
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) takes no responsibility for the contents of this circular, 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 circular.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Medical China Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF A FORESTRY BUSINESS; CONNECTED TRANSACTION – SUBSCRIPTION OF NEW SHARES; PROPOSED CHANGE OF COMPANY NAME; AND PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Financial Adviser

COMMERZBANK 

Commerzbank AG Hong Kong Branch

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

OSK Asia Capital Limited

A letter from the board of directors of Medical China Limited is set out on pages 8 to 37 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 38 of this circular. A letter from OSK Asia Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 50 of this circular.

A notice convening the SGM to be held at SALON IV, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Tuesday, 2 October 2007 at 10:00 a.m. is set out on pages 169 to 172 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend and vote at the SGM or any adjourned meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Ltd., at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as practicable, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

The circular will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for 7 days from the date of its posting.

* For identification only

CHARACTERISTICS OF GEM

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 future 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 of the Stock Exchange 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	8
Letter from the Independent Board Committee	38
Letter from the Independent Financial Adviser	39
Appendix I – Financial information of the Group	51
Appendix II – Accountants’ report on (Cambodia) Tong Min	115
Appendix III – Unaudited pro forma financial information of the Enlarged Group	125
Appendix IV – Valuation report	135
Appendix V – Technical report on the Forest	149
Appendix VI – Reports on forecasts underlying the valuation	159
Appendix VII – General information	162
Notice of SGM	169

DEFINITIONS

“Acquisition”	the proposed acquisition by China Cambodia Resources of the entire issued share capital of (Cambodia) Tong Min from the Vendors pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement between China Cambodia Resources, the Company and the Vendors dated 25 July 2007 in respect of the Acquisition
“Announcement”	the announcement of the Company dated 31 July 2007
“associates”	the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Bonds”	bonds to be issued by the Company with an aggregate principal amount of up to HK\$70 million to settle part of the Consideration
“BVI”	British Virgin Islands
“Cambodia”	Kingdom of Cambodia
“(Cambodia) Tong Min”	(Cambodia) Tong Min Group Engineering Co., Ltd., a limited company incorporated in Cambodia and an Independent Third Party
“Cash Consideration”	HK\$50 million in cash to be paid to settle part of the Consideration
“China Cambodia Resources”	China Cambodia Resources Limited (formerly known as Allied Luck Worldwide Limited), a company incorporated in the BVI with limited liabilities and a wholly-owned subsidiary of the Company
“Commerzbank”	Commerzbank AG, acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance, Chapter 155 of the Laws of Hong Kong and an authorized financial institution under the SFO which is permitted to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, the financial adviser to the Company in respect of the Acquisition
“Company”	Medical China Limited, a limited liability company incorporated in Bermuda, the shares of which are listed on the GEM of the Stock Exchange

DEFINITIONS

“Completion”	completion of the Acquisition Agreement, being the fifth business day after the conditions set out in the Acquisition Agreement have been fulfilled or waived (as the case may be), or such other date as the parties to the Acquisition Agreement may agree in writing
“connected person”	the meaning ascribed to it in the GEM Listing Rules
“Consideration”	the aggregate consideration of HK\$208.36 million for the Acquisition
“Consideration Shares”	the 400,000,000 new Shares proposed to be issued at the Issue Price to settle part of the Consideration
“Conversion Price”	the conversion price of HK\$0.188 per Conversion Share
“Conversion Shares”	the 70,000,000 new Shares which will fall to be allotted and issued by the Company upon conversion of the Convertible Bonds at the Conversion Price
“Convertible Bonds”	the 2% convertible bonds due on the seventh anniversary of Completion in the principal amount of HK\$13.16 million proposed to be issued by the Company to settle part of the Consideration, which entitle the holder(s) thereof to convert the principal amount outstanding into the Conversion Shares at the Conversion Price
“Directors”	the directors of the Company
“Earnest Money”	the earnest money of HK\$15 million paid by the Company pursuant to the MOU
“Enlarged Group”	the Group immediately after Completion
“First Vendor”	Mr. Zhang Zhenzhong, an Independent Third Party who is interested in 70.0% of the issued share capital of (Cambodia) Tong Min
“Forest”	the forest with a site area of 10,082 hectares (equivalent to approximately 100 million sq.m.) located in Kratie District, Kratie Province, Cambodia
“GEM”	Growth Enterprise Market

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“General Mandate”	the existing general mandate of the Company granted by the Shareholders to authorise the Directors to allot and issue up to 167,000,000 Shares pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 25 June 2007
“Group”	the Company and its subsidiaries
“HKGAAP”	the generally accepted accounting principles in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company, comprising all the independent non-executive Directors, namely, Mr. Fan Wan Tat, Mr. Tam Wai Leung, Joseph and Mr. Chan Kim Chung, Daniel, which was formed to advise the Independent Shareholders in relation to the Subscription
“Independent Financial Adviser”	OSK Asia Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription
“Independent Shareholders”	Shareholders other than the Top-up Sellers and their respective associates
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of and not connected with any director, chief executive, management shareholders or substantial shareholders of the Company and its subsidiaries or any of their respective associates
“Independent Valuer”	BMI Appraisals Limited, an Independent Third Party and a valuer engaged by the Company to conduct the Valuation

DEFINITIONS

“Issue Price”	HK\$0.188 per Share, being the issue price of the Consideration Shares pursuant to the terms of the Acquisition Agreement
“Joint Placing Agents”	Commerzbank and SBI E2-Capital
“Last Trading Day”	18 July 2007, being the last trading day before suspension of trading in the Shares before the publication of the Announcement
“Latest Practicable Date”	5 September 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information herein
“MOU”	the non legally-binding memorandum of understanding entered into between the Company and the Vendors on 11 June 2007 which set out the preliminary understanding in relation to the Acquisition
“Mr. Li Nga Kuk”	Mr. Li Nga Kuk, a Director and a Shareholder who is interested in 32,800,000 Shares as at the Latest Practicable Date
“Mr. Li Tai To”	Mr. Li Tai To, Titus, a Director and a Shareholder holding 9,560,000 Shares as at the Latest Practicable Date as a result of the Top-up Placing and is entitled to 6,840,000 Subscription Shares pursuant to the Placing and Share Subscription Agreement
“Mr. Li Wo Hing”	Mr. Li Wo Hing, a Director who did not hold any Share as at the Latest Practicable Date as a result of the Top-up Placing, and is entitled to 32,800,000 Subscription Shares pursuant to the Placing and Share Subscription Agreement
“New Placing Shares”	up to 167,000,000 new Shares to be placed to the Placee(s) under the Placing
“New Share Placing”	the placing of the New Placing Shares pursuant to the Placing and Share Subscription Agreement
“New Share Placing Price”	the placing price of HK\$0.69 per Placing Share
“Placee(s)”	the placee(s) of the Placing Shares

DEFINITIONS

“Placing”	the New Share Placing and the Top-up Placing pursuant to the Placing and Share Subscription Agreement
“Placing and Share Subscription Agreement”	the placing and share subscription agreement dated 18 July 2007 entered into between the Company, the Top-up Sellers and the Joint Placing Agents in respect of the Placing, the Top-up Placing and the Subscription
“Placing Shares”	the Top-up Shares and the New Placing Shares to be placed to the Placees pursuant to the Placing and Share Subscription Agreement
“PMM”	People Market Management Limited, a company incorporated in BVI who did not own any Shares as at the Latest Practicable Date as a result of the Top-up Placing and is entitled to 193,360,000 Subscription Shares pursuant to the Placing and Share Subscription Agreement, the issued share capital of which is owned as to approximately 70.60% by Mr. Li Wo Hing
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Preliminary Negotiation Announcement”	the announcement of the Company dated 1 June 2007 regarding the commencement of the Company’s preliminary negotiations with the Vendors on the Acquisition
“SBI E2-Capital”	SBI E2-Capital Securities Limited, a registered institutions under the SFO which is permitted to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities as set out in Schedule 5 to the SFO, the sole bookrunner and one of the Joint Placing Agents
“Second Vendor”	Mr. Pen Sophal, an Independent Third Party who is interested in 10.0% of the issued share capital of (Cambodia) Tong Min
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened and held on 2 October 2007 for the Shareholders to consider and approve (among other things), if thought fit, the proposed change of name of the Company and the proposed increase in the authorised share capital of the Company and for the Independent Shareholders to consider and approve, if though fit, the transactions contemplated under the Acquisition Agreement (including the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds) and the allotment and issue of the Subscription Shares
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Specific Mandate”	a specific mandate proposed to be granted to the Directors in relation to the issue of the Consideration Shares, the Conversion Shares and the Subscription Shares by the Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Top-up Sellers pursuant to the Placing and Share Subscription Agreement
“Subscription Price”	the subscription price of HK\$0.53 per Subscription Share, which is equivalent to the Top-up Placing Price
“Subscription Shares”	such number of new Shares as is equivalent to the aggregate number of the Top-up Shares actually sold to the Placees under the Top-up Placing, up to a maximum number of 233,000,000 new Shares to be subscribed by the Top-up Sellers pursuant to the Placing and Share Subscription Agreement
“Supplemental MOU”	the supplemental MOU dated 18 June 2007 signed between the Company and the Vendors
“Technical Adviser”	中國林業科學研究院熱帶林業研究所 (The Research Institute of Tropical Forestry of China Academy of Forestry*), the technical advisory firm appointed by the Company to perform a technical review on the Forest, which is an Independent Third Party

DEFINITIONS

“Technical Report”	the technical report on the Forest prepared by the Technical Adviser
“Third Vendor”	Ms. Zhang Jie, an Independent Third Party who is interested in 20.0% of the issued share capital of (Cambodia) Tong Min
“Top-up Placing”	the placing of the Top-up Shares upon exercise of the Top-up Placing Option pursuant to the Placing and Share Subscription Agreement
“Top-up Placing Price”	the placing price of HK\$0.53 per Top-up Share
“Top-up Placing Option”	the placing option granted by the Top-up Sellers to SBI E2-Capital (for itself and on behalf of Commerzbank) for the placing of up to 233,000,000 Top-up Shares
“Top-up Sellers”	PMM, Mr. Li Wo Hing and Mr. Li Tai To
“Top-up Shares”	up to the aggregate of 233,000,000 existing Shares owned by the Top-up Sellers to be placed to the Placee(s) under the Top-up Placing
“Valuation”	valuation of (Cambodia) Tong Min as at 30 June 2007 as stated in the Valuation Report
“Valuation Report”	the valuation report on (Cambodia) Tong Min prepared by the Independent Valuer
“Vendors”	the First Vendor, the Second Vendor and the Third Vendor
“sq.m.”	square metres
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

* *for identification only*

All amounts in US\$ have been translated in HK\$ at the rate of US\$1 = HK\$7.8 in this circular for illustration purpose only.

LETTER FROM THE BOARD



MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

Executive Directors:

LI Nga Kuk, James (*Chairman*)
LI Wo Hing (*Chief Executive Officer*)
LI Tai To, Titus

Non-executive Director:

CHEN Minshan

Independent non-executive Directors:

FAN Wan Tat
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business:

Unit B
21st Floor
Teda Building
87 Wing Lok Street
Hong Kong

7 September 2007

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION –
ACQUISITION OF A FORESTRY BUSINESS;
CONNECTED TRANSACTION –
SUBSCRIPTION OF NEW SHARES;
PROPOSED CHANGE OF COMPANY NAME;
AND
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

INTRODUCTION

On 25 July 2007, the Company and China Cambodia Resources entered into the Acquisition Agreement with the Vendors, pursuant to which, among other things, China Cambodia Resources conditionally agreed to purchase from the Vendors the entire issued share capital of (Cambodia) Tong Min for an aggregate consideration of HK\$208.36 million to be satisfied as to (i) HK\$50 million by payment of the Cash Consideration; (ii) HK\$70 million by the issue of the Bonds; (iii) HK\$13.16 million by the issue of the Convertible Bonds; and (iv) HK\$75.20 million by the issue of the Consideration Shares.

On 18 July 2007, the Company entered into the Placing and Share Subscription Agreement with the Top-up Sellers and the Joint Placing Agents, pursuant to which, the Joint Placing Agents

* For identification only

LETTER FROM THE BOARD

have agreed, on a best-efforts basis, to place 167,000,000 New Placing Shares at the New Shares Placing Price of HK\$0.69 per New Placing Share. In order to provide greater flexibility to the Placing, the Top-up Sellers granted to SBI E2-Capital (for itself and on behalf of Commerzbank) the conditional Top-up Placing Option to place up to 233,000,000 Top-up Shares at the Top-up Placing Price of HK\$0.53 per Top-up Share, exercisable during the 7-day period after the date of the Placing and Share Subscription Agreement. Following the granting of the listing of, and the permission to deal in the New Placing Shares by the GEM Listing Committee on 8 August 2007, the Joint Placing Agents have completed the placing of the 233,000,000 Top-up Shares under the Top-up Placing Option exercised by the Joint Placing Agents as disclosed in the Announcement. Following the Top-up Placing and subject to the relevant resolution being passed by Independent Shareholders at the SGM, the Top-up Sellers will subsequently subscribe for the Subscription Shares at the Subscription Price.

Since the relevant percentage ratios (as defined under the GEM Listing Rules) are greater than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and, accordingly, the transactions contemplated under the Acquisition Agreement (including the issue of the Consideration Shares and the Convertible Bonds), are subject to the Shareholders' approval at the SGM by way of poll.

Since Mr. Li Wo Hing and Mr. Li Tai To, being two of the Top-up Sellers and the Directors, and PMM, one of the Top-up Sellers, being the substantial Shareholder (as defined under the GEM Listing Rules), are connected persons of the Company and the issue of the Subscription Shares will be made under the Specific Mandate which will require the Independent Shareholders' approval at the SGM by way of poll. Completion of the Subscription is not expected to take place within 14 days after the date of the Placing and Share Subscription Agreement and the Subscription will constitute a non-exempt connected transaction for the Company. Accordingly, completion of the Subscription will be subject to the Independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

In order to accommodate the new Shares to be issued under the Acquisition, the Placing and the Subscription and to provide flexibility to the Company to facilitate its acquisitions using equity or the like as consideration and fund raising activities in the future, the Board proposes to increase the authorised share capital of the Company from the existing amount of HK\$20,000,000, divided into 2,000,000,000 Shares as at the Latest Practicable Date, to HK\$50,000,000, divided into 5,000,000,000 Shares, by creating an additional 3,000,000,000 Shares of HK\$0.01 each.

To signify the Company's future business expansion in the resources business in Cambodia and the PRC, the Board proposes that the English and Chinese names of the Company be changed to "China Asean Resources Limited" and "神州東盟資源有限公司" respectively. The Board considers that the names of the Company provide a more appropriate identification of the Company's new business strategies for its future development and operations.

The purpose of this circular is to provide you with details of (i) the Acquisition Agreement; (ii) the Placing and Share Subscription Agreement; (iii) the increase in the authorised share capital of the Company; (iv) the change of the names of the Company; (v) an accountant's report on (Cambodia) Tong Min; (vi) unaudited pro-forma financial information of the Enlarged Group; (vii) the Valuation Report; and (viii) the Technical Report, and (ix) to give notice convening the SGM.

LETTER FROM THE BOARD

THE ACQUISITION AGREEMENT

Date

25 July 2007

Parties to the Acquisition Agreement

- (i) China Cambodia Resources, a wholly-owned subsidiary of the Company, as purchaser;
- (ii) the First Vendor, the Second Vendor and the Third Vendor as vendors; and
- (iii) the Company.

The First Vendor, the Second Vendor and the Third Vendor are Independent Third Parties and are, respectively, interested in 70%, 10% and 20% of the issued share capital of (Cambodia) Tong Min.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, other than being shareholders of (Cambodia) Tong Min and having possible common investments in three other plots of forests situated in Cambodia and other real estate and infrastructure projects in Cambodia, the First Vendor, the Second Vendor and the Third Vendor are independent to one another.

Asset to be acquired

The entire issued share capital of (Cambodia) Tong Min, a company incorporated in Cambodia on 20 March 2007.

Conditions precedent to completion of the Acquisition Agreement

Completion of the Acquisition Agreement is subject to the satisfaction of the following conditions precedent:

- (i) China Cambodia Resources being satisfied with the results of the due diligence review of (Cambodia) Tong Min;
- (ii) the legal opinions, in form and substance satisfactory to China Cambodia Resources issued by the legal advisers in such jurisdiction (including Cambodia) in relation to, among other things, the ownership and business of (Cambodia) Tong Min and the applicable laws in Cambodia to which each of the Second Vendor and the Third Vendor is subject or in or from which he applies for, acquires or obtains delivery of the Consideration Shares, the Convertible Bonds and the Conversion Shares;
- (iii) the GEM Listing Committee having granted the listing of, and permission to deal in the Consideration Shares and the Conversion Shares;

LETTER FROM THE BOARD

- (iv) all other approvals, consents and acts required (whether under the GEM Listing Rules, the Hong Kong Code on Takeovers and Mergers or otherwise) being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such provisions being obtained from the relevant authority (including without limitation the Stock Exchange and (where applicable) the Securities and Futures Commission of Hong Kong);
- (v) the Board approving and authorizing, among other things, the transactions contemplated under the Acquisition Agreement, including the allotment and issue of Consideration Shares, issue of the Bonds, issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds and the change of the composition of the Board;
- (vi) the Bermuda Monetary Authority having granted permission for the issue of the Consideration Shares and the Conversion Shares (if required);
- (vii) no indication being received from the Stock Exchange that the transactions contemplated under the Acquisition Agreement will be treated or, as the case may be, ruled by the Stock Exchange as a “reverse takeover” under the GEM Listing Rules;
- (viii) the passing of an ordinary resolution by the Shareholders at the SGM for the approval of the issue of the Convertible Bonds and for the grant of Specific Mandate to allot and issue the Consideration Shares and, upon exercise of the conversion rights attached to the Convertible Bonds, the Conversion Shares;
- (ix) the completion of the placing of the New Placing Shares pursuant to the Placing and Share Subscription Agreement;
- (x) none of the warranties set out in the Acquisition Agreement having been breached in any material respect (or, if capable of being remedied, have not been remedied), or is misleading or untrue in any material respect.

If the conditions set out above are not fulfilled or, as the case may be, waived (in respect of conditions (i), (ii) and (x) only) by China Cambodia Resources on or before 12:00 noon on 30 September 2007 or such later date as China Cambodia Resources and the Vendors may agree from time to time, the obligations of the parties to the Acquisition Agreement shall cease and determine (save and except for certain provisions such as confidentiality) and neither party shall have any claim under the Acquisition Agreement against the others save in respect of any antecedent breaches of the Acquisition Agreement.

As at the Latest Practicable Date, conditions numbered (v), (vii) and (ix) have been fulfilled.

Completion of the Acquisition Agreement

Completion of the Acquisition Agreement shall take place on the fifth business day after the date of fulfillment (or waiver) of the last of the above conditions or such other date as may be agreed in writing between the parties to the Acquisition Agreement.

LETTER FROM THE BOARD

Upon completion of the Acquisition, (Cambodia) Tong Min will become a wholly-owned subsidiary of the Company and its financial results will be consolidated into the Company's financial statements.

Changes in the composition of the Board

As at the Latest Practicable Date, the Board comprised three executive Directors, one non-executive Director and three independent non-executive Directors. Neither the Company nor the Vendors have plans to require or request any existing Directors to resign from their office as a director. The Second Vendor and the Third Vendor will have the right to nominate two additional executive Directors to the Board, whose appointment shall take effect from the completion date of the Acquisition Agreement. In addition, the Second Vendor and the Third Vendor have also confirmed that they will not become Directors and that the persons to be nominated by the Second Vendor and Third Vendor to act as Directors will be third parties independent of and not connected with the Second Vendor and the Third Vendor. The Company does not plan or contemplate any change in any of its existing Directors as a result of the Acquisition. The Second Vendor and the Third Vendor, with the right to procure appointment of two additional directors to the Board, will not be able to have majority control over the Board.

Consideration

The aggregate consideration for the Acquisition is HK\$208.36 million which will be satisfied as to:

- (i) HK\$50 million, being the Cash Consideration payable in cash by China Cambodia Resources (less the Earnest Money) to the First Vendor;
- (ii) HK\$70 million by the issue of the Bonds to the First Vendor by the Company;
- (iii) HK\$13.16 million by the issue of the Convertible Bonds to the Second Vendor and the Third Vendor by the Company at the Conversion Price of HK\$0.188; and
- (iv) the remaining balance of HK\$75.20 million by the issue of 400,000,000 Consideration Shares to the Second Vendor and the Third Vendor at the Issue Price of HK\$0.188 per Share.

The Consideration of HK\$208.36 million was determined after arm's length negotiations between the Company and the Vendors, with reference to, particularly, the Valuation on the fair market value of (Cambodia) Tong Min as at 30 June 2007 of approximately US\$360 million (equivalent to approximately HK\$2,808 million) as stated in the Valuation Report contained in Appendix IV to this circular.

LETTER FROM THE BOARD

The principal assumptions upon which the Valuation is prepared include, among other things, that (i) (Cambodia) Tong Min will be granted the exploitation right by Cambodian government by the end of September 2007; (ii) the operation of (Cambodia) Tong Min will be carried on a continuous basis during the forest concession granted by Cambodian government for 70 years and no major changes in the business environment that (Cambodia) Tong Min is currently and/or will be operating in; (iii) the discount rate adopted in the Valuation and (iv) there will be no significant fluctuation regarding the prices for both timber and rubber from the existing market price and the assumed growth rates (details of which are set out in the Valuation Report). Having had discussions with the Independent Valuer and considered information available to the Directors including, but not limited to, the business plan of (Cambodia) Tong Min in respect of the future development of the Forest, risk factors, industry prospects, the underlying calculation and assumptions of the Valuation, the Directors are of the view that the Valuation Report was prepared after due and careful enquiry. The Consideration represented a discount of approximately 92.58% to the Valuation. In view of the substantial discount of the Valuation and the future expansion of the Group's business into the natural resources industry in Cambodia, the Directors (including the independent non-executive Directors) have considered the terms and conditions of the Acquisition Agreement, in particular, the Consideration, to be fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

The Cash Consideration

It is expected that payment of the Cash Consideration will be financed by internal resources of the Group. In the event the Acquisition Agreement is terminated pursuant to the Acquisition Agreement, the First Vendor shall return the Earnest Money without interest to China Cambodia Resources within seven business days after its termination.

The Consideration Shares

As at the Latest Practicable Date, there are 1,002,000,000 Shares in issue, the Consideration Shares represent:

- (i) approximately 39.92% of the existing issued share capital of the Company;
- (ii) approximately 28.53% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares;
- (iii) approximately 27.17% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares (assuming conversion of the Convertible Bonds in full);
- (iv) approximately 23.46% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares, the Conversion Shares (assuming conversion of the Convertible Bonds in full) and the Subscription Shares.

LETTER FROM THE BOARD

The Issue Price was determined after arm's length negotiations between the Company and the Vendors, with reference to the average closing price for the last five trading days up to and including the date of the Preliminary Negotiation Announcement was made. Having taken into account the surge in the trading price of the Shares after publication of the Preliminary Negotiation Announcement and other subsequent announcements regarding the progress of the Acquisition, the Directors consider that using the average closing price for the last 5 trading days up to and including the date of the Preliminary Negotiation Announcement to determine the Issue Price is an appropriate basis as it could better reflect the market price of the Shares and minimise the impact on the Share price from the information regarding the Acquisition published recently. The Issue Price represents:

- (i) the same price as the average closing price of HK\$0.188 per Share for the last 5 trading days up to and including the date of the Preliminary Negotiation Announcement;
- (ii) a discount of approximately 78.14% to the closing price of HK\$0.86 per Share on the Last Trading Day;
- (iii) a discount of approximately 74.93% over the average closing price of HK\$0.75 per Share for the last 5 trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 67.59% over the average closing price of HK\$0.58 per Share for the last 30 trading days up to and including the Last Trading Day;
- (v) a discount of approximately 47.78% over the average closing price of HK\$0.36 per Share for the last 60 trading days up to and including the Last Trading Day; and
- (vi) a premium of approximately 55.37% over the audited consolidated net asset value of the Company per Share of approximately HK\$0.121 as at 31 December 2006 (based on 835,000,000 Shares in issue as at the date of the Announcement).

In view of (i) the increasing demand for timber and natural rubber worldwide; (ii) the future opportunities for the Group to engage in the natural resources industry in Cambodia; (iii) the economic benefits derived from the proposed business or commercial activities in relation to the Forest including, among other things, the timber obtained from the initial clearing up and the subsequent rubber plantation, as a result of the Acquisition, and (iv) the share price performance of the Company prior to release of the information relating to the Acquisition, the Directors (including the independent non-executive Directors) consider that the Issue Price and the issue of the Consideration Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Convertible Bonds

Principal terms of the Convertible Bonds

- Principal amount : HK\$13.16 million
- Maturity date : The date falling on the 7th anniversary date of completion of the Acquisition or if that is not a business day, the first business day thereafter. Unless previously redeemed or converted or purchased and cancelled as provided in the instrument constituting the Convertible Bonds, the Company will redeem each Convertible Bond on the maturity date of the Convertible Bonds at the redemption amount equal to the principal amount of the outstanding Convertible Bonds together with interest accrued thereon.
- Interest rate : 2% per annum
- Transferability : None of the Convertible Bonds shall be transferable to any connected person of the Company (other than an associate of the relevant Vendors). Subject to all applicable laws and regulations, the Convertible Bonds may be transferable to any person in whole multiples of HK\$1 million.
- The Company and the Directors will notify the Stock Exchange of any dealings by the connected persons of the Company in the Convertible Bonds from time to time immediately upon the Company becoming aware of it.
- Conversion right : Holders of the Convertible Bonds will have the right to convert the Convertible Bonds, in whole or in part (generally in the amount of integral multiples of HK\$1 million) into Shares at any time from the day of completion of the Acquisition Agreement up to 4:00 p.m. of the maturity date of the Convertible Bonds at the Conversion Price, provided that no conversion right may be exercised, to the extent that following such exercise, a holder of the Convertible Bonds and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued Shares.

LETTER FROM THE BOARD

Conversion Price : HK\$0.188 per Conversion Share, which is the same as the Issue Price of the Consideration Shares, subject to adjustment for, among other matters, subdivision or consolidation of Shares, issue of Shares by way of capitalisation of profits or reserves, distributions in cash or specie to Shareholders or grant to Shareholders the rights to acquire for cash assets of the Company or any of its subsidiaries, or offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares. The Company shall instruct an approved merchant bank to consider whether any adjustment should be made to the Conversion Price in order to fairly and appropriately reflect the relative interests of the Company and the holders of the Convertible Bonds.

