



Medical China Limited

(Incorporated in Bermuda with limited liability)
Stock Code : 8186



2007

First Quarterly Report



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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.





HIGHLIGHTS

- Turnover for the three months ended 31 March 2007 amounted to approximately HK\$5,968,000, representing a decrease of 35% compared to the corresponding period in 2006.
- The Group's loss attributable to equity holders of the Company for the quarter amounted to approximately HK\$984,000, while a profit of approximately HK\$445,000 was recorded during the corresponding period in 2006.
- For the three months ended 31 March 2007, the loss per share was 0.12 Hong Kong cents (2006: earnings per share of 0.05 Hong Kong cents).
- The Group's medicine plant agricultural operations has been expanded to over 160 mu and, separately, the Group's medicine manufacturing plant is on schedule to begin production in the last quarter of 2007.
- The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2007 (2006: HK\$Nil).

RESULTS (UNAUDITED)

The board of directors (the "Board") of Medical China Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2007, together with the comparative unaudited figures for the corresponding period in 2006, as set out below:

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 31 March	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
TURNOVER	2	5,968	9,220
Cost of services/sales		(3,679)	(4,293)
Gross profit		2,289	4,927
Other revenue		447	114
Selling and distribution expenses		(1,004)	(1,089)
Administration expenses		(2,453)	(2,339)
Other operating expenses		(3)	(502)
(Loss)/profit from operations		(724)	1,111
Finance costs	3	(22)	(86)
(Loss)/profit before taxation		(746)	1,025
Taxation	4	-	-
(Loss)/profit for the period		(746)	1,025
(Loss)/profit attributable to:			
Equity holders of the Company		(984)	445
Minority interests		238	580
		(746)	1,025
Basic (loss)/earnings per share (in Hong Kong cents)	5	(0.12)	0.05



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 2006 annual financial statements.

2. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and sales of related accessories, net of respective taxes; the sale value of medical 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 makes available certain medical equipment at the relevant hospitals and, in return, shares the medical service fees arising from the utilisation of the medical equipment after deducting the related direct expenses.

Turnover recognised during the period is analysed as follows:

	For the three months ended 31 March	
	2007	2006
	HK\$'000	HK\$'000
Medical equipment service fees and sales of related accessories	53	2,539
Sales of medical equipment	5,915	6,681
	5,968	9,220

The Group did not generate any turnover from its research and development activities during the period (2006: Nil).

3. FINANCE COSTS

	For the three months ended 31 March	
	2007 HK\$'000	2006 HK\$'000
Interest on bank borrowings wholly repayable within five years	22	86

4. TAXATION

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2007 (2006: HK\$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax during the period.

(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 PRC Income Tax at the reduced rate of 15% (2006: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax of 33% (2006: 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.

Also, no provision for PRC Income Tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), CB Pharmaceutical (Nanjing) Company Ltd. ("CB Pharmaceutical") and Guilin Simei Biotechnology Ltd. ("Guilin Simei") as they did not have any assessable profits for the three months ended 31 March 2007 determined in accordance with the relevant income tax rules and regulations in the PRC.

No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences for the three months ended 31 March 2007 (2006: HK\$Nil).



5. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic loss per share for the three months ended 31 March 2007 (2006: earnings per share) is based on the loss attributable to equity holders of the Company of HK\$984,000 (2006: profit of HK\$445,000) divided by the weighted average number of 835,000,000 (2006: 835,000,000) ordinary shares in issue during the relevant period.

(b) Diluted earnings/(loss) per share

No diluted (loss)/earnings per share for the three months ended 31 March 2007 and 2006, 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 three months ended 31 March 2007 (2006: 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 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
At 1 January 2007	70,733	5,265	6,068	4,004	86,070	6,339	92,409
Exchange differences	-	-	1,142	-	1,142	77	1,219
Net profit/(loss) for the period	-	-	-	(984)	(984)	238	(746)
At 31 March 2007	70,733	5,265	7,210	3,020	86,228	6,654	92,882



FINANCIAL REVIEW

The Group's turnover for the three months ended 31 March 2007 amounted to approximately HK\$5,968,000, representing a decrease of 35% compared with the corresponding period last year. The decrease was mainly attributable to decreases in medical equipment service fees and sales of related accessories during the period.

The loss attributable to equity holders of the Company for the three months ended 31 March 2007 amounted to approximately HK\$984,000, whereas a profit attributable to equity holders of approximately HK\$445,000 was reported for the corresponding period last year.

Operating expenses decreased slightly from HK\$3,930,000 to HK\$3,460,000 for the three months ended 31 March 2007 as compared to the corresponding period last year. Other revenue for the three months ended 31 March 2007 amounted to approximately HK\$447,000, representing an increase compared with the corresponding period last year. The increase was mainly attributable to an increase in interest income and the sales of raw materials during the period.

As at 31 March 2007, the Group had repaid all outstanding bank loans (2006: HK\$4,356,000).

BUSINESS REVIEW

For the period ended 31 March 2007, the Group's revenue was generated from its principal operating subsidiaries, namely, Tat Lung Treatment and Sinnowa. The number of RFAS tumour therapeutic centers established by the Group with hospitals in the PRC remained at 2. The sales of medical equipment has dropped due to lower selling price adopted by the Group during the period in order to capture larger market share.

The Group continues to proceed with its research and development programs on various Chinese and Western drugs and medicines as planned.



OUTLOOK

The Group will seek to strengthen and expand its existing businesses and forecasts that sales of medical equipment will increase in future. The second phase construction work on the Group's drugs and medicines manufacturing factory is on schedule and completion is expected in the third quarter of 2007. The Group also increased its involvement in agricultural activities in the first quarter of 2007 which now includes the development of over 160 mu of cultivating land and construction of supporting facilities. Depending on growing conditions and the plantation periods, it is expected that the crops can be transformed into medicines which will yield a future revenue stream for the Group.

The Group is also looking for new opportunities in the PRC and will utilise its expertise and connections with its hospital network to identify projects to increase the Group's revenues.

OTHER INFORMATION

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

As at 31 March 2007, 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 set out below:

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%
	245,120,000		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 in respect of 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. On 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 2007, 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 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 2007, 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.

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 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 31 March 2007, 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:

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 2007, 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 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 31 March 2007, 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 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 contracts, commitments or agreements 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 2007.

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

During the three months ended 31 March 2007, 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 three months ended 31 March 2007, 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 to 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.



The Committee members reviewed the Company's quarterly report for the three months ended 31 March 2007 and were of the opinion that the preparation of such results complied with applicable accounting standards.

The Company adopted the required standard of 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 2007. The Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the three months ended 31 March 2007.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 11 May 2007