.

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 nine months ended 30 September 2006. The Company’s directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the nine months ended 30 September 2006.

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

Hong Kong, 13 November 2006