Redemption rights : If the Convertible Bonds or any part thereof are not converted into Shares, the Company shall have the right at any time during the period commencing from the date immediately following the issue date of the Convertible Bonds and expiring on the maturity date thereof to redeem the whole or part of the outstanding Convertible Bonds at the principal amount of the Convertible Bonds to be redeemed, provided that the holders of the Convertible Bonds shall be given first right of conversion of the Convertible Bonds into Conversion Shares.

The holder(s) of the Convertible Bonds shall not have any rights to request redemption of the whole or any part of the Convertible Bonds (save under circumstances when there is an event of default).

LETTER FROM THE BOARD

- Mandatory redemption : The instrument constituting the Convertible Bonds contain an events of default provision which provides that on the occurrence of certain events of default specified therein (including, among other things, default by the Company in the performance of the instrument constituting the Convertible Bonds; dissolution of the Company and/or its major subsidiaries; disposal of all or substantially all of the assets by the Company; a receiver is appointed or a distress is levied on the assets of the Company; the Shares are suspended for a certain period as specified therein and insufficient share capital of the Company is available for the fulfillment of obligations regarding conversion of the Convertible Bonds), holders of the Convertible Bonds may, unless such event of default has been waived in writing by them, by notice in writing require the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Bonds at the principal amount of the outstanding Convertible Bonds.
- Ranking of the Convertible Bonds : The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
- Ranking of the Conversion Shares : The Conversion Shares will be issued free from any encumbrances or third party rights of any kind and will rank pari passu, in all respects with the existing issued Shares together with all rights to dividends and other distributions declared, made or paid on or after the date of the exercise of the conversion right.

LETTER FROM THE BOARD

Purchase of the Convertible Bonds : The Company may at any time and from time to time before the maturity date of the Convertible Bonds elect to purchase the Convertible Bonds from the holder(s) thereof at any price as agreed between them. However, the Company is not obliged to purchase such Convertible Bonds, and will do so only if the proposed price and other terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, if such purchase proceeds, the Company will ensure compliance with the applicable requirements of the GEM Listing Rules.

In the event that the Audited Consolidated Profits (defined below) of (Cambodia) Tong Min for the relevant financial years fail to meet the level guaranteed by the Vendors, the Company shall have rights to purchase certain numbers of Convertible Bonds in accordance with the formula set out in the Acquisition Agreement at a consideration of HK\$1.

All Convertible Bonds which are redeemed or purchased by the Company or which are converted into Shares by holder(s) of the Convertible Bonds, will forthwith be cancelled and such Convertible Bonds may not be reissued or resold.

Voting : Holders of the Convertible Bonds shall not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of being a holder of the Convertible Bonds.

Conversion Shares

The Shares will, upon exercise (if so exercised) of the conversion rights attached to the Convertible Bonds, be allotted and issued pursuant to the Specific Mandate which is proposed to be granted by the Shareholders to the Directors at the SGM to be convened.

As at the Latest Practicable Date, there are 1,002,000,000 Shares in issue, assuming conversion of the Convertible Bonds in full, 70,000,000 Conversion Shares shall be issued which represent:

- (i) approximately 6.99% of the existing issued share capital of the Company;
- (ii) approximately 4.99% of the issued share capital of the Company as enlarged by the Consideration Shares;

LETTER FROM THE BOARD

- (iii) approximately 4.76% of the issued share capital of the Company as enlarged by the Consideration Shares and the Conversion Shares; and
- (iv) approximately 4.11% of the issued share capital of the Company as enlarged by the Consideration Shares, the Conversion Shares and the Subscription Shares.

Application for listing

No application will be made by the Company for listing of the Convertible Bonds on any public stock exchange.

Undertaking of the Vendors

Subject to such other terms and conditions of the instrument constituting the Convertible Bonds, none of the Vendors and their relevant nominee(s) shall exercise the conversion rights attached to the Convertible Bonds as a result of which the aggregate equity interests and/or voting rights of the Vendors taken together (taking into account Shares held by the Vendors immediately prior to such conversion) shall hold 29% or more of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares to the Vendors and/or their relevant nominees as converted from time to time.

The Company will not, in any event, issue further Shares to the Second Vendor or the Third Vendor, should their aggregate shareholdings reach 29% or more of the Company's issued share capital as enlarged by such allotment of Shares upon conversion.

The terms and conditions of the Convertible Bonds, including the interest rate and the Conversion Price, were determined after arm's length's negotiations between the Company, the Second Vendor and the Third Vendor. In the opinion of the Directors (including the independent non-executive Directors) such terms and conditions are fair and reasonable and the issue of the Convertible Bonds is in the interest of the Company and the Shareholders as a whole.

The Bonds

Pursuant to the Acquisition Agreement, the Company will issue the Bonds in the principal amount of HK\$70 million. The Bonds will include terms to the following effect:

Principal amount	:	HK\$70 million
Issue date	:	On the date of completion of the Acquisition, which is provided under the Acquisition Agreement to be the fifth business day after the date of fulfillment (or waiver) of the last condition set out in the Acquisition Agreement or such other date as the parties to the Acquisition Agreement may agree in writing.

LETTER FROM THE BOARD

- Maturity date : The date falling on the second anniversary of the date of issue of the Bonds
- Interest rate : 2% per annum payable on a semi-annual basis
- Transferability : Subject to the applicable laws and regulations, the Bonds may be transferred or assigned in whole or in part in integral multiples of HK\$1 million to any party other than a connected person of the Company.
- Redemption : The Company shall have the right at any time during the period commencing from the date immediately following the issue date of the Bonds and expiring on the maturity date thereof to redeem the whole or part of the outstanding Bonds at the principal amount of the Bonds to be redeemed.
- The holder(s) of the Bonds shall not have any rights to request redemption of the whole or any part of the Bonds (save under circumstances when there is an event of default).
- There will not be any premium or discount to the repayment obligations under the Bonds for any early redemption.
- Mandatory redemption : The instrument constituting the Bonds contained an events of default provision which provides that on the occurrence of certain events of default specified therein (including, among other things, default by the Company in the performance of the instrument constituting the Bonds; dissolution of the Company and/or its major subsidiaries; disposal of all or substantially all of the assets by the Company or a receiver is appointed or a distress is levied on the assets of the Company), the holders of the Bonds may, unless such event of default has been waived in writing, by notice in writing require the Company to redeem the whole (but not part) of the outstanding principal amount of the Bonds at the principal amount of the outstanding Bonds.

LETTER FROM THE BOARD

Purchase of the Bonds : The Company may at any time and from time to time before the maturity date of the Bonds elect to purchase the Bonds from the holder(s) thereof at any price as agreed between them. However, the Company is not obliged to purchase such Bonds, and will do so only if the proposed price and other terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In addition, if such purchase proceeds, the Company will ensure compliance with the applicable requirements of the GEM Listing Rules.

Profit guarantee and compensation mechanism

Pursuant to the Acquisition Agreement, the Vendors jointly and severally guarantee that the audited net profit after tax and minority interests but before extraordinary or exceptional items of (Cambodia) Tong Min prepared under HKGAAP (the “Audited Consolidated Profits”) for the financial year ending 31 December 2008 to be not less than HK\$170 million and that for the three years ending 31 December 2009, 2010 and 2011 to be, in aggregate, not less than HK\$700 million (the “Guaranteed Profits”). The Second Vendor and the Third Vendor have undertaken to the Company that in the event that the actual Audited Consolidated Profits for either (i) 2008 or (ii) the period from 2009 to 2011 fall(s) below 70% of the respective Guaranteed Profits, the compensation mechanism will be triggered and they will compensate the Company by way of disposing of the Consideration Shares up to (i) the difference between the 2nd Minimum Retaining Number and the 3rd Minimum Retaining Number (as defined below) or (ii) the 3rd Minimum Retaining Number (the “Compensation Shares”), respectively, and pay the proceeds from the disposal of the Compensation Shares to the Company and/or by way of redemption of part or all of the Convertible Bonds (calculated as the same value of the Consideration Shares and on an as-if fully converted basis) by the Company at HK\$1, as the case may be. Should the Second Vendor and the Third Vendor fail to fulfil their respective obligations, the Company has the right to seek indemnities from and against the First Vendor. The Compensation Shares will be shared between the Second Vendor and the Third Vendor in the proportion of 33.33% and 66.67% (which is same as their relative shareholding in (Cambodia) Tong Min). The number of the Compensation Shares will be calculated based on the difference between 70% of the respective Guaranteed Profits and the actual Audited Consolidated Profits for the relevant financial years as divided by the average closing prices for the five trading days immediately before the date of publication of the Company’s results announcements for the relevant financial years. In the event that the Audited Consolidated Profit is not less than 70% of the Guaranteed Profit for the respective financial periods, the aforesaid compensation mechanism will not be triggered and the Company will not be entitled to any compensation by the Vendors.

Each of the Second Vendor and the Third Vendor has undertaken to China Cambodia Resources and the Company that the aggregate number of the Consideration Shares, the Conversion Shares (assuming conversion of the Convertible Bonds at the conversion price) and the

LETTER FROM THE BOARD

Convertible Bonds (on an as if fully converted basis) held by them for the period from Completion to 31 December 2007 and from 1 January 2008 to the date falling one month after the date of publication of the audited accounts of (Cambodia) Tong Min for the financial year ending 31 December 2008 and the period from the date of expiring of such period to the date following one month after the date of publication of the audited accounts of (Cambodia) Tong Min for the financial year ending 31 December 2011, at all time, will not be less than 80%, 50% (“the 2nd Minimum Retaining Number”) and 20% (“3rd Minimum Retaining Number”) of the aggregate number of Consideration, the Conversion Shares and the Convertible Bonds (on an as-if converted basis) issued to them upon Completion.

The Directors consider that such restriction on the disposal of the Consideration Shares and the Convertible Bonds by the Second Vendor and the Third Vendor will result in both of the Second Vendor and the Third Vendor having the same interest in the Acquisition as the Company and thus reflect their commitment to the Company and its forestry business after Completion. As such, the Directors consider that such restriction is in the interests of the Company and the Shareholders as a whole.

The call option

Under the Acquisition Agreement, the Vendors have granted China Cambodia Resources an option to acquire from the Vendors all the issued capital (as held by the relevant Vendors, as at the date of the exercise of such option) in the company(ies) which will hold the land use rights and/or the rights to forest exploitation obtained by the Vendors in the future in respect of three additional plots of forests situate in Cambodia which, as represented by the Vendors, are currently being acquired or obtained by the relevant Vendors. These three plots of forests are of similar nature to the Forest and each of which has an area of approximately 10,000 hectares (equivalent to approximately 100 million sq.m.) or more. Such option will become effective upon Completion and will expire on the third anniversary of Completion.

Upon exercise of the option, the Company shall pay to the First Vendor an additional call option premium of HK\$30 million in cash. No more call option premiums will be payable by the Company to the First Vendor upon further exercise of the option. Given the fact that the First Vendor will not receive any Consideration Shares to benefit from the Group’s future success in the forestry and other natural resources business, the Directors consider that the additional call option premium payable to the First Vendor upon future exercise of such call option will give incentive to the First Vendor to procure additional forest exploitation rights in Cambodia, which the Company has the right to acquire from him. As the Company may or may not exercise such call option, the Directors are of the opinion that it is in the interest of the Company and its Shareholders not to pay such premium until such call option is exercised. Having considered the potential future benefit of gaining forest exploitation rights to additional forests in Cambodia to the Company and the aforesaid payment mechanism upon exercise of the call option, the Directors (including the independent non-executive Directors) consider that the additional call option premium payable to the First Vendor is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

The exercise of the option is solely at the discretion of the Company. If the option is exercised, the exercise price shall be determined by reference to a valuation report to be prepared by an independent firm of international valuers.

LETTER FROM THE BOARD

Upon Completion, the Second Vendor and the Third Vendor will become connected persons of the Company by virtue of their being substantial Shareholders. The exercise of the option and/or the completion of the purchase of the relevant interests being the subject of the option shall be subject to approval by the independent shareholders of the Company and in compliance with the relevant GEM Listing Rules at the material time.

INFORMATION ON (CAMBODIA) TONG MIN

(Cambodia) Tong Min is a company with limited liability incorporated in Cambodia on 20 March 2007, the issued share capital of which is owned as to 70%, 10% and 20% by the First Vendor, the Second Vendor and the Third Vendor, respectively. (Cambodia) Tong Min is currently an investment company and since its date of incorporation up to 30 June 2007, (Cambodia) Tong Min has not recorded any revenue and only relatively minor/insignificant administration expenses, which have resulted in an unaudited net loss of approximately HK\$0.24 million since the date of its incorporation and up to 30 June 2007. As at 30 June 2007, the net liability position of (Cambodia) Tong Min amounted to approximately HK\$0.2 million. (Cambodia) Tong Min intends to principally operate a rubber plantation for latex production under the exclusive right to exploit the Forest for a period of 70 years. In addition, (Cambodia) Tong Min will be responsible for the initial clearing up of the existing Forest for the rubber plantation and the timber obtained from such initial clearing stage will be sold by the Company. The Forest is located in Kratie District, Kratie Province, Cambodia and has a site area of approximately 10,082 hectares (equivalent to approximately 100 million sq.m.) and, according to the Technical Report, currently contains more than 3 million cubic metres of timber. (Cambodia) Tong Min plans to log the existing trees (comprising timber of various grades) to clear the land for the rubber plantation. The trees logged in this initial stage will be processed into sawn timber and other value-added wood products (such as floor materials) for export, particularly to the PRC. The management of (Cambodia) Tong Min expects that the initial clearing stage of the Forest will last for a period of approximately 5 years. During the course of this initial clearing stage, rubber trees will be planted progressively for the subsequent production of latex.

In order to strengthen its future role in the forestry and natural resources business in Cambodia, as well as to provide better technical support and consultation for the development of the Forest, the related design and planning for the rubber plantation, and exploitation of other natural resources, (Cambodia) Tong Min has recently established an Honorary Advisory Board and a Forestry Consultation Board, comprising experts from various areas in the forestry business. Set out below are the backgrounds of the members of the Honorary Advisory Board and the Forestry Consultation Board:

The Honorary Advisory Board

His Excellent Tol Chao, a “Three-Star” General in the Cambodian Army, is currently the Deputy Chief of Cabinet to the Prime Minister of Cambodia. He is also the First Deputy Commander of the Prime Minister Body Guard unit and the Head of the National Forst Guard of Cambodia. His Excellency, Tol Chao, will assist in the liaison between (Cambodia) Tong Min and the Cambodia government for the development of the Forest as well as (Cambodia) Tong Min’s acquisition of the exploitation rights for additional forest plots and expansion into other natural resource sectors.

LETTER FROM THE BOARD

His Excellency Kim Hong Mak, currently an advisor to the Prime Minister of Cambodia and the President of the Association of Rubber Development of Cambodia, is also a board member of the Cambodia Rubber Research Institute and the President of the Board of the Royal University of Agriculture in Cambodia.

The Forestry Consultation Board

Mr. Pheng Muthavy is currently the deputy head of the Department of Rubber Development of Cambodia, a department of the General Directorate of Rubber Plantations (a Cambodian government department responsible for overall rubber development planning for Cambodia, including proposing and drafting laws and regulations). After becoming a technical advisor of (Cambodia) Tong Min, Mr. Muthavy will be responsible for advising it on acorn plantation and rubber production and assist in identifying and obtaining the rights to exploit additional forests for acorn plantations.

Mr. Li Guan Wu is currently the head of the Central South Forestry Geotechnical Planning and Design Institute (中南林業勘察規劃設計院) in the PRC. Mr. Li graduated from the Beijing Forestry University (北京林業大學) in China in 1960 and possesses over 45 years of experience in the design and planning of forest exploitation.

Mr. Zhang Ren is a qualified logging engineer and has over 25 years of extensive practical experience in forestry logging and clearing. Mr. Zhang is currently working with the Heilongjiang Yichun Forestry Bureau, Heilongjiang Province.

The Directors believe that the management of (Cambodia) Tong Min has the necessary experience and know-how to execute its business plan, which involves clearing the existing Forest and selling the salvage logs, and the subsequent rubber plantation. The First Vendor, the Chief Executive Officer of (Cambodia) Tong Min, who has extensive business experience in Cambodia, including export of timber products from Cambodia and import of equipment and machinery into Cambodia, together with his management team, have substantial experience in managing forestry business including rubber plantation, timber logging, the transportation and trading of timber products, financial management and business planing, as well as factory management.

In addition, as described above, members of the Forestry Consultation Board of (Cambodia) Tong Min are experts in the field of forest exploitation and rubber plantation and are able to provide valuable technical advice to the management of (Cambodia) Tong Min.

Prior to making the decision to expand into the natural resources business in Cambodia, the Company has conducted studies and concluded that the market potential of timber and rubber as well as the business environment and climate and physical environment of Cambodia are favourable for engaging in timber clearing up and rubber plantation business. In addition to acquiring (Cambodia) Tong Min at a discount to the Valuation of US\$360 million for which is prepared with reference to the Technical Report, the Company is able to obtain profit guarantee by the Vendors. Accordingly, the Directors are satisfied that the Acquisition is in the best interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the research, development and provision of medical devices for cancer treatment and promotion of anticancer drugs in the PRC. Through the Acquisition, the Group would expand into the natural resources business in Cambodia, and thus broaden its income stream and business portfolio. After completion of the Acquisition, the Company intends to continue to conduct its present medical-related business.

Timber and rubber are two of the most common raw materials being applied in a wide range of industries and the selling prices of which have been on an upward trend in recent years due to their scarcity and the increasing market demand, particularly, from the PRC, which is currently one of the major consumers for both timber and rubber.

According to the International Tropical Timber Organization, the production and domestic consumptions of timbers in the PRC were approximately 98.8 million cubic meter and 128.9 million cubic meter in 2006 respectively, representing a shortfall of approximately 30.1 million cubic meter. The strong appetite for natural resources has also been reflected in the country's consumptions of rubber. According to the China Rubber Industry Association, in the third quarter of 2006, the PRC accounts for 27.3% of the world's total consumption and is the largest rubber consumer. From 1996 to 2005, rubber consumption in the PRC increased at a compound annual growth rate of approximately 11.1%. It is expected that such growing trend will continue for the next few years.

Cambodia is located at Indochinese Peninsula, in Southeast Asia. Cambodia is rich in natural resources and is a traditional agricultural country. Forest in Cambodia covers approximately two-thirds of its total area and has more than 200 categories of timber can be found in the country. Cambodia has a total timber reserve of around 1.14 billion cubic metres, and mainly cultivates tropical timber such as teak, ironwood and padauk. The climate in Cambodia is monsoonal with wet and dry seasons of relatively equal length. Given the special geographical feature and climates, agricultural business such as forestry, fishery and animal farming are particular well developed.

After completion of the Acquisition, the Company will be able to gain access to the forestry business in Cambodia and receive the economic benefit derived from the initial clearing up of the Forest and the subsequent rubber plantation for latex production purpose. All of these, together with the fact that (i) the government of Cambodia only selectively opens its forestry industry to foreign investors as represented by the Vendors which impose a significant entry barriers for other potential competitors to enter into the forestry business in Cambodia as represented by the Vendors; (ii) the immediate cash inflow for the Group from the sale of the timber obtained from the clearing up of the Forest immediately after completion of the Acquisition; (iii) the subsequent rubber cultivation and latex production from the Forest which will provide the Group with substantial recurring cash inflow; (iv) the granting of the option from the Vendors to the Group to acquire their future forest exploitation rights in Cambodia obtained and (v) the expertise and connections possessed by the management of (Cambodia) Tong Min, the Honorary Advisory Board and the Forestry Consultation Board relating to conducting forestry and natural resources business in Cambodia, the Directors consider that the Acquisition will significantly strengthen the business portfolio of the Group and thereby to improve its future financial performance.

LETTER FROM THE BOARD

OBTAINING THE EXPLOITATION RIGHTS OF THE FOREST AND RISK FACTORS THEREOF

As advised by the Cambodian legal advisers to the Company, the following conditions shall be complied with before the Company would be granted the exploitation rights of the Forest:

1. the Company being granted the land certificate in respect of the land on which the Forest is situated. As set out above, the Company's Cambodian legal advisers have advised that, as at the Latest Practicable Date, the relevant provincial government has issued a land certificate to (Cambodia) Tong Min in respect of the Forest; and
2. the Company having paid all relevant government taxes, duties and expenses in respect of obtaining and maintaining the forest exploitation rights.

Upon obtaining the exploitation rights in respect of the Forest, (Cambodia) Tong Min will make an once-off payment of approximately HK\$55 million to the Cambodian government as a right premium, which amount was an estimation only based on (Cambodia) Tong Min's consultation with the relevant authorities of Cambodia and it does not expect any further material additional cost to be incurred in this respect. Upon Completion of the Acquisition, (Cambodia) Tong Min will become an indirect wholly-owned subsidiary of the Company and it is the intention of the Company to use part of the proceeds from the Placing to settle the said payment and the Company will bear the relevant expenses in relation to the government taxes, duties and expenses in maintaining the said forest exploitation right.

Based on the relevant laws and regulations of Cambodia and their recent discussions with the relevant government officials, the Cambodian legal advisers are of the view that all administrative works in respect of the final process of the granting of the exploitation rights of the Forest have been completed and that there is no legal impediment for (Cambodia) Tong Min to obtain the forest exploitation rights in respect of the Forest by 30 September 2007.

However, as the grant of such forest exploitation right will be subject to the final approval by the relevant Cambodian government officials, the Directors are of the view that there is risk that the exploitation right of the Forest may not be granted or the grant of which may be delayed. In such circumstances, the Directors will endeavor to assist (Cambodia) Tong Min in obtaining the exploitation right of the Forest on or before 30 September 2007. In the event that the forest exploitation right is not obtained on or before 30 September 2007, China Cambodia Resources is entitled to terminate the Acquisitions Agreement pursuant to the terms thereof, on the ground that the results of the due diligence review of (Cambodia) Tong Min are not satisfactory to China Cambodia Resources.

The Company's Cambodian legal advisers have advised that, as at the Latest Practicable Date, the relevant provincial government has issued a land certificate to (Cambodia) Tong Min in respect of the Forest, and is in the final process of obtaining the forest exploitation rights from the relevant government authorities.

LETTER FROM THE BOARD

RISK FACTORS RELATING TO THE FORESTRY BUSINESS OF (CAMBODIA) TONG MIN

The business operations of (Cambodia) Tong Min are subject to a number of risk factors which may potentially have an adverse impact on its profitability:

- (i) Cambodia is a developing country and has underdeveloped wood processing and transportation infrastructure. As such, (Cambodia) Tong Min may potentially incur additional and unexpected costs for transportation of the timber and rubber obtained from the Forest;
- (ii) prolonged and abnormally high levels of rain at the location of the Forest may have an adverse impact on (Cambodia) Tong Min's ability to extract timber;
- (iii) the prices of timber products may be volatile;
- (iv) the forest exploitation right in respect of the Forest is subject to government regulations of Cambodia and any changes in these regulations, including but not limited to, changes in taxation, environmental laws, harvesting rights and royalty payments will affect the business and profitability of (Cambodia) Tong Min; and
- (v) (Cambodia) Tong Min plans to sell most of its timber products to the PRC, and the export of which is subject to political, economic and social developments in the PRC, including import duties and restrictions and political instability, which may potentially affect the profitability of (Cambodia) Tong Min.

THE PLACING AND SHARE SUBSCRIPTION AGREEMENT

On 18 July 2007, the Company, the Top-up Sellers and the Joint Placing Agents entered into the Placing and Share Subscription Agreement in respect of the Placing, the Top-up Placing and the Subscription. Under the Placing and Share Subscription Agreement, the Joint Placing Agents have agreed, on a best-effort basis, to place 167,000,000 New Placing Shares at the New Shares Placing Price of HK\$0.69 per New Placing Share. In order to provide greater flexibility to the Placing, the Top-up Sellers granted to the Joint Placing Agents the conditional Top-up Placing Option to place up to 233,000,000 additional Top-up Shares at the Top-up Placing Price of HK\$0.53 per Top-up Share, exercisable during the 7-day period after the date of the Placing and Share Subscription Agreement. The Placing is not inter-conditional on the Subscription. Following the granting of the listing of, and the permission to deal in the New Placing Shares by the GEM Listing Committee on 8 August 2007, the Joint Placing Agents have completed the placing of the 167,000,000 New Placing Shares as well as the 233,000,000 Top-up Shares under the Top-up Placing Option exercised by the Joint Placing Agents as disclosed in the Announcement. Following the Top-up Placing and subject to the relevant resolution being passed by Independent Shareholders at the SGM, the Top-up Sellers will subsequently subscribe for the Subscription Shares at the Subscription Price.

LETTER FROM THE BOARD

The Top-up Placing

Parties to the Top-up Placing

The Top-up Sellers and the Joint Placing Agents

Rights and ranking of the Top-up Shares

The Top-up Shares are sold free from all liens, charges, encumbrances and third-parties rights and rank para passu with the Shares in issue, together with all rights attaching thereto as at the date of the Placing and Share Subscription Agreement, including the right to receive all dividends and other distribution declared, made or paid on the Top-up Shares at any time on or after the date of the Placing and Share Subscription Agreement.

Proceeds from the Top-up Placing

Proceeds from the Top-up Placing will be deposited with SBI E2-Capital for purpose of the Subscription.

The Subscription

Number of the Subscription Shares

The Top-up Sellers will subscribe for the Subscription Shares, being such number of new Shares as is equivalent to the aggregate number of the Top-up Shares actually sold to the Placees under the Top-up Placing, up to a maximum number of 233,000,000 new Shares to be subscribed by the Top-up Sellers pursuant to the Placing and Share Subscription Agreement.

Subscription Price

The Subscription Price is HK\$0.53 (equivalent to the Top-up Placing Price before deducting the relevant expense relating to the Top-up Placing and the Subscription).

Mandate to issue the Subscription Shares

The Subscription Shares will be issued under the Specific Mandate.

Ranking of the Subscription Shares

The Subscription Shares will rank para passu in all respects with all other Shares in issue upon completion of the Subscription, including the right to any dividend or distributions after the date of their allotment and issue.

LETTER FROM THE BOARD

Conditions precedent to the Subscription

Completion of the Subscription is conditional upon:

- (i) the GEM Listing Committee having granted the listing of, and the permission to deal in the Subscription Shares;
- (ii) completion of the Top-up Placing;
- (iii) the passing of an ordinary resolution by the Independent Shareholders at the SGM for the grant of the Specific Mandate to issue the Subscription Shares;
- (iv) the Bermuda Monetary Authority having granted the permission for the allotment and issue of the Subscription Shares (if required); and
- (v) all requisite consents or confirmations of no objection (if necessary) or filings at, any government or competent authorities for the Subscription having been obtained by the Company from third parties or effected by the Company.

As at the Latest Practicable Date, conditions numbered (i) and (ii) have been fulfilled. Save for the aforesaid, none of the above conditions have been fulfilled.

If the above conditions are not being fulfilled by 5:00 p.m. on or before 30 October 2007 (or such later date as may reasonably agreed by the Joint Placing Agents, the Top-up Sellers and the Company), all rights obligations and liabilities of the parties involved in the Subscription shall cease and none of the parties shall have any claim against any of the other of them in respect of the Subscription.

Other information in relation to the Placing

The Joint Placing Agents

The Joint Placing Agents and their ultimate beneficial owners are, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Independent Third Parties.

Placees

Following the exercise of the Top-up Placing Option in full, the Joint Placing Agents have, on a best-effort basis, placed the 400,000,000 Placing Shares (comprising the 233,000,000 Top-up Shares and the 167,000,000 New Placing Shares) to not less than six independent Placees who are professional and/or institutional investors. To the Directors' best knowledge, information and belief, having made all reasonable enquiries, the Placees (and their ultimate beneficial owners) procured by the Joint Placing Agents are Independent Third Parties and not associates of each of the Top-up Sellers, and each of the Placees is independent of each of the others. The Joint Placing Agents have made pro-rata allocation of the Placing Shares to each Placee at the same proportion of 233 Top-up Shares to 167 New Placing Shares.

LETTER FROM THE BOARD

STATUS OF THE SHARES TO BE ISSUED

The Consideration Shares, the Subscription Shares and Conversion Shares will rank pari passu with all the Shares in issue at the date of their issue.

FUND-RAISING ACTIVITIES OF THE GROUP DURING THE PAST TWELVE MONTHS

The Company did not conduct any fund-raising activities during the past twelve months before the Latest Practicable Date.

FINANCIAL IMPACT OF THE ACQUISITION AND THE NEW SHARE PLACING

Upon completion of the Acquisition, (Cambodia) Tong Min will become an indirectly wholly-owned subsidiary of the Company and the financial results of (Cambodia) Tong Min will be consolidated into the Company's consolidated financial statements. The following sets out, for illustrative purposes only, the key financial information of the Group and the unaudited pro forma financial information of the Enlarged Group assuming Completion of the Acquisition and the New Share Placing.

	The Group (Before completion of the Acquisition and the New Share Placing) as at 30 June 2007 (HK\$'000)	The Enlarged Group (Assuming completion of the Acquisition and the New Share Placing) as at 30 June 2007 (HK\$'000)
Total assets	145,642	419,428
Total liabilities	44,267	122,161
Minority interests	6,887	6,887
Net assets value (including minority interests)	101,375	297,267
Gearing ratio (total liabilities/total assets)	30.4%	29.1%

Upon completion of the Acquisition and the New Share Placing, the Group's consolidated total assets and liabilities have increased by approximately HK\$273.8 million and HK\$77.9 million respectively and the gearing ratio of the Group will be reduced from 30% to 29%. In addition, an intangible asset of approximately HK\$264 million, being the aggregate amount of the land use and exploitation rights of using the Forest, will be created. As the Acquisition is conditional upon the New Share Placing, accordingly, upon completion of the Acquisition and the New Share Placing, the cash balance (including bank deposits) of the Company would be increased to HK\$82.8 million, representing an increase of approximately HK\$10.23 million, being the proceeds from the New Share Placing net of the Cash Consideration and the estimated payment for the rights premium of HK\$55 million in respect of the Forest.

LETTER FROM THE BOARD

The Directors consider that the Acquisition will contribute to the revenue base of the Enlarged Group but the quantification of such impact will depend on the future demand and market prices for timber and rubber products.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

In view of the rapid development of the PRC's economy which has led to increasing activities in the manufacturing and construction sectors, the Directors consider that the demand for natural resources will continue to remain strong. (Cambodia) Tong Min will become a wholly-owned subsidiary of the Company after the Acquisition. As the Company is granted with an option to acquire from the Vendors all the issued capital in the company(ies) which will hold the land use rights and/or the rights to forest exploitation obtained by the Vendors in the future in respect of three additional plots and is backed by the aggregate net proceeds from the placing of the New Placing Shares and the Subscription of approximately HK\$226 million, the Enlarged Group will be able to further expand into the natural resources business, thereby contributing positively to the Enlarged Group's future profitability and financial performance.

LISTING OF THE SHARES TO BE ISSUED

Application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Consideration Shares, the Subscription Shares and the Conversion Shares.

Subject to the granting of listing of, and permission to deal in, the Consideration Shares, Subscription Shares and Conversion Shares on the Stock Exchange, Consideration Shares, Subscription Shares and Conversion Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consideration Shares, Subscription Shares and Conversion Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

USE OF PROCEEDS FROM THE PLACING AND THE SUBSCRIPTION

The Joint Placing Agents have successfully placed the 167,000,000 New Placing Shares and exercised the Top-up Placing Option to place 233,000,000 additional Top-up Shares. The gross and estimated net proceeds from the placing of the New Placing Shares will amount to approximately HK\$115 million and HK\$109 million respectively, and the gross and estimated net proceeds for the Subscription will amount to approximately HK\$123 million and HK\$117 million respectively. It is the intention of the Company to use the net proceeds from the placing of the New Placing Shares as to approximately HK\$55 million for premium payment to the Cambodian government for the forest exploitation right in respect of the Forest, as to approximately HK\$32 million for the initial clearing up of the Forest and subsequent rubber plantation, as to approximately HK\$16 million for the establishment of a wood flooring factory

LETTER FROM THE BOARD

in Cambodia to process the timber obtained and the remaining balance of approximately HK\$6 million for general working capital, and the net proceeds from Subscription will be used as to approximately HK\$78 million for the acquisition of exclusive exploitation right of additional forests in Cambodia and as to approximately HK\$39 million for general working capital for the development of the Forest.

In the event that the relevant resolution relating to the Subscription is not passed at the SGM, the Shareholders' interest would be prejudiced because the Company cannot implement its exploitation plan of the Forest as scheduled and acquire the exploitation rights for additional forests in Cambodia due to the lack of funding. As a result, the Company may have to delay its development plan in respect of the Forest and seek other fund raising alternatives so as to continue its implementation plan of the Forest.

Despite the uncertainty as to the passing of the relevant resolutions relating to the Acquisition and the Subscription, the Directors and the Top-up Sellers are of the view that the Company's investment in the Forest is of commercial benefit to the Company and the Shareholders as a whole and the additional fund to be obtained by the Company from the Subscription will enhance the Company's business development in the natural resources sector and in turn, increase the value of the Shares. The Directors and the Top-up Sellers are confident that the Shareholders will vote in favour of the resolutions in connection with the Acquisition and the Subscription.

IMPLICATION OF THE GEM LISTING RULES

The Acquisition Agreement

Since the relevant percentage ratios (as defined under the GEM Listing Rules) are greater than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and, accordingly, the transactions contemplated under the Acquisition Agreement are subject to the approval of the Shareholder at the SGM by way of poll. Since the Subscription is subject to the approval of the Independent Shareholders and it is not certain whether the Subscription will be completed before the SGM for the approval of the Acquisition, the Top-up Sellers will abstain from voting in the SGM for approving the relevant resolution relating to the Acquisition.

The Subscription

Mr. Li Wo Hing and Mr. Li Tai To, two of the Top-up Sellers, being the Directors and PMM, one of the Top-up Sellers, being the substantial Shareholders (as defined under the GEM Listing Rules), are connected persons of the Company and the issue of the Subscription Shares will be made under the Specific Mandate which would require the Shareholders' approval at the SGM by way of a poll. Completion of the Subscription is expected to take place 14 days after the date of the Placing and Share Subscription Agreement and the Subscription will constitute a non-exempt connected transaction for the Company. Accordingly, completion of the Subscription will be subject to Independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming successful completion of the Subscription

Assuming the resolution relating to the Subscription is passed at the SGM, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of New Placing Shares, exercise of the Top-up Placing Option and the Subscription but before issue of the Consideration Shares and conversion of the Convertible Bonds; (iii) immediately after the issue of New Placing Shares, exercise of the Top-up Placing Option, the Subscription and the issue of the Consideration Shares but before conversion of the Convertible Bonds; and (iv) immediately after the issue of New Placing Shares, exercise of the Top-up Placing Option, the Subscription, issue of the Consideration Shares and conversion of the Convertible Bonds in full are set out as follows:

	As at the Latest Practicable Date		Immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option and the Subscription but before issue of the Consideration Shares and conversion of the Convertible Bonds		Immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option, the Subscription and the issue of the Consideration Shares but before conversion of the Convertible Bonds		Immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option, the Subscription, issue of the Consideration Shares and conversion of the Convertible Bonds in full	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Top-up Sellers								
– PMM (Note 1)	–	–	193,360,000	15.66	193,360,000	11.83	193,360,000	11.34
– Mr. Li Wo Hing	–	–	32,800,000	2.65	32,800,000	2.01	32,800,000	1.92
– Mr. Li Tai To	9,560,000	0.95	16,400,000	1.33	16,400,000	1.01	16,400,000	0.96
	9,560,000	0.95	242,560,000	19.64	242,560,000	14.85	242,560,000	14.22
The Second Vendor and the Third Vendor	–	–	–	–	400,000,000	24.46	470,000,000	27.57
The Placees (Note 2)	400,000,000	39.92	400,000,000	32.39	400,000,000	24.46	400,000,000	23.46
Other Public Shareholders	592,440,000	59.13	592,440,000	47.97	592,440,000	36.23	592,440,000	34.75
	<u>1,002,000,000</u>	<u>100.00</u>	<u>1,235,000,000</u>	<u>100.00</u>	<u>1,635,000,000</u>	<u>100.00</u>	<u>1,705,000,000</u>	<u>100.00</u>

LETTER FROM THE BOARD

Assuming the Subscription not completed

Assuming the resolution relating the Subscription is not passed at the SGM, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option and the issue of the Consideration Shares but before conversion of the Convertible Bonds; and (iii) immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option, issue of the Consideration Shares and conversion of the Convertible Bonds in full are set out as follows:

	As at the Latest Practicable Date		Immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option and issue of the Consideration Shares but before conversion of the Convertible Bonds		Immediately after the issue of the New Placing Shares, exercise of the Top-up Placing Option, issue of the Consideration Shares and conversion of the Convertible Bonds in full	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Top-up Sellers						
– PMM (Note 1)	–	–	–	–	–	–
– Mr. Li Wo Hing	–	–	–	–	–	–
– Mr. Li Tai To	9,560,000	0.95	9,560,000	0.68	9,560,000	0.65
	<u>9,560,000</u>	<u>0.95</u>	<u>9,560,000</u>	<u>0.68</u>	<u>9,560,000</u>	<u>0.65</u>
The Second Vendor and the Third Vendor	–	–	400,000,000	28.53	470,000,000	31.93
The Placees (Note 2)	400,000,000	39.92	400,000,000	28.53	400,000,000	27.17
Other Public Shareholders	592,440,000	59.13	592,440,000	42.26	592,440,000	40.25
	<u>1,002,000,000</u>	<u>100.00</u>	<u>1,402,000,000</u>	<u>100.00</u>	<u>1,472,000,000</u>	<u>100.00</u>

Notes:

1. PMM is owned as to 70.60% by Mr. Li Wo Hing.
2. No Placees are or will become, as a result of the Placing and the Top-up Placing, connected persons (as defined under the GEM Listing Rules) of the Company and thus all Placees are public Shareholders.

Under the terms of the Convertible Bonds, the Second Vendor and the Third Vendor (and its concert parties) have undertaken to the Company that no conversion of the Convertible Bonds may take place if the conversion will result in the Second Vendor and the Third Vendor (and parties acting in concert with any of them) holding 29% or more voting power in the Company. Accordingly, the last column of the above shareholding table is for illustrative purpose only and does not suggest that such shareholding scenario will occur.

LETTER FROM THE BOARD

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Company also proposed to increase its authorised share capital from HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each as at the Latest Practicable Date, to HK\$50,000,000, divided into 5,000,000,000 Shares of HK\$0.01 each, so as to provide flexibility to the Company to facilitate its equity-related acquisition and fund-raising activities in the future when appropriate opportunities arises.

The proposed increase in the authorised share capital of the Company is subject to the approval of the Shareholders at the SGM. Under Bermuda laws, the Company is required to file a memorandum of increase in the authorised share capital together with a certified resolution in respect thereof with the Bermuda Registrar of Companies within 30 days of the effective date of such increase.

PROPOSED CHANGE OF COMPANY NAME

The Board proposes that, subject to completion of the Acquisition as described in the Announcement, the English and Chinese names of the Company will be changed from “Medical China Limited” and “神州醫療科技有限公司” to “China Asean Resources Limited” and “神州東盟資源有限公司”, respectively. The proposed change of names of the Company is to signify the Company’s future business expansion in the resources business in Cambodia and the PRC. The Board considers that the proposed new names of the Company provide a more appropriate identification of the Company’s new business strategies for its future development and operations, which is in the interest of the Company and the Shareholders as a whole.

The proposed change to the names of the Company is subject to, among other things (i) completion of the Acquisition; (ii) the passing of a special resolution by the Shareholders at the SGM; and (iii) each of the Registrar of Companies of Bermuda and Hong Kong issuing a certificate of change of names of the Company, respectively.

The proposed change of names of the Company will not affect any of the rights of the existing Shareholders. The share certificates bearing the Company’s existing names will continue to be evidence of legal title and valid for trading, settlement and registration purposes. There will not be any arrangement for free exchange of existing share certificates for new share certificates under the new names of the Company. However, new share certificates of the Company will be issued under the new names of the Company after the change of its names has become effective.

A further announcement will be made once the change of the names of the Company and change of stock short names become effective.

LETTER FROM THE BOARD

THE SGM

The notice convening the SGM of the Company to be held at SALON IV, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Tuesday, 2 October 2007 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approving (i) the Acquisition; (ii) the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds; (iii) the Subscription and the allotment and issue of the Subscription Shares; (iv) the increase in the authorised share capital; and (v) the change of the names of the Company is set out on pages 169 to 172 of this circular.

All of the resolutions shall be approved by way of poll at the SGM. PMM, Mr. Li Wo Hing and Mr. Li Tai To will abstain from voting in respect the resolutions numbered (4), (5) and (6) as set out in the notice convening the SGM.

Form of proxy for use in the SGM is enclosed with this circular. If Shareholders are not able to attend the SGM, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Ltd., at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjournment thereof should they wish to do so.

PROCEDURES FOR DEMANDING A POLL AT THE SGM

Pursuant to the bye-laws of the Company, a resolution put to the vote at the SGM shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the chairman of the meeting; or
- (b) by at least three shareholders present in person or by its duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any shareholder or shareholders present in person or by its duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or
- (d) by any shareholder or shareholders present in person or by its duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors consider that (i) the Acquisition; (ii) the allotment and issue of the Consideration Shares and the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds; (iii) the Subscription and the allotment and issue of the Subscription Shares; (iv) the increase in the authorised share capital; and (v) the change of the names of the Company are in the best interests of the Company and its Shareholders as a whole and, accordingly, recommend the Shareholders to vote in favour of such resolutions at the SGM.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Subscription. The full text of the letter from the Independent Board Committee is set out on page 38 of this circular. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee. The text of the letter of advice from the Independent Financial Adviser contained their recommendation and the principal factors they have taken into account in arriving at their recommendation is set out on page 50 of this circular.

Yours faithfully,
On behalf of the Board of Directors
Li Nga Kuk, James
Chairman



MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

7 September 2007

To the Independent Shareholders

Dear Sir or Madam,

SUBSCRIPTION OF NEW SHARES

We refer to the circular of the Company to the Shareholders dated 7 September 2007 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Subscription pursuant to the Placing and Share Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser, OSK Asia Capital Limited, as set out on pages 39 to 50 and the letter from the Board set out on pages 8 to 37 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the Subscription are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of which is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution at the SGM.

Yours faithfully,
For and on behalf of
**The Independent Board Committee of
Medical China Limited**
FAN Wan Tat
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel
Independent non-executive Directors

* For identification only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from OSK Asia Capital Limited to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into the circular.



11/F., Hip Shing Hong Centre,
55 Des Voeux Road Central, Hong Kong

7 September 2007

*The Independent Board Committee and
the Independent Shareholders*

Medical China Limited
Unit B
21st Floor
Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

SUBSCRIPTION OF NEW SHARES CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Subscription, details of which are set out in the circular of the Company dated 7 September 2007 (the "Circular") of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

On 18 July 2007, the Top-up Sellers and the Joint Placing Agents entered into the Placing and Share Subscription Agreement. Under the Placing and Share Subscription Agreement, the Joint Placing Agents have placed on behalf of the Top-up Sellers 233,000,000 Top-up Shares at the Top-up Placing Price of HK\$0.53 per Top-up Share and the Top-up Sellers have agreed to subscribe for 233,000,000 Subscription Shares at the Subscription Price of HK\$0.53 per Subscription Share. The Top-up Sellers are connected persons of the Company under the GEM Listing Rules. The issue of the Subscription Shares constitutes a non-exempt connected transaction for the Company and is subject to, among other conditions, approval of the Independent Shareholders being obtained.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Fan Wan Tat, Mr. Tam Wai Leung, Joseph and Mr. Chan Kim Chung, Daniel has been established to give advice and recommendation to the Independent Shareholders. OSK Asia Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription and to recommend whether the Independent Shareholders should vote for or against the Subscription at the SGM.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Circular and those supplied or made by the Directors and management and advisers of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors and management and advisers of the Company that no material facts have been withheld or omitted from such information and representations. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular or to us have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement in the Circular relating to the Group or (Cambodia) Tong Min misleading.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 17.92 of the GEM Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, (Cambodia) Tong Min, the Forest and the forests subject to the call option granted to China Cambodia Resources or the current state of or likely prospects of the industries in which the Group and (Cambodia) Tong Min respectively operate.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Subscription, we have taken into consideration the following principal factors:

Background of and reasons for the Subscription

The Group is principally engaged in the research, development and provision of medical devices for cancer treatment and in the promotion of anticancer drugs in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below sets out the results of the Group for the two years ended 31 December 2005 and 2006 and the six months ended 30 June 2007.

	For the year ended 31 December 2005	For the year ended 31 December 2006	For the six months ended 30 June 2007
	Audited	Audited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	36,081	34,979	16,626
Gross profit	20,787	20,899	7,505
Loss before taxation	2,301	26,743	2,090
Loss after taxation	2,301	26,954	2,090
Loss attributable to			
Shareholders	2,167	29,378	2,456

After the listing of the Shares on GEM in December 2001, the Group recorded a net loss for the first time in 2003 amounting to approximately HK\$21.3 million. For the year ended 31 December 2004, the performance of the Group improved and the Group recorded a net profit attributable to Shareholders of approximately HK\$3.6 million. The Group recorded losses for the two years ended 31 December 2005 and 2006 respectively and an unaudited loss for the six months ended 30 June 2007. It was stated in the Company's annual report for the year ended 31 December 2006, the quarterly report for the three-month period ended 31 March 2007 and the interim report for the six-month period ended 30 June 2007 that keen market competition and decrease in the selling price of the Group's products and services with a view to capturing a larger market share were the major factors for the unsatisfactory performance of the Group. Although the Group experienced growth in the sale of medical testing equipment, such growth was not sufficient to compensate for the decrease in medical equipment service fees received and the sale of related accessories and the increase in administrative expenses. The Directors consider the medical equipment, testing instruments and drug development businesses to be highly competitive and subject to rapid technical development.

The Group has been carrying out a number of business strategies with a view to minimizing and diversifying the above business risks, including continual engagement in research and development activities and involvement in agricultural crop growing for medicine production.

On 25 July 2007, China Cambodia Resources, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendors, pursuant to which China Cambodia Resources conditionally agreed to purchase from the Vendors the entire issued share capital of (Cambodia) Tong Min for an aggregate consideration of HK\$208.36 million. The Consideration will be satisfied by the Cash Consideration of HK\$50 million (which is stated to be expected to be financed by internal resources of the Group), as to HK\$75.20 million by the issue of 400,000,000 Consideration Shares at an issue price of HK\$0.188 per Share, as to HK\$13.16 million by the issue of the 7-year, 2% Convertible Bonds which will carry rights to convert into new Shares at a conversion price of HK\$0.188 per Share (subject to adjustment) and the remaining balance as to HK\$70 million by the issue of the 2-year, 2% Bonds by the Company. Under the Acquisition Agreement, the Vendors have jointly and severally guaranteed

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to the Company that the audited net profit after taxation and minority interests but before extraordinary or exceptional items (“Audited Net Profit”) of (Cambodia) Tong Min for the year ending 31 December 2008 shall not be less than HK\$170 million and the aggregate audited net profit after taxation and minority interests but before extraordinary or exceptional items of (Cambodia) Tong Min for the three years ending 31 December 2011 shall not be less than HK\$700 million. If and only if (1) the Audited Net Profit of (Cambodia) Tong Min for the year ending 31 December 2008 is less than 70% of the guaranteed amount of HK\$170 million, i.e. less than HK\$119 million or (2) the aggregate Audited Net Profit of (Cambodia) Tong Min for the three years ending 31 December 2011 is less than 70% of the guaranteed amount of HK\$700 million, i.e. less than HK\$490 million, the Second Vendor or the Third Vendor will then be obliged under the Acquisition Agreement to compensate the Company for the shortfall (the “Shortfall”) representing the difference between the actual Audited Net Profit of (Cambodia) Tong Min for the relevant year(s) and the amount of profit so guaranteed by the Vendors by:

1. forfeiting or repurchasing, at a total consideration of HK\$1.0, a certain amount of the then outstanding Convertible Bonds, Consideration Shares or Conversion Shares held by the Second Vendor and the Third Vendor subject to the applicable laws, regulations, rules and codes; and/or
2. selling a certain amount of the Consideration Shares or the Conversion Shares held by the Second Vendor and/or the Third Vendor to purchasers designated by the Company and/or in such manner as prescribed by the Company and paying the relevant net sale proceeds (up to the amount of the Shortfall) to the Company.

The aggregate amount of the Convertible Bonds (as represented by the equivalent number of Conversion Shares that may fall to be issued upon conversion of such Convertible Bonds based on the then prevailing Conversion Price) to be forfeited or redeemed, and/or the Consideration Shares and/or the Conversion Shares to be repurchased by the Company and/or sold by the Second Vendor and/or the Third Vendor pursuant to the above compensation arrangements shall equal to the Shortfall divided by the average closing price per Share for the five trading days immediately before the date of publication of announcement of the Company in respect of the Audited Net Profit of (Cambodia) Tong Min for the year ending 31 December 2008 or the year ending 31 December 2011 (as the case may be). In any event, the aggregate amount of the Convertible Bonds (as represented by the equivalent number of Conversion Shares that may fall to be issued upon conversion of such Convertible Bonds based on the then prevailing Conversion Price) which may be forfeited or redeemed and the Consideration Shares and Conversion Shares which may have to be repurchased by the Company and/or sold by the Second Vendor and the Third Vendor in respect of the above profit guarantee arrangements shall not exceed (1) 30% of the total number of the Consideration Shares and the Conversion Shares which may fall to be issued upon conversion of the Convertible Bonds in full based on the initial Conversion Price (i.e. 141 million Shares) for the year ending 31 December 2008 and (2) 20% of the total number of the Consideration Shares and the Conversion Shares which may fall to be issued upon conversion of the Convertible Bonds in full based on the initial Conversion Price (i.e. 94 million Shares) for the three years ending 31 December 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the letter from the Board, (Cambodia) Tong Min intends to be principally engaged in rubber plantation business to produce latex under an exclusive right to exploit the Forest for a period of 70 years which (Cambodia) Tong Min is in the process of obtaining. Since the date of its incorporation and up to 30 June 2007 (Cambodia) Tong Min has not recorded any revenue and as at 30 June 2007 had a deficiency in net assets of about HK\$0.2 million. (Cambodia) Tong Min will be responsible for the initial clearing up of the existing Forest in preparation for rubber plantation and the timber obtained from such initial clearing stage will be sold by (Cambodia) Tong Min. The Forest is located in Kratie District, Kratie Province, Cambodia and has a site area of approximately 10,082 hectares (equivalent to approximately 100 million sq.m.) and, according to the Technical Report, currently contains more than 3 million cubic metres of timber. The Directors have stated that they consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the best interests of the Company and its Shareholders as a whole.

Under the Acquisition Agreement, the Vendors have, for a consideration of HK\$1, granted China Cambodia Resources an option (the “Call Option”) to acquire from the Vendors all the issued capital (as held by the relevant Vendors as at the date of the exercise of such Call Option) in the company(ies) held by them (or any of them or any of their respective associates) which will hold the land use rights and/or the right to forest exploitation in respect of three further forest plots in Cambodia with an aggregate area of 32,873 hectares. The Call Option will become effective upon Completion and will expire on the third anniversary of Completion. A further amount of HK\$30 million has to be paid to the First Vendor upon the exercise of the Call Option for the first time. We are informed that all other terms of any possible acquisition pursuant to the exercise of the Call Option are yet to be determined in accordance with the terms of the Acquisition Agreement. Exercise of the Call Option is at the sole discretion of the Company. As set out in the Announcement, the exercise of the Call Option and/or completion of the relevant possible acquisition thereunder shall be subject to the independent shareholders’ approval requirement under the GEM Listing Rules. The Directors having considered the benefit of possibly having the right to obtain additional forest exploitation rights in Cambodia to the Company, consider that having the Call Option is in the best interests of the Company and the Shareholders as a whole.

On 18 July 2007, the Company, the Top-up Sellers and the Joint Placing Agents entered into the Placing and Share Subscription Agreement in respect of the Placing, the Top-up Placing and the Subscription. Under the Placing and Share Subscription Agreement, the Joint Placing Agents have, on behalf of the Company and the Top-up Sellers, placed 167,000,000 New Placing Shares at the New Shares Placing Price of HK\$0.69 per New Placing Share and 233,000,000 Top-up Shares at the Top-up Placing Price of HK\$0.53 per Top-up Share. We understand that the placing of the New Placing Shares and the Top-up Shares completed simultaneously on 14 August 2007. Under the Placing and Share Subscription Agreement, the Top-up Sellers have agreed to subscribe for 233,000,000 Subscription Shares (equal to the number of Top-up Shares placed by them) at the Subscription Price of HK\$0.53 per Subscription Share (equivalent to the Top-up Placing Price). The Top-up Placing and the Subscription form a typical top-up placing arrangement enabling a listed company to raise equity financing on market.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The gross and estimated net proceeds from the placing of the New Placing Shares amount to approximately HK\$115 million and HK\$109 million respectively, and the gross and estimated net proceeds for the Subscription amount to approximately HK\$123 million and HK\$117 million respectively. The Company has stated its intention to use the net proceeds from the placing of the New Placing Shares as to approximately HK\$55 million to be paid as a premium payment to the Cambodian government for the forest exploitation right in respect of the Forest, as to approximately HK\$32 million for the initial clearing up of the Forest and the subsequent rubber plantation, as to approximately HK\$16 million for the establishment of a wood flooring factory in Cambodia to process the timber obtained and the remaining balance of approximately HK\$6 million for general working capital, and the net proceeds from the Subscription are intended to be used as to approximately HK\$78 million for the acquisition of exclusive exploitation rights of additional forests in Cambodia and as to HK\$39 million for general working capital purposes in connection with the development of the Forest. We understand from the Company that if the amount of the premium payment to the Cambodian government differs from the estimated amount of HK\$55 million, the balance of the net proceeds from the Subscription which will be used as general working capital will change accordingly depending on the then circumstances.

We are engaged by the Company to opine on the terms of the Subscription. We express no view or opinion and make no recommendation in respect of the terms and conditions of the Acquisition. Independent Shareholders should carefully consider the terms and conditions of the Acquisition Agreement and the Company's stated reasons for, benefits and risks of the Acquisition when deciding whether the Acquisition is in the interests of the Company and the Shareholders as a whole. Given the entering into of the Acquisition Agreement and the Group's stated intention to acquire further forest exploitation rights in Cambodia, we concur with the Directors' view that the Subscription allows the Company to raise capital to finance the development of the Forest after Completion and the possible acquisition(s) of further forest exploitation right(s) in Cambodia.

Basis of the Subscription Price

We understand that the Company and the Top-up Sellers have at the same time respectively placed 167,000,000 New Placing Shares at a price of HK\$0.69 per Share and 233,000,000 Top-up Shares at a price of HK\$0.53 per Share to a number of independent placees. As stated in the letter from the Board, each placee has been placed with New Placing Shares and Top-up Shares in the same proportion for all placees. The Top-up Sellers will subscribe for 233,000,000 Subscription Shares at the Subscription Price of HK\$0.53 per Share. The Subscription Price is equivalent to the Top-up Placing Price. We understand from the Company that the New Share Placing Price and the Top-up Placing Price were agreed between the Company and the Joint Placing Agents after arm's length negotiations between them after considering (i) the market price of the Shares prior to the entering into of the Placing and Share Subscription Agreement; (ii) the trading performance of the existing medical business of the Group; and (iii) the need of the Group to obtain financing for the development of the proposed new forestry business. As stated in the Letter from the Board, the Top-up Placing Price is lower than the New Share Placing Price as the placees considered that the Subscription may or may not be approved by the Independent Shareholders. If the Subscription does not complete, the Top-up Placing will then become a "real" disposal of the Top-up Shares by the Top-up Sellers and the proceeds from the Top-up Placing will be retained by the Top-up Sellers. The Company states that given the above risk and concern, the placees demanded a lower placing price in respect of the Top-up Placing. We understand from the Company that the Top-up Sellers agreed to enter into the Placing and Share Subscription Agreement to place out the Top-up Shares at a price lower than the New Share Placing Price solely for the purposes of facilitating the equity fund raising exercise of the Company through the Top-up Placing and the Subscription. As the Subscription is subject to approval by the Independent Shareholders, the Top-up Sellers bear

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the risk that the Subscription may not be approved by the Independent Shareholders (resulting in the Subscription being unable to take place) and they will then have sold their interests in the Top-up Shares at a lower price than the price at which the New Placing Shares were placed.

The table below sets out the discount or premium of the placing prices to or over the selected benchmarked prices and the latest net asset value per Share.

		Discount/premium of issue price to/over market price/net asset value per Share/net tangible asset value per Share		
		New Share Placing Price	Top-up Placing Price/ Subscription Price	Weighted average (Note 1)
		HK\$0.69	HK\$0.53	HK\$0.5968
	Price (HK\$)			
Issue Price/Conversion Price	0.188	267.02%	181.91%	217.45%
Last Trading Date	0.86	(19.77%)	(38.37%)	(30.60%)
Average closing price for the last 5 trading days on and prior to the Last Trading Date	0.75	(8%)	(29.33%)	(20.43%)
Average closing price for the last 10 trading days on and prior to the Last Trading Date	0.74	(6.76%)	(28.38%)	(19.35%)
Average closing price for the last 30 trading days on and prior to the Last Trading Date	0.58	18.97%	(8.62%)	2.90%
Average closing price for the last 60 trading days on and prior to the Last Trading Date	0.36	91.67%	47.22%	65.77%
Average closing price for the Latest Practicable Date	0.57	21.05%	(7.02%)	4.70%
Audited consolidated net asset value per Share as at 31 December 2006	0.121	470.25%	338.02%	393.22%
Audited consolidated net tangible asset value per Share as at 31 December 2006	0.087	693.10%	509.20%	585.98%

Note:

- The weighted average placing price is calculated as follows:

$$\frac{233,000,000 \times \text{HK\$}0.53 + 167,000,000 \times \text{HK\$}0.69}{(233,000,000 + 167,000,000)}$$

Market sentiment, the size of a placing and the size of the relevant issuer are, among other things, factors in the determination of the placing price/subscription price. To the best of our knowledge, we have reviewed the placements from 19 May 2007 to 18 July 2007 (the Last Trading Date) (the “Relevant Period”) of companies, the shares of which were listed on the Main Board of the Stock Exchange or GEM with a market capitalization of not more than HK\$2,000 million on the trading day immediately prior to the issue of the relevant placing announcement with gross proceeds of not more than HK\$500 million. Based on the closing price per Share on the Last Trading Date, the market capitalization of the Company was approximately HK\$718 million. The aggregate gross proceeds of the New Share Placing and the Top-up Placing amount to approximately HK\$238 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To the best of our knowledge, we note that there were 23 placements in respect of GEM listed companies and 59 placements in respect of Main Board listed companies during the Relevant Period which meet the above selection criteria. The table below sets out the information in respect of such 81 placings.

	Closing price of the shares on the last trading day prior to the placing agreement	Average closing price for last 5 trading days prior to the placing agreement	Average price for the last 10 trading days prior to the placing agreement	Average closing price for last 30 trading days prior to the placing agreement	Average price for the last 60 trading days prior to the placing agreement	Latest net asset value per share prior to the placing agreement
Companies, shares of which are listed on GEM	23					
Discount of the placing price to	(23) 6.38% to 98.70%	(21) 1.08% to 91.67%	(19) 1.96% to 98.10%	(13) 2.11% to 91.67%	(7) 1.96% to 91.67%	(5) 273.52% to 5,048.09%
Premium of the placing price over	(0)	(2) 1.11% to 2.08%	(4) 3.77% to 6.85%	(10) 2.94% to 109.79%	(16) 1.80% to 279.74%	(18) 3.60% to 3,654.53%
Companies, shares of which are listed on Main Board	59					
Discount of the placing price to	(59) 0% to 32.89%	(46) 1.13% to 24.70%	(40) 1.36% to 24.91%	(23) 0.46% to 32.58%	(16) 2.53% to 45.59%	(19) 2.34% to 398,063.64%
Premium of the placing price over	(0)	(13) 0.03% to 17.19%	(19) 0.04% to 188.15%	(36) 0.81% to 190.11%	(43) 0.38% to 375.01%	(40) 1.37% to 518,334.97%
Average	(16.42%)	(12.27%)	(6.77%)	5.08%	25.22%	1,649.08%

Source: The Stock Exchange

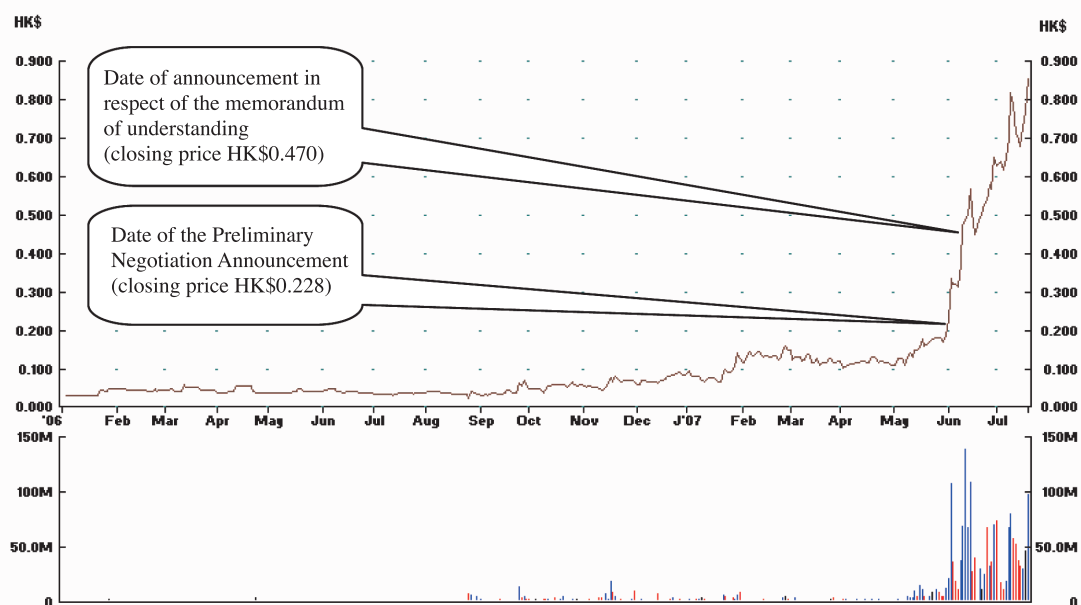
Notes:

- (1) Numbers in () above denote the number of companies which fall under the relevant categories.
- (2) The placing by one of the selected GEM companies with the highest discount to the trading price of the relevant shares was carried out in connection with a debt capitalization.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The discounts of the Top-up Placing Price or the weighted average of the New Share Placing Price and the Top-up Placing Price (“Average Placing Price”) to the closing price of the Shares on the Last Trading Date, the 5 trading days on and prior to the Last Trading Day and the 10 trading days on and prior to the Last Trading Day are comparatively higher than the average discounts of the placing prices of above selected comparable placements to their relevant then market prices. Despite the above, all the pricing references in respect of the New Share Placing, the Top-up Placing and the Subscription still fall within the relative range of discounts/premiums of the selected placements (when the Main Board and GEM transactions are considered as a whole, even excluding the placement of the GEM company which was carried out together with a debt capitalization).

The chart below shows the closing price and the trading volume of the Shares from 1 January 2006 to the date of the Placing and Share Subscription Agreement.



Source: Infocast

We understand from the Company that save for the entering into of the Acquisition Agreement and the Placing and Share Subscription Agreement, there have not been any major developments in respect of the business of the Group since 1 January 2006. As described above, we understand from the Company that the performance of the Group’s existing business remains unsatisfactory. The Group recorded losses for the year ended 31 December 2006 and the six months ended 30 June 2007. Despite the above, the share price of the Company increased significantly from the beginning of this year to the date of the Placing and Share Subscription Agreement. On 2 January 2007, the closing price per Share was only HK\$0.094. On the date of the Placing and Share Subscription Agreement, the closing price per Share was HK\$0.86, representing an increase of 8.15 times. We suspect that the sharp increase in the share price of the Company may possibly be at least partly due to market speculation about the Company’s proposal to diversify into forestry business and partly due to the overall market surge (from 2 January 2007 to 18 July 2007, the day-end closing of the GEM Index increased from 1,235 points to 1,744 points, representing an increase of 41.21%).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The chart below shows the GEM index from 2 January 2006 to 10 July 2007.



Source: Infocast

Based on the above, we consider that the closing prices of the Shares prior to the entering into of the Acquisition Agreement and the Placing and Share Subscription Agreement on 18 July 2007 did not represent the intrinsic value of the Company based on its existing medical business but was possibly materially affected by market expectations in respect of the Company's proposed diversification into forestry business in Cambodia. The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules. The Acquisition is subject to approval by the Shareholders and thus may or may not take place. Accordingly after considering the above and having taken into account the fact that the Subscription Price represents (i) 2.8 times the Issue Price of the Consideration Shares and the Conversion Price of the Convertible Bonds which will be issued upon Completion; (ii) 4.4 times the net asset value per Share as at 31 December 2006; and (iii) 6.1 times the net tangible asset value per Share as at 31 December 2006, we consider a deeper discount of the Top-up Placing Price and the Subscription Price to the market price of the Shares prior to the entering into of the Placing and Share Subscription Agreement justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Dilution effect of the Subscription

Based on the shareholding structure of the Company as at the Latest Practicable Date, the table below sets out the shareholding structure of the Company (i) immediately after completion of the Subscription but before issue of the Consideration Shares and the Convertible Bonds; and (ii) immediately after completion of the Subscription, the issue of the Consideration Shares and conversion of the Convertible Bonds in full at the initial Conversion Price.

	As at the Latest Practicable Date		Immediately after completion of the Subscription but before issue of the Consideration Shares and the Convertible Bonds		Immediately after completion of the Subscription, issue of the Consideration Shares and conversion of the Convertible Bonds in full	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
The Top-up Sellers (<i>note</i>)						
– PMM	–	–	193,360,000	15.66	193,360,000	11.34
– Mr. Li Wo Hing	–	–	32,800,000	2.65	32,800,000	1.92
– Mr. Li Tai To	9,560,000	0.95	16,400,000	1.33	16,400,000	0.96
	9,560,000	0.95	242,560,000	19.64	242,560,000	14.22
The Second Vendor and the Third Vendor	–	–	–	–	470,000,000	27.57
The Placees	400,000,000	39.92	400,000,000	32.39	400,000,000	23.46
Existing public Shareholders	592,440,000	59.13	592,440,000	47.97	592,440,000	34.75
	<u>1,002,000,000</u>	<u>100.00</u>	<u>1,235,000,000</u>	<u>100.00</u>	<u>1,705,000,000</u>	<u>100.00</u>

Note: The Top-up Sellers have placed 233 million Shares under the Top-up Placing and have agreed to subscribe for the same number of new Shares under the Subscription.

As a result of the issue of the New Placing Shares, the shareholding interests of the existing public Shareholders in the Company have decreased from approximately 70.95% to approximately 59.13%. Completion of the Subscription will further dilute the existing public Shareholders' interests in the Company to approximately 47.97%. On a see-through basis, the Top-up Placing and the Subscription will effectively dilute the shareholding interests of the Top-up Sellers by the same extent as the existing public Shareholders. The shareholding interests of the Top-up Sellers in the Company will decrease to approximately 19.64% after completion of the placing of the New Placing Shares and the Top-up Shares and the Subscription from approximately 29.05% immediately before the Top-up Placing. In addition, the Subscription Shares will be issued at a premium over the net asset value per Share and thus the net asset value per Share after completion of the Subscription shall be enhanced. Based on the above, we consider the dilution effect of the Subscription to the Independent Shareholders' interests in the Company to be acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CONCLUSION

The Group has been loss-making and has a relatively small asset backing. In view of the track record and prospects of the existing medical equipment business of the Group, the Company has decided to diversify into forestry business in Cambodia and has entered into the Acquisition Agreement. The Subscription, together with the placing of New Placing Shares and the Top-up Shares, will allow the Group to raise equity capital to finance the development of the forestry business. The stock market in Hong Kong has recently been quite volatile. After the entering into of the Placing and Share Subscription Agreement on 18 July 2007, the Hang Seng Index rose to as high as 23,557 points on 26 July 2007 but then dropped to as low as 19,386 points on 17 August 2007. Without the Top-up Sellers agreeing to enter into the Placing and Share Subscription Agreement to facilitate the top-up placing, it is possible that the Company may have already missed the opportunity to raise the capital with gross proceeds of approximately HK\$123 million through the Subscription as, generally, investors are less willing to take the market risk if completion of the placing takes a long period of time (which is the case here as it takes time to obtain shareholders' approval). Given the market volatility, it is uncertain when the Company would have the same opportunity to raise additional equity capital. In addition to the above market environment, after having considered the principal factors as described above in this letter, including (i) the background of and reasons for the Subscription, (ii) the basis of the Subscription Price and (iii) the market condition, we consider that the terms of the Subscription are fair and reasonable notwithstanding the possible dilution effect of the Subscription to the shareholding interests of the Independent Shareholders in the Company and recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Subscription at the SGM.

Yours faithfully,

For and on behalf of

OSK Asia Capital Limited

John Maguire

Managing Director

Allen Tze

Director

1. SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the results, assets and liabilities of the Group as extracted from the annual and interim reports of the Company for the three years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2006 and 2007. An unqualified opinion in respect of the audited financial statements of the Group has been issued for each of the three years ended 31 December 2004, 2005 and 2006.

RESULTS

	Six months ended		Year ended		
	30 June		31 December		
	2007	2006	2006	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	<u>16,626</u>	<u>16,896</u>	<u>34,979</u>	<u>36,081</u>	<u>31,576</u>
Profit/(loss) before taxation	(2,090)	1,060	(26,743)	(2,301)	5,782
Taxation	<u>–</u>	<u>–</u>	<u>(211)</u>	<u>–</u>	<u>(2,507)</u>
Profit/(loss) for the period/year	<u>(2,090)</u>	<u>1,060</u>	<u>(26,954)</u>	<u>(2,301)</u>	<u>3,275</u>
Basis earnings/(loss) per share (in Hong Kong cents)	<u>(0.29)</u>	<u>0.02</u>	<u>(3.52)</u>	<u>(0.26)</u>	<u>0.43</u>

ASSETS AND LIABILITIES

	As at		As at 31 December	
	30 June		2006	
	2007	2006	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	145,642	134,558	157,058	189,747
Total liabilities	(44,267)	(33,799)	(32,870)	(69,255)
Minority interests	<u>(6,887)</u>	<u>(6,339)</u>	<u>(3,734)</u>	<u>(3,784)</u>
Net assets attributable to equity holders of the Company	<u>94,488</u>	<u>94,420</u>	<u>120,454</u>	<u>116,708</u>

2. INTERIM RESULTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below are the unaudited financial statements of the Group together with accompanying notes as extracted from the interim report of the Company for the six months ended 30 June 2007:

Consolidated Income Statement

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
TURNOVER	2	10,658	7,676	16,626	16,896
Cost of services/sales		<u>(5,442)</u>	<u>(3,765)</u>	<u>(9,121)</u>	<u>(8,058)</u>
Gross profit		5,216	3,911	7,505	8,838
Other income	4	377	338	824	452
Selling and distribution expenses		(3,933)	(1,065)	(4,937)	(2,154)
Administrative expenses		(2,353)	(3,006)	(4,806)	(5,345)
Other operating expenses		<u>(649)</u>	<u>(105)</u>	<u>(652)</u>	<u>(607)</u>
Profit/(loss) from operations		(1,342)	73	(2,066)	1,184
Finance costs	5	<u>(2)</u>	<u>(38)</u>	<u>(24)</u>	<u>(124)</u>
Profit/(loss) before taxation	6	(1,344)	35	(2,090)	1,060
Taxation	7	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit/(loss) for the period		<u><u>(1,344)</u></u>	<u><u>35</u></u>	<u><u>(2,090)</u></u>	<u><u>1,060</u></u>
Profit/(loss) attributable to:					
Equity holders of the Company		(1,472)	(238)	(2,456)	207
Minority interests		<u>128</u>	<u>273</u>	<u>366</u>	<u>853</u>
		<u><u>(1,344)</u></u>	<u><u>35</u></u>	<u><u>(2,090)</u></u>	<u><u>1,060</u></u>
Basic earnings/(loss) per share					
(in Hong Kong cents)	8	<u><u>(0.17)</u></u>	<u><u>(0.03)</u></u>	<u><u>(0.29)</u></u>	<u><u>0.02</u></u>

Consolidated Balance Sheet

	Notes	At 30 June 2007		At 31 December 2006	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)		(Audited)	
Non-current assets					
Property, plant and equipment	10	7,255		7,473	
Construction in progress	11	8,080		6,447	
Biological assets	12	6,872		2,426	
Interests in leasehold land held for own use under operating leases	13	2,566		2,509	
Intangible assets	14	28,013		28,090	
			52,786		46,945
Current assets					
Inventories	15	8,562		5,234	
Trade and other receivables	16	11,699		12,422	
Deposits with banks	17	56,445		57,928	
Cash at bank and on hand		16,150		12,029	
		92,856		87,613	
Current liabilities					
Trade and other payables	18	42,283		30,075	
Bank loan	19	1,539		3,484	
Taxation		445		240	
		44,267		33,799	
Net current assets			48,589		53,814
NET ASSETS			101,375		100,759
CAPITAL AND RESERVES					
Share capital	20		8,350		8,350
Reserves			86,138		86,070
Total equity attributable to equity holders of the Company			94,488		94,420
Minority interests			6,887		6,339
TOTAL EQUITY			101,375		100,759

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June 2007 <i>HK\$'000</i> (Unaudited)	For the six months ended 30 June 2006 <i>HK\$'000</i> (Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	7,307	1,602
NET CASH USED IN INVESTING ACTIVITIES	(1,484)	(703)
NET CASH USED IN FINANCING ACTIVITIES	<u>(2,076)</u>	<u>(78)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,747	821
Cash and cash equivalents at beginning of the period	12,029	15,398
Effect of foreign exchange rate changes	<u>374</u>	<u>163</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>16,150</u></u>	<u><u>16,382</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	<u><u>16,150</u></u>	<u><u>16,382</u></u>

Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the Company						Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 January 2006	8,350	70,733	5,265	2,724	33,382	120,454	3,734	124,188
Currency translation differences	-	-	-	3,344	-	3,344	181	3,525
Profit/(loss) for the year	-	-	-	-	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	<u>8,350</u>	<u>70,733</u>	<u>5,265</u>	<u>6,068</u>	<u>4,004</u>	<u>94,420</u>	<u>6,339</u>	<u>100,759</u>
At 1 January 2007	8,350	70,733	5,265	6,068	4,004	94,420	6,339	100,759
Currency translation differences	-	-	-	2,524	-	2,524	182	2,706
Profit/(loss) for the period	-	-	-	-	(2,456)	(2,456)	366	(2,090)
At 30 June 2007	<u>8,350</u>	<u>70,733</u>	<u>5,265</u>	<u>8,592</u>	<u>1,548</u>	<u>94,488</u>	<u>6,887</u>	<u>101,375</u>

Notes to the Unaudited Interim Financial Statements

1. BASIS OF PREPARATION

The interim financial report has been reviewed by the Company's audit committee. The unaudited interim financial statements included therein have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") including compliance with HKAS 34 "Interim financial reporting" 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 "GEM Listing Rules").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The financial information relating to the financial year ended 31 December 2006 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on the statutory financial statements for the year ended 31 December 2006 in their report dated 26 March 2007.

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 medical equipment, net of value-added tax; and, when applicable, service fees arising from the provision of medical research and development services, net of business taxes.

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:

	For the three months ended 30 June		For the six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Medical equipment service fees and sales of related accessories	43	2,281	96	4,820
Sales of medical equipment	10,615	5,395	16,530	12,076
	<u>10,658</u>	<u>7,676</u>	<u>16,626</u>	<u>16,896</u>

3. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. No segment information by geographical segments is presented as the Group mainly operates in a single market, namely, the PRC.

Business segments

The Group comprises the following main business segments:

- Medical services: provision of medical equipment for the treatment of cancer.
- Sales of medical equipment: manufacture and sale of medical equipment.
- Research and development: development of drugs.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Medical services		Sales of medical equipment		Research and development		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Revenue from external customers	96	4,820	16,530	12,076	—	—	16,626	16,896
Segment result	30	2,721	1,068	2,561	(537)	(1,293)	561	3,989
Unallocated operating income and expenses							(2,627)	(2,805)
Profit/(loss) from operations							(2,066)	1,184
Finance costs							(24)	(124)
Taxation							—	—
Profit/(loss) after taxation							(2,090)	1,060

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	333	255	390	291
Miscellaneous	44	83	434	161
	<u>377</u>	<u>338</u>	<u>824</u>	<u>452</u>

5. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>2</u>	<u>38</u>	<u>24</u>	<u>124</u>

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	For the three months ended		For the six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories	5,254	3,634	8,879	7,551
Depreciation	280	351	499	882
Auditors' remuneration	395	334	529	334
Lease charges in respect of office premises	127	202	251	283
Research and development costs	409	299	649	900
Staff costs (including directors' remuneration)				
– Salaries and wages	1,061	948	1,814	1,931
– Staff retirement benefits	3	5	5	9
Amortisation of intangible assets	90	86	180	171
Amortisation of prepaid lease payments	9	9	19	19
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. TAXATION**(a) Hong Kong Profits Tax**

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2007 (2006: HK\$Nil) as the Group did not have any assessable profits chargeable to 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% (2006: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax at the rate of 33% (2006: 33%). In accordance with 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.

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

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences for the six months ended 30 June 2007 (2006: HK\$Nil).

8. EARNINGS/(LOSS) PER SHARE**(a) Basic earnings/(loss) per share**

The calculation of basic earnings/(loss) per share for the three months and six months ended 30 June 2007 is based on the loss attributable to equity holders of the Company of HK\$1,472,000 (2006: loss of HK\$238,000) and HK\$2,456,000 (2006: earnings of HK\$207,000), respectively, divided by the weighted average number of 835,000,000 (2006: 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 six months ended 30 June 2007 and 30 June 2006 have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: HK\$Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Medical equipment HK\$'000	Motor vehicles HK\$'000	Plant, machinery and equipment HK\$'000	Total HK\$'000
Cost					
At 1 January 2006	6,940	11,068	2,292	1,865	22,165
Additions	29	–	–	431	460
Transfer from construction in progress	18	–	–	–	18
Disposals	–	(10,728)	–	–	(10,728)
Cost adjustment*	(894)	–	–	–	(894)
Exchange adjustments	246	169	53	62	530
	<u>6,339</u>	<u>509</u>	<u>2,345</u>	<u>2,358</u>	<u>11,551</u>
At 31 December 2006	6,339	509	2,345	2,358	11,551
Additions	–	–	–	54	54
Disposals	–	(100)	–	–	(100)
Exchange adjustments	198	6	47	71	322
	<u>198</u>	<u>6</u>	<u>47</u>	<u>71</u>	<u>322</u>
At 30 June 2007	<u>6,537</u>	<u>415</u>	<u>2,392</u>	<u>2,483</u>	<u>11,827</u>
Aggregate depreciation					
At 1 January 2006	590	10,729	1,087	917	13,323
Charge for the year	8	278	507	442	1,235
Written back on disposals	–	(10,728)	–	–	(10,728)
Exchange adjustments	21	164	24	39	248
	<u>619</u>	<u>443</u>	<u>1,618</u>	<u>1,398</u>	<u>4,078</u>
At 31 December 2006	619	443	1,618	1,398	4,078
Charge for the period	146	12	163	178	499
Written back on disposals	–	(100)	–	–	(100)
Exchange adjustments	21	4	28	42	95
	<u>786</u>	<u>359</u>	<u>1,809</u>	<u>1,618</u>	<u>4,572</u>
At 30 June 2007	<u>786</u>	<u>359</u>	<u>1,809</u>	<u>1,618</u>	<u>4,572</u>
Net book value					
At 30 June 2007	<u>5,751</u>	<u>56</u>	<u>583</u>	<u>865</u>	<u>7,255</u>
At 31 December 2006	<u>5,720</u>	<u>66</u>	<u>727</u>	<u>960</u>	<u>7,473</u>

* Represents the adjustment to building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.

11. CONSTRUCTION IN PROGRESS

	<i>HK\$'000</i>
At 1 January 2006	760
Additions during the year	4,781
Cost adjustment (<i>Note 10</i>)	894
Transfer to property, plant and equipment (<i>Note 10</i>)	(18)
Exchange adjustments	30
At 31 December 2006	6,447
Additions during the period	1,432
Exchange adjustments	201
At 30 June 2007	8,080

12. BIOLOGICAL ASSETS

	<i>HK\$'000</i>
At 1 January 2006	–
Additions during the year	2,426
At 31 December 2006	2,426
Additions during the period	4,370
Exchange adjustments	76
At 30 June 2007	6,872

Biological assets represent trees in a plantation forest and are stated at fair values less estimated point-of-sale costs. The trees are at an early stage of cultivation for the production of Gui Hua Shu (桂花樹). The directors consider that the fair value of the trees approximates the cost incurred after taking into consideration the growing conditions and the time duration to maturity.

13. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

HK\$'000

Cost	
At 1 January 2006	2,386
Additions during the year	164
Exchange adjustments	85
	<hr/>
At 31 December 2006	2,635
Exchange adjustments	81
	<hr/>
At 30 June 2007	2,716
	<hr/>
Accumulated amortisation	
At 1 January 2006	83
Charge for the year	39
Exchange adjustments	4
	<hr/>
At 31 December 2006	126
Charge for the period	19
Exchange adjustments	5
	<hr/>
At 30 June 2007	150
	<hr/>
Net book value	
At 30 June 2007	2,566
	<hr/> <hr/>
At 31 December 2006	2,509
	<hr/> <hr/>

- (a) The leasehold land entitlements held by the Group are under medium-term leases and situated outside Hong Kong.
- (b) At 30 June 2007, one of the leasehold land assets amounting to HK\$1,086,000 (31 December 2006: HK\$1,074,000) had been pledged to a bank as security for Group bank borrowing facilities.

14. INTANGIBLE ASSETS

	Medical research projects <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2006	83,940	2,413	86,353
Exchange adjustments	67	55	122
	<hr/>	<hr/>	<hr/>
At 31 December 2006	84,007	2,468	86,475
Exchange adjustments	62	77	139
	<hr/>	<hr/>	<hr/>
At 30 June 2007	<hr/> 84,069 <hr/>	<hr/> 2,545 <hr/>	<hr/> 86,614 <hr/>
Accumulated amortisation			
At 1 January 2006	27,625	745	28,370
Impairment loss provision	29,667	–	29,667
Charge for the year	–	2	2
Exchange adjustments	–	346	346
	<hr/>	<hr/>	<hr/>
At 31 December 2006	57,292	1,093	58,385
Charge for the period	–	180	180
Exchange adjustments	–	36	36
	<hr/>	<hr/>	<hr/>
At 30 June 2007	<hr/> 57,292 <hr/>	<hr/> 1,309 <hr/>	<hr/> 58,601 <hr/>
Net book value			
At 30 June 2007	<hr/> 26,777 <hr/>	<hr/> 1,236 <hr/>	<hr/> 28,013 <hr/>
At 31 December 2006	<hr/> 26,715 <hr/>	<hr/> 1,375 <hr/>	<hr/> 28,090 <hr/>

15. INVENTORIES

	At 30 June 2007 <i>HK\$000</i>	At 31 December 2006 <i>HK\$000</i>
Raw materials	2,337	2,325
Work in progress	1,259	1,026
Finished goods	4,966	1,883
	<hr/>	<hr/>
	<hr/> 8,562 <hr/>	<hr/> 5,234 <hr/>

16. TRADE AND OTHER RECEIVABLES

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	4,166	4,243
Other receivables, deposits and prepayments	7,533	8,179
	<u>11,699</u>	<u>12,422</u>

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debtors aged as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months from the date of billing	1,748	1,771
3 to 6 months from the date of billing	563	1,496
6 to 12 months from the date of billing	1,855	976
	<u>4,166</u>	<u>4,243</u>

Trade debts are normally due within 90 days from the date of billing.

17. DEPOSITS WITH BANKS

All deposits with banks are denominated in Renminbi ("RMB") and held in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations on foreign exchange control promulgated by the PRC government.

18. TRADE AND OTHER PAYABLES

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors	5,107	2,630
Other payables and accrued liabilities	37,176	27,445
	<u>42,283</u>	<u>30,075</u>

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors aged as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due within 3 months or on demand	4,325	1,097
Due after 3 months but within 6 months	448	123
Due after 6 months but within 1 year	334	1,410
	<u>5,107</u>	<u>2,630</u>

19. BANK LOAN

The bank loan is repayable as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year or on demand	<u>1,539</u>	<u>3,484</u>

The above bank loan is secured by buildings and leasehold land assets of the Group with an aggregate carrying value HK\$6,793,000 at 30 June 2007 (2006: HK\$6,750,000).

20. SHARE CAPITAL

	No. of shares '000	At 30 June 2007 and 31 December 2006
		<i>HK\$'000</i>
<i>Authorised</i>		
Ordinary shares of \$0.01 each	<u>2,000,000</u>	<u>20,000</u>
<i>Issued and fully paid</i>		
At 1 January and at 30 June 2007	<u>835,000</u>	<u>8,350</u>

21. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2007 contracted but not provided for in the interim financial report were as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital contributions to the subsidiaries	–	5,758
Property, plant and equipment	<u>5,677</u>	<u>11,365</u>
	<u>5,677</u>	<u>17,123</u>

(b) Operating lease commitments

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	At 30 June 2007	At 31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	298	460
After 1 year but within 5 years	42	108
After 5 years	243	314
	<u>583</u>	<u>882</u>

The Group leases a number of properties under operating leases which typically run for an initial period of one or two years, with options to renew, at which time all key terms are renegotiated. The leases do not include contingent rentals.

22. MATERIAL RELATED PARTY TRANSACTIONS

The Group do not have any business transactions with connected parties and related companies which are subject to common control during the period.

23. SUBSEQUENT EVENTS

Subsequent to the interim period ended 30 June 2007, the Company announced, on 25 July 2007, that a wholly-owned subsidiary had entered into a very substantial conditional acquisition agreement involving the purchase of a forestry/rubber plantation business in Cambodia. At the same time, announcements were made of the Company entering into a "Placing and Share Subscription Agreement" on 18 July 2007 for a top-up placing of shares and placing of new shares. Shareholders should refer to the details of these announcements for their immediate and future possible impact on the Group.

3. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2006:

Consolidated Income Statement

For the year ended 31 December 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	4	34,979	36,081
Cost of services/sales		<u>(14,080)</u>	<u>(15,294)</u>
Gross profit		20,899	20,787
Other revenue	5	2,135	1,979
Selling and distribution expenses		(6,939)	(5,737)
Administrative expenses		(10,239)	(9,356)
Impairment loss recognised in respect of:			
Property, plant and equipment	13	–	(6,416)
Inventories	19	(710)	(437)
Intangible assets	17	(29,667)	–
Other operating expenses		<u>(1,951)</u>	<u>(2,820)</u>
Loss from operations		(26,472)	(2,000)
Finance costs	6(a)	<u>(271)</u>	<u>(301)</u>
Loss before taxation	6	(26,743)	(2,301)
Taxation	7	<u>(211)</u>	–
Loss for the year		<u><u>(26,954)</u></u>	<u><u>(2,301)</u></u>
Attributable to:			
Equity holders of the Company	29	(29,378)	(2,167)
Minority interests	29	<u>2,424</u>	<u>(134)</u>
		<u><u>(26,954)</u></u>	<u><u>(2,301)</u></u>
Loss per share (Hong Kong cents)			
Basic	11(a)	<u><u>(3.52)</u></u>	<u><u>(0.26)</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***At 31 December 2006*

		2006		2005	
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	<i>13</i>	7,473		8,842	
Construction in progress	<i>14</i>	6,447		760	
Biological assets	<i>15</i>	2,426		–	
Interests in leasehold land held for own use under operating leases	<i>16</i>	2,509		2,303	
Intangible assets	<i>17</i>	28,090		57,983	
			<u>46,945</u>		<u>69,888</u>
Current assets					
Inventories	<i>19</i>	5,234		6,035	
Trade and other receivables	<i>20</i>	12,422		12,868	
Deposits with banks	<i>22</i>	57,928		52,869	
Cash at bank and on hand	<i>23</i>	12,029		15,398	
		<u>87,613</u>		<u>87,170</u>	
Current liabilities					
Trade and other payables	<i>25</i>	30,075		28,320	
Bank loan	<i>24</i>	3,484		4,326	
Amount due to a director	<i>33</i>	–		200	
Taxation	<i>27</i>	240		24	
		<u>33,799</u>		<u>32,870</u>	
Net current assets			<u>53,814</u>		<u>54,300</u>
NET ASSETS			<u>100,759</u>		<u>124,188</u>
CAPITAL AND RESERVES					
Share capital	<i>28</i>		8,350		8,350
Reserves	<i>29</i>		86,070		112,104
Total equity attributable to equity holders of the Company			<u>94,420</u>		<u>120,454</u>
Minority interests	<i>29</i>		<u>6,339</u>		<u>3,734</u>
TOTAL EQUITY			<u>100,759</u>		<u>124,188</u>

Balance Sheet*At 31 December 2006*

		2006		2005	
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	13		49		232
Investments in subsidiaries	18		<u>55,755</u>		<u>47,670</u>
			<u>55,804</u>		<u>47,902</u>
Current assets					
Trade and other receivables	20	15		19	
Amounts due from subsidiaries	21	84,468		84,519	
Cash at bank and on hand	23	<u>121</u>		<u>221</u>	
		<u>84,604</u>		<u>84,759</u>	
Current liabilities					
Trade and other payables	25	1,016		848	
Amounts due to subsidiaries	26	79,792		65,648	
Amount due to a director	33	<u>–</u>		<u>200</u>	
		<u>80,808</u>		<u>66,696</u>	
Net current assets			<u>3,796</u>		<u>18,063</u>
NET ASSETS			<u><u>59,600</u></u>		<u><u>65,965</u></u>
CAPITAL AND RESERVES					
Share capital	28		8,350		8,350
Reserves	29		<u>51,250</u>		<u>57,615</u>
TOTAL EQUITY			<u><u>59,600</u></u>		<u><u>65,965</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2006*

	Attributable to equity holders of the Company					Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000			
At 1 January 2005	8,350	70,733	5,265	(100)	32,460	116,708	3,784	120,492
– Adjustment to retained profits in respect of amortisation of negative goodwill	–	–	–	–	3,089	3,089	–	3,089
Restated 1 January 2005	8,350	70,733	5,265	(100)	35,549	119,797	3,784	123,581
– Currency translation differences	–	–	–	2,824	–	2,824	84	2,908
Loss for the year	–	–	–	–	(2,167)	(2,167)	(134)	(2,301)
At 31 December 2005	8,350	70,733	5,265	2,724	33,382	120,454	3,734	124,188
At 1 January 2006	8,350	70,733	5,265	2,724	33,382	120,454	3,734	124,188
– Currency translation differences	–	–	–	3,344	–	3,344	181	3,525
Loss for the year	–	–	–	–	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	8,350	70,733	5,265	6,068	4,004	94,420	6,339	100,759

Consolidated Cash Flow Statement*For the year ended 31 December 2006*

	Notes	2006		2005	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities					
Loss before taxation		(26,743)		(2,301)	
Adjustments for:					
Depreciation		1,235		5,088	
Impairment losses recognised in respect of:					
Property, plant and equipment		–		6,416	
Inventories		710		437	
Intangible assets		29,667		–	
Amortisation of prepaid lease payments		39		38	
Amortisation of intangible assets		346		337	
Bad debts written off		756		–	
Net loss on disposal of property, plant and equipment		–		24	
Interest income		(1,207)		(1,588)	
Finance costs		271		301	
Operating profit before changes in working capital		5,074		8,752	
Decrease in inventories		257		755	
(Increase)/decrease in trade and other receivables		120		(6,082)	
Increase/(decrease) in trade and other payables		1,756		(37,241)	
Increase/(decrease) in amounts due to related companies		–		(1,790)	
Increase/(decrease) in amount due to a director		(200)		200	
Cash generated from/(used in) operations and net cash from/(used in) operating activities			7,007		(35,406)

	<i>Notes</i>	2006		2005	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from investing activities					
Capital expenditure:					
Property, plant and equipment		(460)		(713)	
Interests in leasehold land held for own use under operating leases		(164)		(1,227)	
Construction in progress		(4,781)		(760)	
Biological assets		(2,426)		–	
(Increase)/decrease in placement of deposits with banks		(3,185)		40,373	
Interest received		1,207		1,588	
Proceeds from sales of property, plant and equipment		–		103	
Net cash from/(used in) investing activities			(9,809)		39,364
Cash flows from financing activities					
Interest paid		(271)		(301)	
Proceeds from a new bank loan		3,484		5,768	
Repayment of bank loan		(4,326)		(3,322)	
Net cash from/(used in) financing activities			(1,113)		2,145
Net increase/(decrease) in cash and cash equivalents			(3,915)		6,103
Cash and cash equivalents at beginning of the year			15,398		9,091
Effect of foreign exchange rate changes			546		204
Cash and cash equivalents at end of the year	23		<u>12,029</u>		<u>15,398</u>

Notes to the Financial Statements

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

2. CHANGES IN ACCOUNTING POLICIES

(a) Adoption of new and revised Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The adoption of the relevant HKFRSs did not result in significant changes to the Group’s accounting policies applied in these financial statements for the years presented.

(b) Impact of Hong Kong Financial Reporting Standards issued but not yet effective

Up to the date of issue of these financial statements, HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations are expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with HKFRSs issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair values through the income statement.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries made up to 31 December.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Capital reserves arising on consolidation, which represent deficits of cost over fair values attributed to the net assets of subsidiaries acquired, are credited directly to reserves on consolidation.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss of disposal during the year.

(d) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to a minority interest exceeds the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses.

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in the income statement. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Medical equipment	Shorter of 6 years and the remaining terms of the agreements with hospitals
Buildings	Shorter of 50 years and the remaining terms of the leases
Office, computers and other equipment	5 years
Motor vehicles	5 years

Both the useful life of assets and their residual values, if any, are reviewed annually.

(f) Construction in progress

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified in note 3(e) above.

(g) Intangible assets (other than goodwill)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Medical research projects and other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Amortisation of intangible assets is charged to the income statement on the straight-line basis over the assets' estimated useful lives. Intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Medical research projects	5 to 10 years
Other intangible assets	5 to 10 years

Both the period and method of amortisation are reviewed annually.

(h) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that these assets have suffered impairment losses. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

A deferred tax asset is also recognised for the carryforward of unused tax losses, to the extent it is probable that taxable profits will be available against which the carryforward of the unused tax losses can be utilised.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

(i) Medical service fees

Medical service fees are recognised at the time when services are rendered, net of business taxes.

(ii) Sales of goods

Sales of goods are recognised when goods are delivered and title has passed. Revenue excludes value-added tax and is after deduction of any trade discounts.

(iii) Research and development service income

Revenue is recognised when the outcome on a research and development contract can be measured reliably. Revenue from a fixed price research and development contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a research and development contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable will be recoverable.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

Rental payables under operating leases are charged to the income statement on the straight-line basis over the periods of the relevant leases.

Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on the straight-line basis to the income statement.

(r) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s contributions as employer vest fully with the employees when contributed into the Scheme.

The Group has joined a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees’ salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer’s contributions vest fully once they are made.

(s) Foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated using the foreign exchange rates ruling at the dates the fair values were determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly as a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting systems, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during an accounting period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(w) Biological assets

Biological assets are living animals and/or plants managed by the Group which is involved in the agricultural activities of transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value of biological assets are determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate or the market price with reference to the species, growing condition, cost incurred and expected yield of the crops.

The agricultural produce is initially measured at fair value less estimated point-of-sale costs at the time of harvest. The fair value of agricultural produce is measured at the market prices in the local market. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing.

The gain or loss arising on initial recognition of biological asset at fair value less estimated point-of-sale costs is recognised in the consolidated income statement for the period in which it arises.

4. 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 agrees to locate certain medical equipment at the relevant hospitals and, in return, share the medical service fees arising from the utilisation of the medical equipment after deducting the related direct expenses.

Turnover recognised during the year is analysed as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Medical equipment service fees and sales of related accessories	5,669	16,664
Sales of medical equipment	27,994	15,634
Research and development service fees	1,316	3,783
	<u>34,979</u>	<u>36,081</u>

5. OTHER REVENUE

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest income	1,207	1,588
Net loss on disposal of property, plant and equipment	–	(24)
Foreign exchange loss	(1)	(146)
Miscellaneous	929	561
	<u>2,135</u>	<u>1,979</u>

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(a) Finance costs:		
Interest expense on bank loan	271	301
(b) Staff costs:		
Staff costs (including directors' remuneration in Note 8)		
Wages and salaries	6,098	4,614
Staff retirement benefits	17	17
	<u>6,115</u>	<u>4,631</u>
Average number of employees during the year	<u>198</u>	<u>177</u>
(c) Other items:		
Cost of inventories	14,192	11,748
Depreciation	1,235	5,088
Bad debts written off	756	–
Auditors' remuneration		
Audit services	693	600
Other services	34	14
Operating lease charges in respect of office premises	547	372
Amortisation of prepaid lease payments	39	38
Amortisation of intangible assets	346	337
Research and development costs	1,941	2,820
Impairment losses recognised in respect of		
Property, plant and equipment	–	6,416
Inventories	710	437
Intangible assets	29,667	–
	<u>29,667</u>	<u>–</u>

7. TAXATION

(a) Taxation in the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Current tax – PRC Tax for the year	<u>211</u>	<u>–</u>

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits chargeable to Hong Kong Profits Tax during the year.

(ii) 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 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.

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 year determined in accordance with the relevant income tax rules and regulations in the PRC.

(b) Reconciliation between taxation and loss before taxation at applicable tax rates:

	2006		2005	
	HK\$'000	%	HK\$'000	%
Loss before taxation	<u>(26,743)</u>		<u>(2,301)</u>	
Notional tax on loss before taxation, calculated at the rates applicable to the countries concerned	(3,425)	12.8	(297)	12.9
Tax effect of non-deductible expenses	6,116	(22.9)	741	(32.2)
Tax effect of concession period	<u>(2,480)</u>	<u>9.3</u>	<u>(444)</u>	<u>19.3</u>
Taxation for the year	<u>211</u>	<u>(0.8)</u>	<u>–</u>	<u>–</u>

The tax rate applicable to the Group's operations in Hong Kong is 17.5% (2005: 17.5%). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. The applicable income tax rate for the Group's PRC operations is 33% (2005: 33%) except for certain subsidiaries which are located in the SSEZ in the PRC. The applicable income tax rate for these subsidiaries in SSEZ is 15% (2005: 15%). These tax rates are taken into account in the preparation of the Group's tax reconciliation.

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2005: HK\$Nil).

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors fees		Salaries, allowances and benefits in kind		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Executive directors						
Li Nga Kuk, James	–	–	152	152	152	152
Li Wo Hing	–	–	–	–	–	–
Li Tai To, Titus	–	–	152	152	152	152
Non-executive director						
Chen Minshan	60	60	–	–	60	60
Independent non- executive directors						
Guo Guoqing	28	60	–	–	28	60
Fan Wan Tat	60	60	–	–	60	60
Tam Wai Leung, Joseph	60	60	–	–	60	60
Chan Kim Chung, Daniel	32	–	–	–	32	–
	<u>240</u>	<u>240</u>	<u>304</u>	<u>304</u>	<u>544</u>	<u>544</u>

The remuneration of all directors are within the Nil – HK\$1,000,000 band.

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2006.

The Executive Directors entered into service contracts with the Company for an initial period of three years commencing on 1 December 2001. Thereafter, they are appointed for one year terms of renewal with Board approval.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three (2005: three) individuals are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Basic salaries, allowances and other benefits	498	511
Discretionary bonuses	12	22
Retirement benefit scheme contributions	17	8
	<u>527</u>	<u>541</u>

The emoluments of the remaining three (2005: three) individuals with the highest emoluments are within the following band:

	2006 <i>Number of individuals</i>	2005 <i>Number of individuals</i>
Nil – HK\$1,000,000	<u>3</u>	<u>3</u>

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of HK\$6,365,000 (2005: HK\$3,814,000) which has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2006 is based on the loss attributable to equity holders of the Company of HK\$29,378,000 (2005: loss of HK\$2,167,000) divided by the weighted average number of 835,000,000 (2005: 835,000,000) ordinary shares in issue during the year.

(b) Diluted loss per share

No diluted loss per share for the years ended 31 December 2006 and 2005 have been presented because there were no potential dilutive ordinary shares in existence during the respective years.

12. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. No segment information by geographical segments is presented as the Group mainly operates in a single market, namely, the PRC.

Business segments

The Group comprises the following main business segments:

Medical services: provision of medical equipment for the treatment of cancer.

Sales of medical equipment: manufacture and sale of medical equipment.

Research and development: development of drugs.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Medical services		Sales of medical equipment		Research and development		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	5,669	16,664	27,994	15,634	1,316	3,783	–	–	34,979	36,081
Segment results	1,669	1,285	6,204	(310)	(30,467)	(159)	–	–	(22,594)	816
Unallocated operating income and expenses									(3,878)	(2,816)
Loss from operations									(26,472)	(2,000)
Finance costs									(271)	(301)
Taxation									(211)	–
Loss for the year									<u>(26,954)</u>	<u>(2,301)</u>
Attributable to:										
Equity holders of the Company									(29,378)	(2,167)
Minority interests									2,424	(134)
									<u>(26,954)</u>	<u>(2,301)</u>
Depreciation for the year	378	4,123	367	541	237	228	253	196	1,235	5,088
Impairment losses for the year:										
Property, plant and equipment	–	6,416	–	–	–	–	–	–	–	6,416
Inventories	710	437	–	–	–	–	–	–	710	437
Intangible assets	–	–	–	–	29,667	–	–	–	29,667	–
Bad debts written off	–	–	727	–	29	–	–	–	756	–
Amortisation for the year:										
Intangible assets	–	–	346	337	–	–	–	–	346	337
Prepaid lease payments	–	–	39	38	–	–	–	–	39	38
Segment assets	60,027	62,874	26,324	19,988	31,466	63,823	–	–	117,817	146,685
Unallocated assets									16,741	10,373
Total assets									<u>134,558</u>	<u>157,058</u>
Segment liabilities	(2,122)	(1,206)	(8,265)	(9,267)	(615)	(159)	–	–	(11,002)	(10,632)
Unallocated liabilities									(22,797)	(22,238)
Total liabilities									<u>(33,799)</u>	<u>(32,870)</u>
Capital expenditure incurred during the year	5	260	392	169	–	27	7,434	250	7,831	706

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings <i>HK\$'000</i>	Medical equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 January 2005	6,788	29,522	1,994	1,760	40,064
Additions	–	–	500	213	713
Impairment losses	–	(6,265)	(8)	(143)	(6,416)
Disposals	–	(12,430)	(218)	–	(12,648)
Exchange adjustments	152	241	24	35	452
At 31 December 2005	<u>6,940</u>	<u>11,068</u>	<u>2,292</u>	<u>1,865</u>	<u>22,165</u>
At 1 January 2006	6,940	11,068	2,292	1,865	22,165
Additions	29	–	–	431	460
Transfer from construction in progress (<i>Note 14</i>)	18	–	–	–	18
Disposals	–	(10,728)	–	–	(10,728)
Cost adjustment*	(894)	–	–	–	(894)
Exchange adjustments	246	169	53	62	530
At 31 December 2006	<u>6,339</u>	<u>509</u>	<u>2,345</u>	<u>2,358</u>	<u>11,551</u>
Aggregate depreciation					
At 1 January 2005	272	18,989	768	542	20,571
Charge for the year	309	4,018	401	360	5,088
Write-back on disposal	–	(12,430)	(91)	–	(12,521)
Exchange adjustments	9	152	9	15	185
At 31 December 2005	<u>590</u>	<u>10,729</u>	<u>1,087</u>	<u>917</u>	<u>13,323</u>
At 1 January 2006	590	10,729	1,087	917	13,323
Charge for the year	8	278	507	442	1,235
Write-back on disposal	–	(10,728)	–	–	(10,728)
Exchange adjustments	21	164	24	39	248
At 31 December 2006	<u>619</u>	<u>443</u>	<u>1,618</u>	<u>1,398</u>	<u>4,078</u>
Net book value					
At 31 December 2006	<u><u>5,720</u></u>	<u><u>66</u></u>	<u><u>727</u></u>	<u><u>960</u></u>	<u><u>7,473</u></u>
At 31 December 2005	<u><u>6,350</u></u>	<u><u>339</u></u>	<u><u>1,205</u></u>	<u><u>948</u></u>	<u><u>8,842</u></u>

* Cost adjustment represents the adjustment on building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.

(b) The Company

	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2005	803	106	909
Additions	–	9	9
At 31 December 2005	<u>803</u>	<u>115</u>	<u>918</u>
At 1 January 2006 and 31 December 2006	<u>803</u>	<u>115</u>	<u>918</u>
Aggregate depreciation			
At 1 January 2005	455	48	503
Charge for the year	161	22	183
At 31 December 2005	<u>616</u>	<u>70</u>	<u>686</u>
At 1 January 2006	616	70	686
Charge for the year	160	23	183
At 31 December 2006	<u>776</u>	<u>93</u>	<u>869</u>
Net book value			
At 31 December 2006	<u><u>27</u></u>	<u><u>22</u></u>	<u><u>49</u></u>
At 31 December 2005	<u><u>187</u></u>	<u><u>45</u></u>	<u><u>232</u></u>

(c) At 31 December 2006, the directors of the Company reviewed the carrying values of the medical equipment by assessing their recoverable amounts. Based on the value-in-use assessment method by using a pre-tax rate that reflects the current market assessment of time value of money and the risks specific to the property, plant and equipment, the directors are satisfied there are no indications that the carrying values of the medical equipment may be impaired as at 31 December 2006 (2005: HK\$6,265,000).

(d) At 31 December 2006, one of the buildings amounting to HK\$5,676,000 (2005: HK\$6,351,000) had been pledged to a bank as security for Group bank borrowings.

(e) All buildings of the Group are situated in the PRC.

14. CONSTRUCTION IN PROGRESS

	The Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Balance at beginning of the year	760	–
Additions	4,781	760
Cost adjustment*	894	–
Transfer to property, plant and equipment (<i>Note 13(a)</i>)	(18)	–
Exchange adjustments	30	–
Balance at end of the year	<u>6,447</u>	<u>760</u>

* *Cost adjustment represents the adjustment on building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.*

15. BIOLOGICAL ASSETS

	The Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Balance at beginning of the year	–	–
Additions	2,426	–
Balance at end of the year	<u>2,426</u>	<u>–</u>

Biological assets represented the trees in plantation forest and are stated at fair values less estimated point-of-sale costs. The trees in plantation forest represented the growing of Gui Hua Shu (桂花樹) and were cultivated at initial stage. The directors considered that the fair value of the trees approximated to the cost incurred after taking into consideration the growing conditions and the period of plantation.

16. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	The Group <i>HK\$'000</i>
Cost	
At 1 January 2005	1,133
Additions	1,227
Exchange adjustments	26
	<hr/>
At 31 December 2005	2,386
Additions	164
Exchange adjustments	85
	<hr/>
At 31 December 2006	2,635
	<hr/>
Accumulated amortisation	
At 1 January 2005	44
Charge for the year	38
Exchange adjustments	1
	<hr/>
At 31 December 2005	83
Charge for the year	39
Exchange adjustments	4
	<hr/>
At 31 December 2006	126
	<hr/>
Net book value	
At 31 December 2006	2,509
	<hr/> <hr/>
At 31 December 2005	2,303
	<hr/> <hr/>

- (a) The leasehold land assets held by the Group are under medium term leases and situated in the PRC.
- (b) At 31 December 2006, one of the leasehold land assets amounting to HK\$1,074,000 (2005: HK\$1,075,000) had been pledged to a bank as security for Group bank borrowings.
- (c) The Group is in the process of applying for the land use right certificate in respect of a piece of land in the PRC with carrying value of approximately HK\$1,435,000 and, at 31 December 2006, this land use right certificate had not yet been obtained from the regulatory authorities.

17. INTANGIBLE ASSETS

	Medical research projects <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2005	83,897	2,331	86,228
Exchange adjustments	43	82	125
At 31 December 2005	83,940	2,413	86,353
Exchange adjustments	67	55	122
At 31 December 2006	84,007	2,468	86,475
Accumulated amortisation			
At 1 January 2005	27,625	366	27,991
Charge for the year	–	379	379
At 31 December 2005	27,625	745	28,370
Impairment loss	29,667	–	29,667
Exchange adjustment	–	2	2
Charge for the year	–	346	346
At 31 December 2006	57,292	1,093	58,385
Net book value			
At 31 December 2006	26,715	1,375	28,090
At 31 December 2005	56,315	1,668	57,983

Impairment loss

In 2003, the Group acquired certain in-process medical research projects. The acquisition cost was allocated to each individual medical research project based on its estimated fair value at the acquisition date, after having taking into account an independent valuation of these medical research projects.

At 31 December 2006, the directors of the Company reviewed the carrying value of these medical research projects individually, taking into account an updated independent valuation report, the future development resources required, the stage of completion and the risks surrounding the successful development and commercialisation of the projects. Whilst there is inherent uncertainty over the outcome of these projects, based on their assessment, the directors consider that an impairment loss of HK\$29,667,000 (2005: HK\$Nil) is required for the year.

In relation to the remainder of the projects, whilst there is inherent uncertainty over the ultimate outcome of these projects, based on their assessment, the directors believe that there are currently no indications that they may be impaired.

18. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	56,300	47,670
Less: Impairment losses	(545)	–
	55,755	47,670

The following list contains the particular of subsidiaries of the Group. All of these are controlled subsidiaries as defined under note 3(d) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the		Issued capital/ paid-in capital	Registered capital	Principal activities	Notes
			Company	subsidiary				
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	–	US\$20,000	US\$50,000	Investment holding	
Tat Lung Medical Treatment Technology Limited	Hong Kong	100%	–	100%	HK\$142,900	HK\$142,900	Investment holding	
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	–	US\$300,000	US\$300,000	Development of software for medical equipment	(i)
China Best Drugs Research (Nanjing) Ltd.	PRC	75%	–	100%	US\$3,000,000	US\$3,000,000	Research and development of medicine and drugs	(ii)
Sinnowa Medical Science and Technology Co. Ltd.	PRC	65%	65%	–	US\$1,500,000	US\$1,500,000	Manufacture and sale of medical equipment	(iii)
Medical China Technology Ltd.	B.V.I.	75%	75%	–	US\$100	US\$50,000	Investment holding	
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US\$4,800,000	US\$5,000,000	Manufacture and sale of medicine and drugs	(iv)
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	–	US\$460,000	US\$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage	(v)

Notes:

- (i) The subsidiary is a wholly foreign-owned enterprise set up to provide medical equipment, medical equipment software and related services.

- (ii) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC and was set up to establish a research center for medicine and drugs. Pursuant to a research projects acquisition and reorganisation agreement with Miss Guo Ping dated 6 December 2002, the subsidiary acquired certain medical research projects from Miss Guo. Upon the completion of the reorganisation, the Group retained a 75% shareholding in the subsidiary while the remaining 25% shareholding was held by Miss Guo.
- (iii) The subsidiary is a sino-foreign enterprise set up to establish a medical equipment production line in Nanjing, the PRC. As at 31 December 2006 and 2005, the Company's total investment in this subsidiary amounted to US\$975,000.
- (iv) The subsidiary is a wholly foreign-owned enterprise established in Nanjing, the PRC. On 13 June 2006, the registered capital of the Company increased from US\$4,000,000 to US\$5,000,000. During the year, the Company injected US\$800,000 as capital contributions. 南京德遠會計師事務所 verified US\$500,000 capital contribution and issued the capital verification report on 16 June 2006. The remaining injection of US\$300,000 has not yet been verified by a PRC registered certified public accountant at the balance sheet date. As at 31 December 2006, the Company's total investment in this subsidiary amounted to US\$4,800,000.
- (v) The subsidiary is a wholly foreign-owned enterprise established in Guilin, the PRC. During the year, the Company injected US\$310,000 as a capital contribution. This injection has not yet been verified by a PRC registered certified public accountant at the balance sheet date. As at 31 December 2006, the Company's total investment in this subsidiary amounted to US\$460,000.

19. INVENTORIES

- (a) Inventories comprise:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	2,325	1,793
Work in progress	1,026	653
Finished goods	1,883	3,589
	5,234	6,035
	5,234	6,035

- (b) An analysis of the amount of inventories recognised as expense is as follows:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold	13,482	11,311
Write-down of inventories	710	437
	14,192	11,748
	14,192	11,748

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors	4,243	5,821	–	–
Other receivables, deposits and prepayments	8,179	7,047	15	19
	<u>12,422</u>	<u>12,868</u>	<u>15</u>	<u>19</u>

All of the trade receivables are expected to be recovered within one year.

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as at the balance sheet date:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Within 3 months from the date of billing	1,771	4,582
3 to 6 months from the date of billing	1,496	660
6 to 12 months from the date of billing	976	579
	<u>4,243</u>	<u>5,821</u>

Trade debts are normally due within 90 days from the date of billing.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	2006	2005
	'000	'000	'000	'000
United States Dollars	97	185	–	–
Euros	6	–	–	–
	<u>6</u>	<u>185</u>	<u>–</u>	<u>–</u>

21. AMOUNTS DUE FROM SUBSIDIARIES

Particulars of the amounts due from subsidiaries, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name	2006	2005	Maximum amount outstanding during the year
	HK\$'000	HK\$'000	
Sinnowa Medical Science and Technology Co., Ltd.	–	51	51
Medical China Technology Ltd.	84,468	84,468	84,468
	<u>84,468</u>	<u>84,519</u>	

The amounts due are unsecured, interest-free and repayable on demand.

22. DEPOSITS WITH BANKS

All deposits with banks are denominated in Renminbi (“RMB”) and kept in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	<u>12,029</u>	<u>15,398</u>	<u>121</u>	<u>221</u>

24. BANK LOAN

At 31 December 2006, the bank loan was repayable as follows:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Within one year or on demand	<u>3,483</u>	<u>4,326</u>

The bank loan was secured by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK\$6,750,000 at 31 December 2006 (2005: HK\$7,426,000).

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade creditors	2,630	2,807	–	–
Other payables and accrued liabilities	27,445	25,513	1,016	848
	<u>30,075</u>	<u>28,320</u>	<u>1,016</u>	<u>848</u>

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
Due within 3 months or on demand	1,097	1,315
Due after 3 months but within 6 months	123	186
Due after 6 months but within 1 year	1,410	1,306
	<u>2,630</u>	<u>2,807</u>

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	58	139	–	–
Euros	3	4	–	–
	<u>61</u>	<u>143</u>	<u>–</u>	<u>–</u>

26. AMOUNTS DUE TO SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

27. TAXATION

Taxation in the consolidated balance sheet represents:

	The Group	
	2006 HK\$'000	2005 HK\$'000
Provision for PRC taxes	<u>240</u>	<u>24</u>

28. SHARE CAPITAL

	2006		2005	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised				
Ordinary shares of \$0.01 each	2,000,000	20,000	2,000,000	20,000
Issued and fully paid				
At 1 January and at 31 December	835,000	8,350	835,000	8,350

29. RESERVES

(a) The Group

	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 on retained profits in respect of unamortised negative goodwill	-	-	-	3,089	3,089	-	3,089
As restated	70,733	5,265	(100)	35,549	111,447	3,784	115,231
Currency translation differences	-	-	2,824	-	2,824	84	2,908
Loss for the year	-	-	-	(2,167)	(2,167)	(134)	(2,301)
At 31 December 2005	70,733	5,265	2,724	33,382	112,104	3,734	115,838
At 1 January 2006	70,733	5,265	2,724	33,382	112,104	3,734	115,838
Currency translation differences	-	-	3,344	-	3,344	181	3,525
Loss for the year	-	-	-	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	70,733	5,265	6,068	4,004	86,070	6,339	92,409

(b) The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	70,733	5,265	(14,569)	61,429
Loss for the year	—	—	(3,814)	(3,814)
At 31 December 2005	<u>70,733</u>	<u>5,265</u>	<u>(18,383)</u>	<u>57,615</u>
At 1 January 2006	70,733	5,265	(18,383)	57,615
Loss for the year	—	—	(6,365)	(6,365)
At 31 December 2006	<u>70,733</u>	<u>5,265</u>	<u>(24,748)</u>	<u>51,250</u>

(c) The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").

(d) Pursuant to a reorganisation in 2001, the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the reorganisation was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of section 54 of the Companies Act.

(e) The exchange reserve has been set up and will be dealt with in accordance with the accounting policy adopted for foreign currency translations.

(f) At 31 December 2006 and 2005, the Company had no reserves available for distribution to shareholders.

30. COMMITMENTS**(a) Capital commitments**

Capital commitments outstanding at 31 December 2006 contracted but not provided for in the financial statements were as follows:

	The Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Capital contributions to subsidiaries	5,758	6,596
Property, plant and equipment	11,365	8,184
	<u>17,123</u>	<u>14,780</u>

(b) Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 1 year	460	459
After 1 year but within 5 years	108	173
After 5 years	314	243
	<u>882</u>	<u>875</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one or two years, with options to renew the lease when all terms are renegotiated. The leases do not include contingent rentals.

31. EMPLOYEE RETIREMENT BENEFITS**Defined contribution retirement plan***(a) Hong Kong*

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by a defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the plan vest immediately.

(b) The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employee salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in the income statement of the Group is disclosed in note 6(b) of the financial statements.

32. SHARE OPTION SCHEME

On 14 December 2001, the Company 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 the shares of the Company.

No options have been granted under the share option scheme since its inception.

33. MATERIAL RELATED PARTY TRANSACTIONS

- (a) The Group had the following significant business transactions with connected parties and related companies which are subject to common control during the year:

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Advance from a director	<i>(i)</i>	–	200
Advance to Innova	<i>(ii)</i>	–	865
		<u> </u>	<u> </u>

Notes:

- (i) During the year ended 31 December 2005, the Group borrowed from one of the Company's executive directors, Mr. Li Wo Hing, an amount of HK\$200,000. This amount has been repaid during the year.
- (ii) During the year ended 31 December 2005, the Group advanced to Innova an amount of HK\$865,000. Innova is a minority shareholder of Sinnowa. The advance is interest-free, unsecured and repayable on demand.

The directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

Apart from the above, there were no other material related party transactions entered into by the Group during the year.

- (b) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had key management personnel remuneration, including amounts paid to the Company's directors as disclosed in notes 8 and 9, as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Short-term employee benefits	544	544
	<u> </u>	<u> </u>

Total remuneration is included in staff costs (note 6(b)).

34. FINANCIAL INSTRUMENTS

Exposure to credit and other risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The carrying amount of trade and other receivables included in the balance sheet represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

(b) Other risks

The Group's sales, purchases and expense transactions are generally denominated in Renminbi and a significant portion of the Group's assets and liabilities is denominated in Renminbi. The Renminbi is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than Renminbi by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittances.

35. ACCOUNTING ESTIMATES AND JUDGMENTS**Key sources of estimation uncertainty**

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgments and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and the provision charge/write-back in the period in which such estimate has been changed.

(ii) Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management judgments and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(iii) Impairment of intangible assets and property, plant and equipment

The carrying value of the intangible assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in note 3(h) to the financial statements. The recoverable amount of the intangible assets and property, plant and equipment is the greater of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

4. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis extracted from the Company's interim report and annual reports for each of the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

For the six months ended 30 June 2007

Business Review

The Group's RFAS radio frequency treatment business faces rigorous competition from local and foreign competitors and no new co-operation contracts were signed with domestic hospitals during the period. The number of Group therapeutic centers in local hospitals in the PRC remained the same as the 1st quarter of 2007.

The Group's sales of medical equipment reached HK\$16,530,000 at the end of the second quarter of 2007, representing an increase by 37% as compared to that of the corresponding period last year. In order to strengthen sales, the Group has increased its budgets on research and development of a particular principal product and begun to renovate its existing factory in order to improve efficiency and Group results. The construction of a new factory designed to manufacture drugs and medicines is in progress.

Agricultural activities in the first half of 2007 are on schedule and the Group has now achieved completion of 20% of its overall plans. The Group will continue its plantation development program including construction of supporting facilities during the second half of 2007.

Outlook

The Group will continue developing its existing businesses and expects that sales of medical equipment will further increase in the second half year of 2007. Construction work on the new factory is expected to be completed by the fourth quarter and, at the same time, trial production on drugs and medicines will begin before the end of 2007.

The Group is continuing to seek business opportunities by taking advantage of its existing network and relationships, in order to increase future Group revenue streams.

As a result of the above efforts, on 25 July 2007, the Company announced that a wholly-owned subsidiary had entered into a very substantial conditional agreement involving the purchase of a forestry/rubber plantation in Cambodia as set out in note 23 of the interim financial statements. Shareholders should refer to this announcement for details of the possible influence on future operations of this transaction is consummated.

Financial Review

During the period under review, the basic loss per share was Hong Kong cents 0.29 (2006: earnings per share of Hong Kong cents 0.02). The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: HK\$Nil).

As at 30 June 2007, total equity attributable to equity holders of the Group amounted to approximately HK\$94,488,000 (31 December 2006: HK\$94,420,000). Current assets amounted to approximately HK\$92,856,000 (31 December 2006: HK\$87,613,000) of which approximately HK\$72,595,000 (31 December 2006: HK\$69,957,000) were bank deposits and cash at bank and on hand. The Group's current liabilities amounted to approximately HK\$44,267,000 (31 December 2006: HK\$33,799,000) of which trade and other payables and a short term bank loan represented approximately HK\$42,283,000 (31 December 2006: HK\$30,075,000) and HK\$1,539,000 (31 December 2006: HK\$3,484,000), respectively. The Group obtained the short term bank loan from a PRC Authorised Credit Union using the security of its interest in a leasehold land asset held for own use under an operating lease with a carrying value of HK\$1,086,000 at 30 June 2007 (31 December 2006: HK\$1,074,000). The gearing ratio of the Group, calculated on the basis of its short term bank loan over total assets, as at 30 June 2007 was 1.1% (31 December 2006: 2.6%).

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars and the Group has not entered into any hedging arrangements during the period under review.

As at 30 June 2007, the Group had no outstanding hedging instruments (2006: HK\$Nil).

Other than the set up of a wholly-owned subsidiary in the second quarter, the Group made no new acquisitions nor did it dispose of any subsidiaries or affiliated companies during the six months ended 30 June 2007.

Shareholder attention is drawn to the announcement on 25 July 2007, referred to as a "Subsequent Event" in the interim financial statements in respect of the Company entering into an agreement for a proposed top-up placing of shares and placing of new shares which could generate up to approximately HK\$226 million in funds subsequent to 30 June 2007.

As at 30 June 2007, the Group had no material contingent liabilities.

Employee Information

As at 30 June 2007, the Group had 225 (2006: 184) employees. The total of employee remuneration, including that of directors, for the six months ended 30 June 2007 amounted to HK\$1,814,000 (2006: HK\$1,931,000).

In addition to a share option scheme approved and adopted by the Company on 14 September 2001, the Group provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund obligations to its employees in the PRC according to the relevant regulations in the PRC.

For the year ended 31 December 2006**Financial Review**

The Group's annual turnover for the year ended 31 December 2006 amounted to approximately HK\$34,979,000, representing a decrease of 3% as compared to that for the year ended 31 December 2005. For the year ended 31 December 2006, the Group sustained a net loss attributable to equity holders of the Company of approximately HK\$29,378,000 (2005: HK\$2,167,000).

The operating expenses for the year ended 31 December 2006 increased by 100% from HK\$24,766,000 to HK\$49,506,000 as compared to 2005. This increase was mainly attributable to the impairment loss on intangible assets of HK\$29,667,000 (which was made according to the Group's accounting policies and for prudence purposes).

Other revenue for the year ended 31 December 2006 amounted to approximately HK\$2,135,000, representing an increase of 7.9% as compared to 2005.

The basic loss per share for the year ended 31 December 2006 was 3.52 Hong Kong cents, compared to 0.26 Hong Kong cent for the year ended 31 December 2005. The basic loss per share for the six months ended 30 June 2007 was 0.29 Hong Kong cent, compared to the basic earnings per share of 0.02 Hong Kong cent for the six months ended 30 June 2006.

As at 31 December 2006, the Group had a bank loan outstanding in the amount of approximately HK\$3,484,000 (2005: HK\$4,326,000). The loan was obtained from a PRC Authorised Credit Union and was secured by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK\$6,750,000 at 31 December 2006.

Capital Structure

As at 31 December 2006, the total number of issued ordinary shares and the issued share capital of the Company were 835,000,000 (2005: 835,000,000) and HK\$8,350,000 (2005: HK\$8,350,000), respectively.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2006, the Group had total assets of approximately HK\$134,558,000 (2005: HK\$157,058,000) which were financed by current liabilities of approximately HK\$33,799,000 (2005: HK\$32,870,000) and equity attributable to equity holders of the Company of approximately HK\$94,420,000 (2005: HK\$120,454,000).

The current assets of the Group amounted to approximately HK\$87,613,000 (2005: HK\$87,170,000) of which approximately HK\$69,957,000 (2005: HK\$68,267,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$33,799,000 (2005: HK\$32,870,000) of which approximately HK\$30,075,000 (2005:

HK\$28,320,000) were trade and other payables, HK\$3,484,000 (2005: HK\$4,326,000) was a short term loan and HK\$240,000 (2005: HK\$24,000) was taxation. The Group obtained the said short term loan from a PRC Authorised Credit Union with pledge of certain assets security on 15 June 2006.

The Group finances its operations with internally generated resources and it is Group policy to place surplus funds with banks on deposit with maturities not exceeding one year. An interest in leasehold land and building with a value of HK\$6,750,000 (2005: HK\$7,426,000) is charged to secure the Group's short term loan. The gearing ratio of the Group is calculated on the basis of the short term loan over total assets. As at 31 December 2006, the Group had a gearing ratio of 2.6% (2005: 2.8%).

The net assets value per share as at 31 December 2006 was HK\$0.12 (2005: HK\$0.15).

Capital Commitments, Significant Investments and Material Acquisitions and Disposals

During the year ended 31 December 2006, the Company had no significant new investments and there were no material acquisitions or disposals of subsidiaries and affiliated companies.

As at 31 December 2006, the Group had outstanding capital commitments of approximately HK\$17,123,000 (2005: HK\$14,780,000).

Foreign Exchange Exposure and Hedging Instruments

The Group's transactions are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. During the year under review, the Group has not entered into any hedging arrangements.

As at 31 December 2006, the Group had no outstanding hedging instruments (2005: HK\$Nil).

Employees' Information and Benefit Schemes for the Employees

As at 31 December 2006, the Group has 198 (2005: 177) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2006 and 2005 were approximately HK\$6,115,000 and HK\$4,631,000, respectively.

In addition to a Share Option Scheme approved and adopted by the Company on 14 September 2001, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with requirements under the Mandatory Provident Fund Scheme Ordinance and pays into retirement funds for its employees in the PRC according to the relevant PRC regulations.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the municipal governments of the PRC (the "PRC government") whereby the

subsidiaries are required to contribute to the Schemes to fund the retirement benefits of eligible employees. The PRC government is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefits payment beyond its contributions to the Schemes.

Contingent Liabilities

As at 31 December 2006, the Group and the Company did not have any outstanding contingent liabilities.

Business Review

Development of the market and application of RFAS in the PRC

The Group's RFAS radio frequency treatment business continued to decrease under pressure of keen competition in the PRC market. The number of RFAS tumour therapeutic centers operated by the Group with hospitals in the PRC dropped to 2 for the year ended 31 December 2006. The promotion of the "Multi-bullet, Multi-hole Drug Injection System", which the Group had obtained an agency fee in 2005 has been slow, as hospitals need time to get used to such new treatment technologies and equipment.

Manufacture and sales of medical equipment

The Group's sales of medical equipment achieved HK\$27,994,000 for the year ended 31 December 2006, an increase of 79% as compared to that of the corresponding year of 2005. The Group has applied for 16 new patents for its medical equipment in the PRC and 6 have been obtained. In order to strengthen sales, 9 new sales offices have been set up in major cities in the PRC. In respect of overseas markets, Group products are being sold to more than 60 countries.

Research, development and sales of drugs

The Group has been working on research and development for 16 Chinese and Western drugs/medicines since 2003. After due evaluation of current conditions for the drugs and medicines market, the Group has decided to postpone research and development on 9 drugs/medicines, in order to concentrate its resource on the research and development of a particular principal product. During the year, the Group made full provision for impairment of the aforesaid 9 drugs/medicines based on its accounting policies and for the sake of prudence.

Manufacturing and sales of drugs and medicines

The first phase construction work of the drugs and medicines manufacturing factory has been substantially completed by the end of 2006. The second phase of the construction programme has commenced in 2007.

Outlook

The Group will continue to expand its sales network of medical testing equipment, in order to boost sales volumes in both its local and overseas markets. Also, more effort will be placed to

promote the application of the “Multi-bullet, Multi-hole Drug Injection System” to PRC hospitals in the treatment of tumors. The second phase construction work of the drugs and medicines manufacturing factory is expected to be completed by the third quarter of 2007. We predict that trial production can be launched by the end of 2007, which will provide a manufacturing base for the Group’s research and development projects once granted approval by the relevant authority. All these factors are expected to increase the future revenue stream of the Group.

For the year ended 31 December 2005

Financial Review

The Group’s annual turnover for the year ended 31 December 2005 was approximately HK\$36,081,000, representing an increase of 14% as compared to that for the year ended 31 December 2004. For the year ended 31 December 2005, the Group sustained a net loss attributable to equity holders of the Company of approximately HK\$2,167,000, as compared to a net profit attributable to equity holders of the Company of approximately HK\$3,560,000 for the year ended 31 December 2004.

The basic loss per share for the year ended 31 December 2005 was 0.26 Hong Kong cent, while basic earnings per share was 0.43 Hong Kong cent for the year ended December 2004.

Capital Structure

As at 31 December 2005, the total number of issued ordinary shares and the issued share capital of the Company were 835,000,000 (2004: 835,000,000) and HK\$8,350,000 (2004: HK\$8,350,000) respectively.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2005, the Group had total assets of approximately HK\$157,058,000 (2004: HK\$189,747,000) which were financed by current liabilities of approximately HK\$32,870,000 (2004: HK\$69,255,000) and equity attributable to equity holders of the Company of approximately HK\$120,454,000 (2004: HK\$116,708,000).

The current assets of the Group amounted to approximately HK\$87,170,000 (2004: HK\$114,017,000) of which approximately HK\$68,267,000 (2004: HK\$100,282,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$32,870,000 (2004: HK\$69,255,000) of which approximately HK\$28,320,000 (2004: HK\$65,561,000) were trade and other payables, HK\$4,326,000 (2004: HK\$1,880,000) was short term loan and HK\$24,000 (2004: HK\$24,000) was provision for income tax. The short term loan of the Group was obtained from a PRC Authorised Credit Union on 11 April 2005.

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on deposits with maturity period within one year. The said loan was secured against the Group's leasehold land with carrying amount of HK\$1,075,000 (2004: HK\$1,089,000). The gearing ratio of the Group is calculated on the basis of short term loan over total assets. As at 31 December 2005, the Group had a gearing ratio of 2.8% (2004: 0.99%).

The net assets per share as at 31 December 2005 was HK\$0.15 (2004: HK\$0.14).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

The Company's wholly-owned subsidiary, Guilin Simei Biotechnology Ltd., was incorporated on 28 March 2005 with registered capital of US\$1,000,000. The intended principal activity of the subsidiary is the development and sale of tropical plants for Chinese drugs and medicine usages.

Apart from the aforesaid investment in subsidiary, the Company had no other significant investment and there was no other material acquisition and disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

As at 31 December 2005, the Group had outstanding capital commitment of approximately HK\$14,780,000 (2004: HK\$28,860,000).

Foreign Exchange Exposure and Hedging Instruments

The Group's transactions are denominated in Renminbi, Hong Kong dollars and United States dollars. During the year under review, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangements.

As at 31 December 2005, the Group had no outstanding hedging instruments (2004: HK\$Nil).

Employees' Information and Benefit Scheme for the Employees

As at 31 December 2005, the Group has 177 (2004: 146) employees. The total of employees remuneration, including that of the directors, for the years ended 31 December 2005 and 31 December 2004 amounted to approximately HK\$4,631,000 and HK\$4,007,000 respectively.

In addition to the Share Option Scheme, which was conditionally approved and adopted by the Company on 14 September 2001, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulations in the PRC.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the municipal government of the PRC (the "PRC government") whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. The PRC government is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefits payment beyond the contributions to the Scheme.

Contingent Liabilities

As at 31 December 2005 and 2004, the Group and the Company did not have any outstanding contingent liabilities.

Business Review*Development of the market and application of RFAS in the PRC*

As a result of the Group's initial promotional efforts in the PRC market, RFAS radio frequency treatment technology and its related equipment have been widely used by hospitals in the PRC to treat patients suffering from liver cancer, lung cancer and kidney cancer. However, our RFAS radio frequency treatment business is now facing rigorous competition as more and more local and foreign manufacturers entered the market. As such, prices of these equipments have dropped significantly over the year. Meanwhile, a shift in the PRC government's policies which now discourages the cooperation between non-state-owned companies and the hospitals had severely hampered the Group's effort in obtaining new cooperation contracts with domestic hospitals. Without new cooperation contracts to make up for the expired contracts, the revenue generated from the business dropped remarkably. As at 31 December 2005, the number of RFAS tumour therapeutic centres established by the Group with hospitals in the PRC dropped to 21 as compared to 56 in the previous year. The Group is the sales agent for the "Multi-bullet, Multi-hole Drug Injection System". The promotion of this product has been slowed down as the hospitals needed more time than expected to adopt and get used to the new treatment technology and equipment.

Manufacture and sales of medical testing equipment

The Group has successfully developed various new types of testing equipment which include three new items in the automatic biochemical analyzers D series, one new item in spectrophotometers, one new item in the Hematology Analyzers, one new item in the electrolyte analyzers and one new item in the semi-automatic biochemical analyzers. In addition, approximately 30 new types of testing reagents have been developed, which are mostly near completion with only a few still being tested.

As for domestic market promotion, the Group held a seminar which was attended by experts and officials from the Ministry of Health, where the Group's medical testing equipment were met with favourable comments from those experts. This inevitably gave a big boost to the nation-wide promotion of our products. During the year, three new representative offices were established in the PRC together with recruitment of a group of highly competent agents as marketing support team. As for overseas market development, our products have been sold to more than 40 countries. The sales of medical testing equipment increased by 56% to approximately HK\$15,634,000 as compared to the previous year.

Research, development and sales of drugs

The Group has proceeded with the research and development of Chinese and western drugs and medicines as planned, among which two Chinese drugs have finished clinical trials, two Chinese drugs have finished research work pending for clinical trials, one is still on clinical trial, three are undergoing toxin tests and one western drug has obtained production approval.

Research and development of 3-dimensional laparoscopes

The development of its prototype has been completed and is now in the process of clinical testing. In consideration of clinical response, we are improving the size of the micro-video camera used in the 3-dimensional laparoscope.

Outlook*RFAS's market development and application in the PRC*

In view of the fact that the RFAS radio frequency tumor treatment technology has been widely used in the hospitals in the PRC for liver cancer and that it has not been extended to the treatment of other types of tumors though it can achieve excellent results in those fields too, the Group plans to introduce the RFAS radio frequency tumor treatment technology into the treatment of kidney cavity tumor, bone tumor and lung tumor, with reference to the application experience in the western countries. The Multi-bullet, Multi-hole Drug Injection System has been applied in more than 100 treatment cases, and achieved better results in treating 5-7 cm liver tumors as compared to that through surgical operation and RFAS radio frequency tumor treatment technology. In 2006, the Group will place more efforts in the promotion of this technology and make contribution to the treatment of patients to whom other therapies did not produce satisfactory results.

Manufacture and sale of medical testing equipment

To boost sales volume in both local and overseas markets, the Group envisages in its outlook planning that:

- Supported by better quality of product, increased productivity and improved marketing preparations made last year, the sales volume of the automatic biochemical analyzers D series in 2006 shall increase greatly;
- The gross profit margin on sales will increase further as a result of the improvement in product quality and the reduction of cost of the semi-automatic biochemical analyzers; and
- The overall profitability of the Group will improve, as the Group will focus on efforts to increase the sales of existing well-developed products and a reduction in the expenditure on new product development and promotion.

Research, development and sales of drugs

The Group will take brisk steps to submit two Chinese drugs, which have gone through clinical trials, to the State Food and Drug Administration for production approval, and commence relevant clinical trials for drugs that have completed pre-clinical research. Meanwhile, the Group will seek opportunities to cooperate with other domestic drug manufacturers and study the possibility of joint-production of products which have been granted production approvals to increase the Group's revenue.

Research and development of 3-dimensional laparoscopes

As scheduled, the improvement of the micro-video camera and its clinical testing will be completed in 2006 and submitted for approval thereafter.

*For the year ended 31 December 2004***Financial Review**

The Group's annual turnover for the year ended 31 December 2004 was HK\$31,576,000, representing decrease of 7% over the corresponding year in 2003. For the year ended 31 December 2004, the Group's net profit attributable to shareholders amounted to HK\$3,560,000 while loss attributable to shareholders of about HK\$21,316,000 was recorded for the year ended 31 December 2003.

The basic earnings per share was 0.43 Hong Kong cents, while basic loss per share in the corresponding year in 2003 was 2.55 Hong Kong cents.

Capital Structure

As at 31 December 2004, the total number of issued ordinary shares and the issued share capital of the Company were 835,000,000 (2003: 835,000,000) and HK\$8,350,000 (2003: HK\$8,350,000) respectively.

Financial Resources, Borrowings, Banking Facilities and Liquidity

As at 31 December 2004, the Group had total assets of HK\$189,747,000 (2003: HK\$179,614,000) which were financed by current liabilities of HK\$69,255,000 (2003: HK\$62,709,000) and shareholders' equity of HK\$116,708,000 (2003: HK\$112,843,000).

The current assets of the Group amounted to approximately HK\$114,017,000 (2003: HK\$101,516,000) of which approximately HK\$100,282,000 (2003: HK\$87,899,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$69,255,000 (2003: HK\$62,709,000) of which approximately HK\$65,561,000 (2003: HK\$48,771,000) were trade and other payables and HK\$1,880,000 (2003: Nil) was short term loan. The Group obtained the said short term loan from a PRC Authorised Credit Union with pledge and security in June 2004.

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on deposits with maturity within one year. A leasehold land at value of HK\$1,089,000 (2003: Nil) is charged and secure the Group's short term loan. As at 31 December 2004, the gearing ratio of the Group, calculated on the basis of total short term loan over total assets, was 0.99% (2003: Nil).

The net asset per share as at 31 December 2004 was HK\$0.14 (2003: HK\$0.14).

Capital Commitment, Significant Investments and Material Acquisitions and Disposals

On 17 September 2004, a wholly-owned subsidiary named as China Best Pharmaceutical (Nanjing) Co., Ltd. (“南京神州佳美製藥有限公司”) with registered capital of US\$4,000,000 was incorporated and it was principally planned to manufacture the Chinese and western drugs and medicines developed from the Group or other parties.

On 20 December 2004, Tat Lung Medical Treatment Technology Ltd (“Tat Lung HK”), which is the wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Ms. Wang You Ling pursuant to which Tat Lung HK agreed to sell the Equity Interest in Tat Lung Medical Treatment Technology (Shenzhen) Limited (“Tat Lung Shenzhen”), a wholly-owned subsidiary of Tat Lung HK to Ms. Wang.

Pursuant to the Equity Transfer Agreement, the consideration of the disposal was in the sum of HK\$5,000,000. The transfer of the Equity Interest was completed on 30 December 2004, Tat Lung Shenzhen is now wholly-owned by Ms. Wang and has ceased to be a wholly-owned subsidiary of Tat Lung HK and an indirect wholly-owned subsidiary of the Company. Details of the Agreement were set out in the circular of “Discloseable Transaction”, dated 14 January 2005.

On 25 December 2004, Tat Lung HK entered into an Agreement with 宜春黃埔戒煙製品廠 for the disposal of 49% interest of total registered and issued share capital of Jiang Xi J&P Biological Products Limited at a consideration of HK\$145,000.

Apart from the aforesaid investments in subsidiary and disposals of subsidiary and associate company, the Company had no other significant investment and there was no other material acquisition and disposals of subsidiaries and affiliated companies in the course of the year.

As at 31 December 2004, the Group had outstanding capital commitment of approximately HK\$28,860,000 (2003: HK\$11,700,000).

Foreign Exchange Exposure and Hedging Instruments

The Group’s transactions are denominated in Renminbi, Hong Kong dollars and US dollars. During the year under review, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangements.

As at 31 December 2004, the Group did not have outstanding hedging instruments (2003: Nil).

Employees’ Information and Benefit Scheme for the Employees

As at 31 December 2004, the Group has 146 (2003: 134) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2004 and the year ended 31 December 2003 amounted to HK\$4,007,000 and HK\$3,976,000 respectively.

In addition to the Share Option Scheme, the Group also provide a mandatory provident fund scheme for its staff in Hong Kong in compliance with requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund according to the relevant regulation of PRC.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiary of the Group participates in a defined contribution retirement benefit scheme (the “Scheme”) organized by the municipal government whereby the subsidiary is required to contribute to the Scheme to fund the retirement benefits of the eligible employees. The government of the PRC is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefits payment beyond the contributions to the Scheme.

Contingent Liabilities

As at 31 December 2003 and 2004, the Group and the Company did not have any outstanding contingent liabilities.

Business Review

During the year under review, the Group's operating profits were derived from the provision of RFAS tumour equipment and the relevant auxiliary services to various hospitals in the PRC; manufacture and sales of medical testing equipment and provision of research and development of Chinese and western drugs and medicines services.

Although the turnover from manufacture and sales of biochemical testing instruments increased during the year, due to fierce market competition, income derived from provision of RFAS tumour equipment and the relevant auxiliary services to various hospitals decreased, leading to a decrease in the Group's overall turnover by 7% as compared with the same period of last year.

Below is a summary of the Group's developments during the year:

Development of the market and application of RFAS in the PRC

As at 31 December 2004, RFAS tumour therapeutic centers established by the Group with hospitals in the PRC remained at 56 (2003: 65).

Manufacture and sales of medical testing equipment

The batch production of D-series (automatic biochemical equipment) designed by Sinnowa is going to complete, and the goal of 95% parts purchased locally has achieved. Three models of BS-series (semiautomatic biochemical equipment) have also obtained registration certificates and started batch production. Meanwhile, there are over 20 types of biochemical reagents under development, among which 8 have passed registration tests by National Medical Equipment Testing Institute.

For the 8 patents Sinnowa has applied, 2 have obtained patents in China. In order to strengthen sales business, Sinnowa has set up 6 sales offices respectively in Chongqing, Changchun, Guangzhou, Beijing, Wuhan and Shi Jiazhuang.

Research, development and sales of drugs

China Best has proceeded with the research and development of Chinese and western drugs and medicines as planned. Apart from four drugs (3 Chinese drugs and 1 western drug) which have obtained approval documents for clinical trial, there are four Chinese drugs undergoing toxin tests, one Chinese drug pending approval for clinical trial, and one western drug ready for production approval.

Research and development of 3-dimensional laparoscopes

The software part of 3-dimensional laparoscope developed by Tat Lung Medical Treatment (Shenzhen) Limited ("Tat Lung Treatment") has been completed. Registration procedures will accelerate upon the completion of hardware improvement.

Outlook

RFAS treatment

Since the effect of the existing multi-bullet radio-frequency treatment on liver cancer with tumour of over 5 centimeters in diameter is not prominent enough, the Group has obtained from the relevant producers in the United States the agency of “Multi-bullet, Multi-hole Drug Injection System”, which features simple structure, user-friendly, prominent effect and needless to arm with other special equipment. Currently the Group is working with the producer in proceeding with clinical application and promotion. DR.SUBIATI, world-known Italian authority, is extremely satisfied with the effect after adopting this technology in treatment case of liver cancer with tumour in diameter of 5-8 centimeters. The message has great significance to the Chinese medical industry, as there are over 70% liver cancer sufferers who, when identified during medical examination, are too late to receive treatment by ablation operation or where tumours are in a location not suitable for operation, regardless of whether they are over or less than 5 centimeters in diameter. The treatment with the new drug injection system, on the other hand, is able to achieve success. As there is no need for additional machines or equipment, this technology can be applied in hospitals with only basic equipment. This technology will become popular. Not only can it help a great population of cancer patients cure their diseases, it will also facilitate greater business development of the Group.

Due to increasing competition among “RFAS Treatment Systems”, the Group has proceeded with the self development, research and production of its own radio frequency treatment systems and radio frequency needles. The new radio frequency needles, with multi-functions feature, will be applied in the treatment of comparatively large sized liver cancer. The program has currently been initiated, and is expected to be completed in 2005 and go through registration procedures of state governing authority in 2006.

Production and sales of medical testing instruments

To increase domestic and overseas sales volume, Sinnowa planned to implement the following during the year of 2005:

- enlarge the production capacities of biochemical analyzers D series (including D280, D180 and D360) to an annual production capacity of 160 machines.
- complete the clinical trial and production licence of automatic immune analyzers.
- participate in more than 20 national and international medical instrument exhibitions, and strengthen its efforts in sales promotion.
- increase effort to secure OEM manufacturing contracts with 1 to 2 foreign companies.
- complete 3 patents applications and registration procedure of the two trademarks of “SINNOWA” and “SINNOV”.
- further enhance production efficiency and guarantee the quality of existing products.

Research and development of new drugs

China Best will actively achieve the research and development of various new drugs and their application procedures for approval. Meanwhile, riding on the existing development technology, it will strive to provide customers with research and development service to increase the Group's revenues.

5. MANAGEMENT DISCUSSION AND ANALYSIS ON THE ENLARGED GROUP

(Cambodia) Tong Min is a newly established company and was incorporated in Cambodia on 20 March 2007. It is currently an investment company and since its date of incorporation up to 30 June 2007, it has not recorded any revenue and incurred immaterial administration expense, which have resulted in an unaudited net loss of approximately HK\$0.24 million for the period. As at 30 June 2007, the net liability position of (Cambodia) Tong Min amounted to approximately HK\$0.2 million. Upon completion of the Acquisition, it will become an indirectly wholly-owned subsidiary of the Company and its financial results will be consolidated into the Company's consolidated financial statements.

6. INDEBTEDNESS**Borrowings**

At the close of business on 31 July 2007, being the latest practicable date for inclusion of information in this paragraph headed "Indebtedness" prior to the publication of this Circular, the Group had a secured bank loan of approximately HK\$5 million, which was repayable within one year. Such bank loan was secured by the Group's buildings and leasehold land assets with an aggregate carrying value of approximately HK\$7 million as at 31 July 2007.

Collateral

As at 31 July 2007, the Group did not pledge any of its assets to creditors.

Contingent liabilities

As at 31 July 2007, the Group did not have any material contingent liabilities.

Capital commitments and other commitments

At the close of business on 31 July 2007, commitments of the Group in respect of capital contributions to the subsidiaries, acquisitions of property, plant and equipment and operating leases amounted to approximately HK\$8 million, all of which were contracted for but not provided for. The Directors plan to finance the above commitments by internally generated funds of the Group.

7. WORKING CAPITAL SUFFICIENCY

The Directors are satisfied after due and careful enquiry that, after taking into account the existing cash and bank balances, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the Latest Practicable Date, in the absence of unforeseeable circumstances.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).



5/F, Ho Lee Commercial Building,
38-44 D' Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

7 September 2007

The Directors
Medical China Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to (Cambodia) Tong Min Group Engineering Co., Ltd. (“(Cambodia) Tong Min”) including the income statement, statement of changes in equity and cash flow statement for the period from 20 March 2007 (Date of Incorporation) to 30 June 2007 (the “relevant period”), and the balance sheet as at 30 June 2007 (collectively, the “Financial Information”) for inclusion in the shareholders’ circular of Medical China Limited (the “Company”) dated 7 September 2007 (the “Circular”).

(Cambodia) Tong Min was incorporated on 20 March 2007 as a limited liability company in the Kingdom of Cambodia (“Cambodia”) and has not carried on any business since the date of its incorporation. Pursuant to the conditional sale and purchase agreement dated 25 July 2007 entered into between China Cambodia Resources Limited (“China Cambodia Resources”) (formerly known as Allied Luck Worldwide Limited), a directly held wholly-owned subsidiary of the Company as at the date of this report, and Mr. Zhang Zhenzhong, Mr. Pen Sophal and Ms. Zhang Jie (collectively, the “Vendors”), the legal and beneficial owners of the entire issued share capital of (Cambodia) Tong Min, China Cambodia Resources will acquire from the Vendors their 100% equity interest in (Cambodia) Tong Min (the “Acquisition Agreement”).

Prior to the completion of the Acquisition Agreement, Mr. Zhang Zhenzhong, Mr. Pen Sophal and Ms. Zhang Jie held 70%, 10% and 20%, respectively, of the equity interests in (Cambodia) Tong Min.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of (Cambodia) Tong Min based on the unaudited management financial statements for the relevant period. The Financial Information is prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of (Cambodia) Tong Min are responsible for the preparation of the Financial Information set out below to give a true and fair view. In preparing Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departures from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information of (Cambodia) Tong Min for the purpose of this report, we have carried out appropriate audit procedures in respect of the unaudited management financial statements of (Cambodia) Tong Min in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of (Cambodia) Tong Min in respect of any period subsequent to 30 June 2007.

OPINION

In our opinion, the Financial Information set out below, for the purpose of this report, gives a true and fair view of the results and cash flows of (Cambodia) Tong Min for the relevant period and of the state of affairs of (Cambodia) Tong Min as at 30 June 2007.

A. FINANCIAL STATEMENTS

Income Statement

	<i>Notes</i>	Period from 20 March 2007 (Date of Incorporation) to 30 June 2007 USD'000
Turnover	4	–
Administrative expenses		<u>(30)</u>
Loss from operating activities	5	(30)
Taxation	7	<u>–</u>
Loss for the period		<u><u>(30)</u></u>

Balance Sheet

	<i>Notes</i>	As at 30 June 2007 USD'000
Current liabilities		
Amount due to a director	8	<u>(25)</u>
Net current liabilities and net liabilities		<u><u>(25)</u></u>
Capital and reserves		
Share capital	9	5
Accumulated losses		<u>(30)</u>
Deficiency in assets		<u><u>(25)</u></u>

The accompanying notes form part of the financial statements.

Statement of Changes in Equity

	<i>Notes</i>	Period from 20 March 2007 (Date of Incorporation) to 30 June 2007 USD'000
At beginning of the period		–
Issue of shares	9	5
Loss for the period		<u>(30)</u>
At end of the period		<u><u>(25)</u></u>

Cash Flow Statement

	<i>Notes</i>	Period from 20 March 2007 (Date of Incorporation) to 30 June 2007 USD'000
Cash flows from operating activities		
Loss before taxation and operating loss		(30)
before changes in working capital		25
Increase in amount due to a director		<u>25</u>
Cash used in operations and net cash used in operating activities		<u>(5)</u>
Cash flows from investing activities		<u>–</u>
Cash flows from financing activities		
Issue of shares	9	<u>5</u>
Net cash from financing activities		<u>5</u>
Net effect on cash and cash equivalents and cash and cash equivalents at end of the period		<u><u>–</u></u>

The accompanying notes form part of the financial statements.

B. NOTES TO THE FINANCIAL STATEMENTS**1. GENERAL**

(Cambodia) Tong Min is a private limited liability company incorporated in Cambodia on 20 March 2007. The address of its registered office and principal place of business is No. 54, Street 294, Sangkat Boeung Keng Kang 1, Khan Chamkarmorn Phnom Penh, Cambodia.

(Cambodia) Tong Min is currently an investment company and intends to initially undertake logging/timber operations in the process of developing a rubber plantation for the production of latex products. This is to be achieved under an exclusive right to exploit a designated forest area located at Kratie Province in Cambodia (the "Forest"). (Cambodia) Tong Min has yet to commence active operations as at 30 June 2007.

In the opinion of the directors of (Cambodia) Tong Min, Mr. Zhang Zhenzhong is the controlling shareholder and ultimate controlling undertaking of (Cambodia) Tong Min.

2. BASIS OF PREPARATION**(a) Statement of compliance**

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. This has involved preparing the Financial Information under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair values through the income statement.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A summary of the significant accounting policies adopted by (Cambodia) Tong Min is set out in note 3.

(b) Impact of Hong Kong Financial Reporting Standards issued but not yet effective

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and new interpretations which are not effective for the accounting period ended 30 June 2007 and which have not been adopted in the Financial Information.

Insofar as (Cambodia) Tong Min is in start-up and has not yet commenced active operations, these amendments, new standards and new interpretations have no impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES**(a) Other payables**

Other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(b) Foreign currencies

Items included in the Financial Information are measured using the currency of the primary economic environment in which (Cambodia) Tong Min operates (the "functional currency"). The Financial Information of (Cambodia) Tong Min are presented in United States Dollars ("USD") which is the Company's reporting/presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement.

(c) Impairment

At each balance sheet date, (Cambodia) Tong Min reviews the carrying amounts of assets to determine whether there are indications that any assets have suffered impairment losses. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(d) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amounts when the (Cambodia) Tong Min has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(e) Taxation

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

A deferred tax asset is also recognised for the carryforward of unused tax losses to the extent it is probable that future taxable profits will be available against which the carryforward of the unused tax losses can be utilised.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in values.

(g) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to (Cambodia) Tong Min of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The contributions to appropriate local retirement benefit schemes are charged to the income statement when incurred.

Termination benefits are recognised only when the (Cambodia) Tong Min demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(h) Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Payments made under operating leases are recognised in the income statement on the straight-line basis over the terms of the leases. Lease incentives received are recognised in the income statement as an integral part of total lease expenses.

(i) Related parties

For the purposes of the Financial Information, a party is considered to be related to (Cambodia) Tong Min if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control (Cambodia) Tong Min or exercise significant influence over it in making financial and operating policy decisions, or has joint control over it;
- (ii) (Cambodia) Tong Min and the party are subject to common control;
- (iii) the party is an associate of (Cambodia) Tong Min or a joint venture in which it is a venturer;
- (iv) the party is a member of the key management personnel of (Cambodia) Tong Min or its parent company, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual(s);
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individual(s); or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of (Cambodia) Tong Min or of any entity that is a related party thereto.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. TURNOVER

(Cambodia) Tong Min has yet commenced active operations and, therefore, did not generate any turnover during the relevant period.

5. LOSS FROM OPERATING ACTIVITIES

	Period from 20 March 2007 (Date of Incorporation) to 30 June 2007 USD'000
Loss from operating activities is arrived at after charging:	
Operating lease rentals	6
Auditor's remuneration	–
Depreciation	–
Staff costs:	
Salaries and allowances	5
Staff welfare	1
	<u>6</u>

6. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors' emoluments

(Cambodia) Tong Min did not pay any directors' emoluments during the relevant period and there were no arrangements under which a director waived or agreed to waive any remuneration during the relevant period.

Five highest paid employees

The emoluments of each of the five highest paid employees are within the band of nil to USD1,000,000.

7. TAXATION

- (a) No provision for Hong Kong Profits Tax has been made as (Cambodia) Tong Min did not have any assessable profits earned in or derived from Hong Kong during the relevant period.
- (b) (Cambodia) Tong Min is subject to Cambodia income tax at 20%. According to the relevant income tax rules and regulations, it is entitled 100% relief from Cambodian Income Tax in the first five years, commencing from the earlier of the first profitable year or three years from the commencement of business (i.e. first sale).
- (c) Reconciliation between taxation and the loss before taxation at applicable tax rates:

	Period from 20 March 2007 (Date of Incorporation) to 30 June 2007 USD'000
Loss before taxation	(30)
Notional tax on loss before taxation, calculated at the statutory rate of 20%	(6)
Tax effect of non-deductible expenses	6
Taxation for the period	–

- (d) There were no deferred tax assets or liabilities at the balance sheet date.

8. AMOUNT DUE TO A DIRECTOR

The amount due is unsecured, non-interest bearing and is expected to be settled within one year.

9. SHARE CAPITAL

30 June 2007

USD'000

Registered, issued and fully paid:

1,000 ordinary shares of Riels 20,000 each

5

On incorporation, the registered capital of the Company was fixed at 20,000,000 Riels divided into 1,000 shares in which each share has a face value of 20,000 Riels.

The 1,000 shares were subscribed and allotted to Mr. Zhang Zhenzhong, Mr. Pen Sophal and Ms. Zhang Jie as to 700 shares, 100 shares and 200 shares, respectively.

10. FINANCIAL RISK MANAGEMENT

Exposure to liquidity risk will arise in the normal course of business of (Cambodia) Tong Min and this is limited by financial management policies and practices described below.

It is (Cambodia) Tong Min policy to regularly monitor current and expected liquidity requirements to ensure that it will have sufficient reserves of cash, deposits and the continued financial support from the directors to meet its liquidity requirements in the short and longer term.

C. SUBSEQUENT EVENTS

Pursuant to the Acquisition Agreement dated 25 July 2007 entered into between China Cambodia Resources Limited (“China Cambodia Resources”) (formerly known as Allied Luck Worldwide Limited), a directly held wholly-owned subsidiary of the Company as at the date of this report, and the Vendors, the legal and beneficial owners of the entire issued share capital of (Cambodia) Tong Min, China Cambodia Resources will acquire from the Vendors their 100% equity interest in (Cambodia) Tong Min for a total consideration of approximately HK\$208.36 million.

(Cambodia) Tong Min is in the process of obtaining the exploitation rights in respect of a forest located in Kratie Province in Cambodia from the Cambodian Government. As at the date of this report, (Cambodia) Tong Min has already obtained a land certificate from the Cambodian Government. The forest exploitation right is still subject to the final approval by the relevant Cambodian government officials. (Cambodia) Tong Min expected such right would be obtained on or before 30 September 2007. Upon obtaining the exploitation rights, (Cambodia) Tong Min is expected to make a one-off payment of approximately HK\$55 million to the Cambodian government as a rights premium.

Under the Acquisition Agreement, the Vendors have granted China Cambodia Resources an option to acquire from the Vendors all the issued capital (as held by the relevant Vendors, as at the date of the exercise of such option) in the company/(ies) which will hold the land use rights and/or the right to forest exploitation obtained by the Vendors in the future, including, but not limited to, three additional plots of forests situate in Cambodia which, as represented

by the Vendors, are currently being acquired or obtained by the relevant Vendors. Such option will become effective upon completion of the Acquisition Agreement and will expire on the third anniversary of the completion. Upon exercise of the option, the Company shall pay to the First Vendor, Mr. Zhang Zhenzhong, an additional call option premium of HK\$30 million in cash. No more call option premium will be payable by the Company to the First Vendor upon further exercise of the option.

Upon completion of the Acquisition, which is subject to the approval of the Company's shareholders at a special general meeting to be held on 2 October 2007, (Cambodia) Tong Min will become an indirectly held wholly-owned subsidiary of the Company.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by (Cambodia) Tong Min in respect of any period subsequent to 30 June 2007.

Yours faithfully,

Kennic L. H. Lui & Co. Ltd.

Certified Public Accountants (Practising)

Lau Wu Kwai King, Lauren

Practising certificate number: P02651

Hong Kong

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP**

The following are illustrative and pro forma balance sheet, income statement and cash flow statement of the Enlarged Group (being Medical China Limited (the “Company”) and its subsidiaries (the “Group”), and (Cambodia) Tong Min Group Engineering Co., Ltd. (“(Cambodia) Tong Min”), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition as if it had taken place on 30 June 2007 for the pro forma balance sheet and for the six months ended 30 June 2007 for the pro forma income statement and cash flow statement.

The pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, financial results and cash flows of the Enlarged Group had the Acquisition been completed as at 30 June 2007 or at any future date, and for the six months ended 30 June 2007 or at any future period.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
I. Unaudited pro forma balance sheet of the Enlarged Group

	Unaudited consolidated balance sheet of the Group as at 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments				Unaudited pro forma balance sheet of the Enlarged Group as at 30 June 2007 <i>HK\$'000</i>	
		Balance sheet of (Cambodia) Tong Min as at 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Other adjustments				
			#1	#2	#3		#4
			<i>HK\$'000</i> <i>(Note 2(i))</i>	<i>HK\$'000</i> <i>(Note 2(ii))</i>	<i>HK\$'000</i> <i>(Note 2(iii))</i>		<i>HK\$'000</i> <i>(Note 2(iv))</i>
Non-current assets							
Property, plant and equipment	7,255	–	–	–	–	7,255	
Construction in progress	8,080	–	–	–	–	8,080	
Biological assets	6,872	–	–	–	–	6,872	
Investment in subsidiary	–	–	208,360	(208,360)	–	–	
Interests in leasehold land held for own use under operating leases	2,566	–	–	–	–	2,566	
Intangible assets							
– Medical research projects	26,777	–	–	–	–	26,777	
– Exploitation rights	–	–	–	208,556	55,000	263,556	
– Others	1,236	–	–	–	–	1,236	
	<u>52,786</u>	<u>–</u>	<u>208,360</u>	<u>196</u>	<u>55,000</u>	<u>–</u>	<u>316,342</u>
Current assets							
Inventories	8,562	–	–	–	–	8,562	
Trade and other receivables	11,699	–	–	–	–	11,699	
Deposits with banks	56,445	–	–	–	–	56,445	
Cash at bank and on hand	16,150	–	(50,000)	–	(55,000)	115,230	26,380
	<u>92,856</u>	<u>–</u>	<u>(50,000)</u>	<u>–</u>	<u>(55,000)</u>	<u>115,230</u>	<u>103,086</u>
Current liabilities							
Trade and other payables	42,283	196	–	–	–	–	42,479
Bank loan	1,539	–	–	–	–	–	1,539
Taxation	445	–	–	–	–	–	445
	<u>44,267</u>	<u>196</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>44,463</u>
Net current assets/(liabilities)	<u>48,589</u>	<u>(196)</u>	<u>(50,000)</u>	<u>–</u>	<u>(55,000)</u>	<u>115,230</u>	<u>58,623</u>
Non-current liabilities							
Convertible bonds	–	–	(7,698)	–	–	–	(7,698)
Bonds	–	–	(70,000)	–	–	–	(70,000)
	<u>–</u>	<u>–</u>	<u>(77,698)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(77,698)</u>
NET ASSETS/(LIABILITIES)	<u>101,375</u>	<u>(196)</u>	<u>80,662</u>	<u>196</u>	<u>–</u>	<u>115,230</u>	<u>297,267</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	Unaudited consolidated balance sheet of the Group as at 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Balance sheet of (Cambodia) Tong Min as at 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments				Unaudited pro forma balance sheet of the Enlarged Group as at 30 June 2007 <i>HK\$'000</i>
			Other adjustments				
			#1	#2	#3	#4	
			<i>HK\$'000</i> <i>(Note 2(i))</i>	<i>HK\$'000</i> <i>(Note 2(ii))</i>	<i>HK\$'000</i> <i>(Note 2(iii))</i>	<i>HK\$'000</i> <i>(Note 2(iv))</i>	
CAPITAL AND RESERVES							
Share capital	8,350	39	9,462	(39)	–	1,670	19,482
Reserves	86,138	(235)	71,200	235	–	113,560	270,898
Total equity attributable to equity holders of the Company	94,488	(196)	80,662	196	–	115,230	290,380
Minority interests	6,887	–	–	–	–	–	6,887
TOTAL EQUITY	101,375	(196)	80,662	196	–	115,230	297,267

II. Unaudited pro forma income statement of the Enlarged Group

	Unaudited consolidated income statement of the Group for the six months ended 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Income statement of (Cambodia) Tong Min from 20 March 2007 (date of incorporation) to 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments				Unaudited pro forma income statement of the Enlarged Group for the six months ended 30 June 2007 <i>HK\$'000</i>
			Other adjustments				
			#1	#2	#3	#4	
			<i>HK\$'000</i> <i>(Note 2(i))</i>	<i>HK\$'000</i> <i>(Note 2(ii))</i>	<i>HK\$'000</i> <i>(Note 2(iii))</i>	<i>HK\$'000</i> <i>(Note 2(iv))</i>	
Turnover	16,626	-	-	-	-	-	16,626
Cost of service/sales	(9,121)	-	-	-	-	-	(9,121)
Gross profit	7,505	-	-	-	-	-	7,505
Other income	824	-	-	-	-	-	824
Selling and distribution expenses	(4,937)	-	-	-	-	-	(4,937)
Administrative expenses	(4,806)	(235)	-	-	-	-	(5,041)
Other operating expenses	(652)	-	-	-	-	-	(652)
Loss from operations	(2,066)	(235)	-	-	-	-	(2,301)
Finance costs	(24)	-	-	-	-	-	(24)
Loss before taxation	(2,090)	(235)	-	-	-	-	(2,325)
Taxation	-	-	-	-	-	-	-
Loss for the period	<u>(2,090)</u>	<u>(235)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,325)</u>
Profit/(loss) attributable to:							
Equity holders of the Company	(2,456)	(235)	-	-	-	-	(2,691)
Minority interests	366	-	-	-	-	-	366
	<u>(2,090)</u>	<u>(235)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,325)</u>

III. Unaudited pro forma cash flow statement of the Enlarged Group

	Unaudited consolidated cash flow statement of the Group for the six months ended 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Cash flow statement of (Cambodia) Tong Min from 20 March 2007 (date of incorporation) to 30 June 2007 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments				Unaudited pro form cash flow statement of the Enlarged Group for the six months ended 30 June 2007 <i>HK\$'000</i>
			Other adjustments				
			#1	#2	#3	#4	
			<i>HK\$'000</i> <i>(Note 2(i))</i>	<i>HK\$'000</i> <i>(Note 2(ii))</i>	<i>HK\$'000</i> <i>(Note 2(iii))</i>	<i>HK\$'000</i> <i>(Note 2(iv))</i>	
Net cash from/(used in) operating activities	7,307	(39)	–	–	–	–	7,268
Net cash used in investing activities	(1,484)	–	(208,360)	–	(55,000)	–	(264,844)
Net cash from/(used in) financing activities	(2,076)	39	158,360	–	–	115,230	271,553
Net increase/(decrease) in cash and cash equivalents	3,747	–	(50,000)	–	(55,000)	115,230	13,977
Cash and cash equivalents at beginning of the period	12,029	–	–	–	–	–	12,029
Effect of foreign exchange rate changes	374	–	–	–	–	–	374
Cash and cash equivalents at end of the period	<u>16,150</u>	<u>–</u>	<u>(50,000)</u>	<u>–</u>	<u>(55,000)</u>	<u>115,230</u>	<u>26,380</u>

IV. Notes to the unaudited pro forma financial information of the Enlarged Group**1. BASIS OF PREPARATION**

The pro forma financial information is prepared based on the consolidated balance sheet as at 30 June 2007 and the consolidated income statement and condensed cash flow statement for the period from 1 January 2007 to 30 June 2007 of the Group extracted from the Group's published Interim Report 2007, and the audited balance sheet as at 30 June 2007 and the income statement and cash flow statement for the period from 20 March 2007 to 30 June 2007 of (Cambodia) Tong Min extracted from the Accountants' Report set out in Appendix II to this Circular, after making certain pro forma adjustments that are summarised in note 2 below.

For the purpose of preparing the unaudited pro forma financial information of the Enlarged Group, the audited balance sheet of (Cambodia) Tong Min as at 30 June 2007 and the income statement and cash flow statement of (Cambodia) Tong Min for the period from 20 March 2007 to 30 June 2007 were translated at the exchange rate of USD1=HK\$7.82 which approximates the exchange rate as at 30 June 2007.

2. PRO FORMA ADJUSTMENTS**(i) Funding for the Acquisition**

The total funding for the Acquisition is HK\$208,360,000 which is proposed to be satisfied as to HK\$50,000,000 by cash, financed by internal resources of the Group, as to HK\$75,200,000 by the issue of 400,000,000 ordinary shares of HK\$0.01 each (the "Consideration Shares") of the Company at the issue price of HK\$0.188 per share, as to HK\$13,160,000 by the issue of the 2% convertible bonds due on the seventh anniversary of the completion of Acquisition at a conversion price of HK\$0.188 per share (the "Convertible Bonds"), and the remaining balance as to HK\$70,000,000 by the issue of bonds by the Company.

The share premium of HK\$71,200,000 arising from the issuance of the Consideration Shares is recorded in reserves.

The fair values of the liability component and the equity conversion component of the Convertible Bonds are determined as if the Convertible Bonds had been issued at 30 June 2007. The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for a similar convertible bond. The residual amount, amounting to HK\$5,462,000, representing the value of the equity conversion, is included in share capital.

The fair value of the liability component of the Convertible Bonds at 30 June 2007, amounting to HK\$7,698,000, was calculated by using cash flows discounted at a rate based on the borrowing rate of 9.7%.

(ii) Elimination of investment in (Cambodia) Tong Min

On consolidation, the related investment cost of the Group in (Cambodia) Tong Min amounting to HK\$208,360,000 is eliminated against the Group's entire equity interest in (Cambodia) Tong Min, being the deficiency in assets value of (Cambodia) Tong Min of approximately HK\$196,000. Accordingly, estimated goodwill amounting to approximately HK\$208,556,000 representing the underlying cost of forest exploitation rights is recognised as a result of the Acquisition. In view of the substance of the Acquisition in (Cambodia) Tong Min, that is, the land use and exploitation rights of using the forest located at Kratie Province in Cambodia (the "Forest"), the amount is recognised as an intangible asset of the Enlarged Group, versus recognising it as goodwill.

The Group will apply the purchase method to account for the Acquisition whereby the identifiable assets and liabilities of (Cambodia) Tong Min will be recorded at their fair values at the date of completion, and all the capital and reserves of (Cambodia) Tong Min upon completion of the Acquisition will be eliminated against pre-acquisition reserves of the Enlarged Group.

(iii) Payment of premium for the exploitation rights

Upon obtaining the exploitation rights in respect of the Forest, (Cambodia) Tong Min will make a one-off payment of approximately HK\$55,000,000 to the Cambodia government as a rights premium. The unaudited pro forma adjustment reflects the decrease in cash and bank balances of the Group in order to implement the Acquisition as if it had taken place as at 30 June 2007.

(iv) Proceeds from the New Placing Shares

For the purpose of satisfying the precedent conditions relating to the Acquisition, on 18 July 2007, the Company has entered into a Placing and Share Subscription Agreement with Commerzbank AG and SBI E2-Capital Securities Limited (the “Joint Placing Agents”), pursuant to which, the Joint Placing Agents agreed, on a best-efforts basis, to place 167,000,000 ordinary shares of HK\$0.01 each of the Company at the placing price of HK\$0.69 per placing share (“New Placing Shares”), which was determined with reference to the average closing price on 18 July 2007, being the last trading day before suspension of trading in the Shares pending the release of the announcement dated 31 July 2007.

For the purpose of preparing the unaudited pro forma financial information of the Enlarged Group after the Acquisition, the 167,000,000 share subscription is assumed to have been completed as at 30 June 2007 and paid by cash in the amount of approximately HK\$115,230,000 at the placing price of HK\$0.69 per placing share.

The share premium of HK\$113,560,000 arising from the issuance of the New Placing Shares is recorded in reserves.

**B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

K **Kennic L. H. Lui & Co. Ltd.**
Certified Public Accountants (Practising)
L 呂禮恒會計師事務所有限公司

5/F, Ho Lee Commercial Building,
38-44 D' Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

7 September 2007

The Directors
Medical China Limited

Dear Sirs,

We herein report on the unaudited pro forma income statement, the unaudited pro forma balance sheet and the unaudited pro forma cash flow statement as set out in Section A of Appendix III to the shareholders' circular of Medical China Limited (the "Company") dated 7 September 2007 (together the "Unaudited Pro Forma Financial Information"), which have been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 100% equity interest of (Cambodia) Tong Min Group Engineering Co., Ltd. ("(Cambodia) Tong Min") might have affected the consolidated income statement and consolidated cash flow statement of the Company and its subsidiaries (hereinafter, collectively, referred to as the "Group") for the period from 1 January 2007 to 30 June 2007 and the consolidated balance sheet of the Group as at 30 June 2007. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of this appendix.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND
REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 7.31(7) of the GEM Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information contained with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 7.31(1) of the GEM Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2007 or any future date; or
- the results of the Enlarged Group for the period from 1 January 2007 to 30 June 2007 or any future periods.

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 7.31(1) of the GEM Rules.

Yours faithfully,

Kennic L. H. Lui & Co. Ltd.

Certified Public Accountants (Practising)

Lau Wu Kwai King, Lauren

Practising certificate number: P02651

Hong Kong

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 June 2007 of the market value of the 100% equity interest in (Cambodia) Tong Min Group Engineering Co. Ltd.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

7 September 2007

The Directors

Medical China Limited

Unit B, 21st Floor, Teda Building

No. 87 Wing Lok Street

Sheung Wan

Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Medical China Limited (referred to as the “Company”) for us to provide our opinion on the market value of the 100% equity interest in (Cambodia) Tong Min Group Engineering Co. Ltd. (referred to as “Tong Min”) as at 30 June 2007 (the “Date of Valuation”). Tong Min owns a forest concession (referred to as the “Forest”) with an area of 10,082 hectares for a period of 70 years in Kratie province, the Kingdom of Cambodia (referred to as the “Cambodia”).

The valuation was prepared in accordance to the HKIS Valuation Standard on Trade-Related Business Assets and Business Enterprises issued by the Hong Kong Institution of Surveyors (“HKIS”).

The scope of valuation has been determined with reference to the instructions given by the senior management of the Company, who has confirmed to us that it has no asset other than those specified on the instructions given to us for this particular valuation.

This report includes the backgrounds of Tong Min and the Forest, the business plan of the Forest, a brief industry overview, the basis of valuation and assumptions. It also explains the valuation methodology applied and presents our conclusion of value.

PURPOSE OF VALUATION

We understand that the purpose of our valuation is to express an independent opinion on the market value of 100% equity interest in (Cambodia) Tong Min Group Engineering Co. Ltd. as at 30 June 2007 for your public documentation purposes only.

BASIS OF VALUATION

Our valuation was carried out on the basis of market value. Market value is defined as *“the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”*.

Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the Forest at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at an arm’s length transaction.

BACKGROUND OF TONG MIN

Established in Cambodia, Tong Min has been granted a forest concession in Kratie province, Cambodia, with an area of 10,082 hectares for a period of 70 years. Tong Min is also in the process of obtaining concessions to three forests covering more than 30,000 hectares.

We have been advised that Tong Min has strong and extensive ties to the Cambodian government. It has several government officials on its advisory board, such as Tol Chao (deputy chief of Cabinet of the Prime Minister, first deputy commander of Prime Minister’s Body Guard, a “Three-star” General of Cambodia’s army and head of the National Forest Guard of Cambodia), Kim Hong Mak (advisor to the Prime Minister), and Pheng Muthavy (deputy head of the Department of Rubber Development of Cambodia, a department of the General Directorate of Rubber Plantations – responsible for the rubber development plan including laws and regulations).

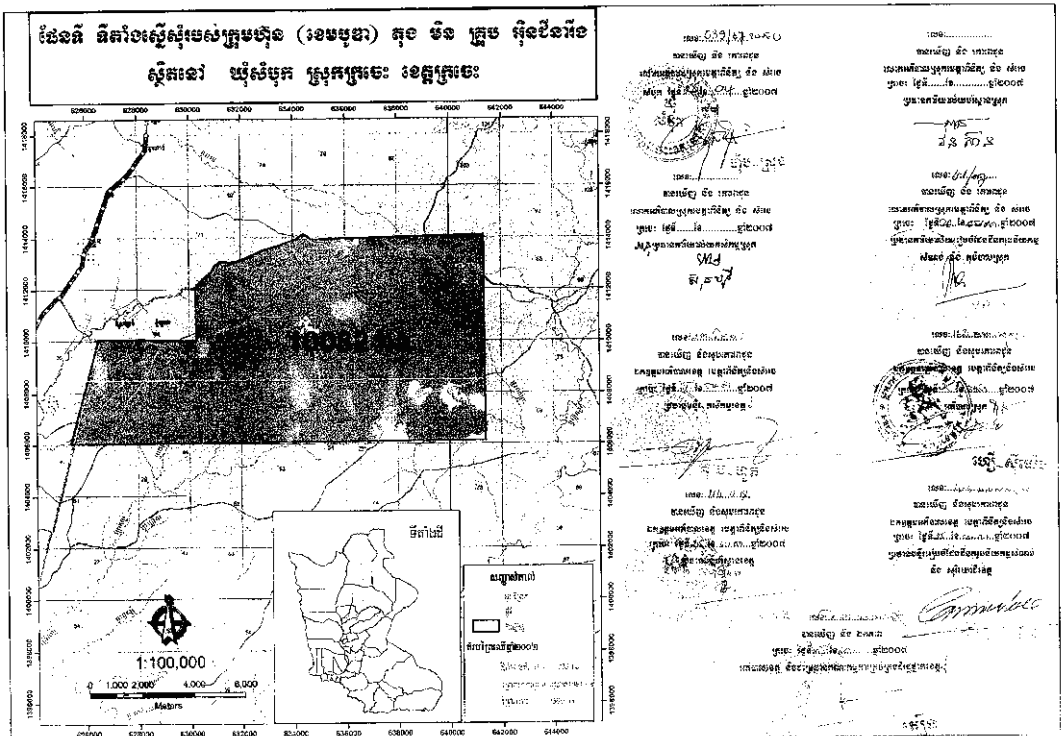
BACKGROUND OF THE FOREST

The Forest is located at Kratie in Cambodia with an area of 10,082 hectares, or equals to 100.82 square kilometres. Kratie is about 370 kilometres away from capital Phnom Penh, which is linked by National Highway No. 6 and National Highway No. 7 and about 25 kilometres from the River Tonle Mekong, Cambodia’s major river.

According to the technical report named “柬埔寨橘井森林資源評估報告” (referred to as the “Technical Report”), prepared by Mr. Li Yi De, an independent forestry technical consultant (referred to as the “Technical Consultant”) of 中國林業科學研究院熱帶林業研究所 (The Research Institute of Tropical Forestry of Chinese Academy of Forestry), the Forest has about 3.2 million cubic metres of logs, with a mixture of about 5.3%, 43.1% and 51.6% for premium grade logs, first grade logs and standard grade logs, respectively. The following table details the major types of tree species and their timber reserves under each grade log:

Grade Log	Type of Tree Species	Timber Reserve
Premium	Pterocarpus sp (紫檀)	169,950 m ³
First	Dipterocarpaceae (龍腦香科)	1,385,024 m ³
Standard	Lythraceae (千屈菜科)	1,659,590 m ³
Total:		<u>3,214,564 m³</u>

The government of Cambodia only selectively opens its forestry industry to foreign investors, therefore there is a high entry barrier for foreign investors. We have been advised by the senior management of the Company that the land concession right had been granted by the provincial government of Cambodia and there would be no legal impediment for Tong Min to obtain the forest exploitation right by 30 September 2007. The certificate for the concession right of the Forest issued by the government of Cambodia is attached as follows:



BUSINESS PLAN OF THE FOREST

According to Tong Min's business plan of the Forest, the trees in the Forest will be logged to clear the land for a rubber plantation. The trees logged will be processed into sawn timber and value added wood products for export sale. The logging and processing into sawn timber and value added products will be outsourced to experienced PRC contractors. The logging plan calls for the Forest to be cleared over a 5 year period.

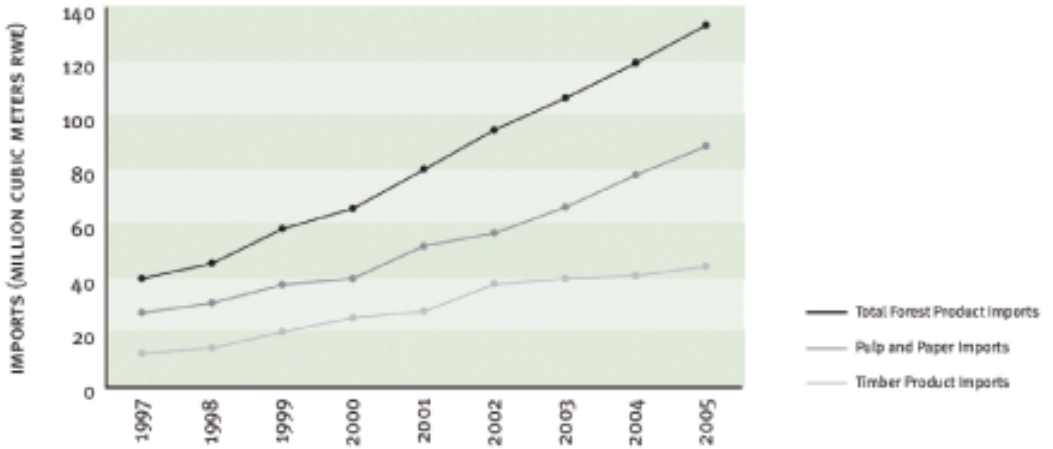
As the Forest is being cleared, rubber trees will be planted progressively. Upon maturity, the plantation will produce latex for sale. Professional logging companies will be hired for extraction and processing of latex. Maintenance of the plantation will also be outsourced to experienced contractors. Generally it will take 5 years for the harvest of latex begins and older trees yield more latex. The production period of latex from rubber trees is usually 30 years. Planting of new rubber trees will be carried out to replace those old rubber trees.

It will take about 12 hours for the products of the Forest to be delivered to the port in Praek Kampi via National Highway No. 6 and National Highway No. 7. After that, cargos will be used to ship the products from Ho Chi Ming Port (in Vietnam) to China.

BRIEF INDUSTRY OVERVIEW**The Forest Industry**

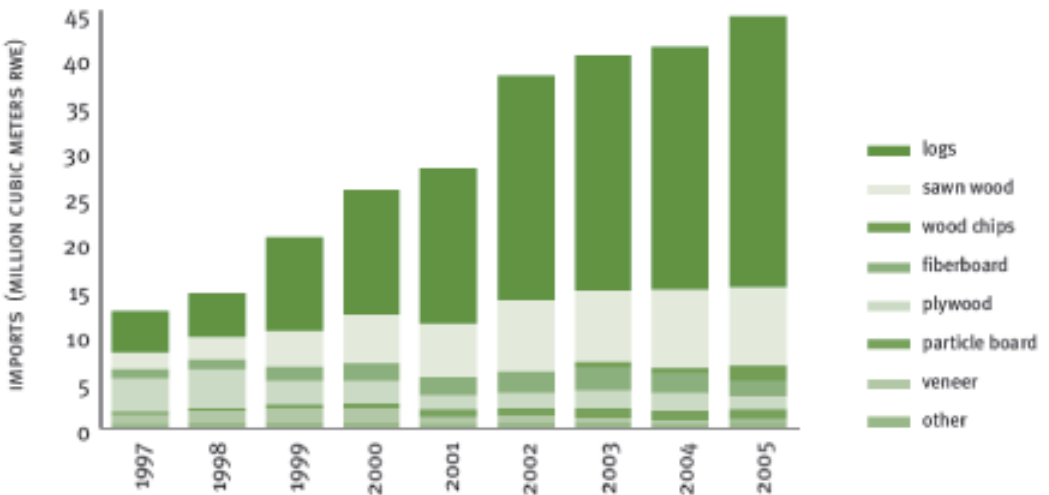
According to China And The Global Market For Forest Products: Transforming Trade to Benefit Forests and Livelihoods published by Forest Trends in March 2006, China's spectacular economic growth over the last decade is having a dramatic impact throughout the world. It has become a leading nation in terms of its demand for forest products. Domestic supply of industrial wood has failed to keep up with China's growing demand.

Between 1997 and 2005, China’s total forest product imports more than tripled in volume from 40 million cubic metres to 134 million cubic metres and more than doubled in value. This was a reflection of the country’s own increasing consumption of forest production; the rising international demand for low-cost forest products manufactured in China and China’s inability to meet rising demand through production from its own forests. The trends in Chinese forest products imports are illustrated in the chart as follows:

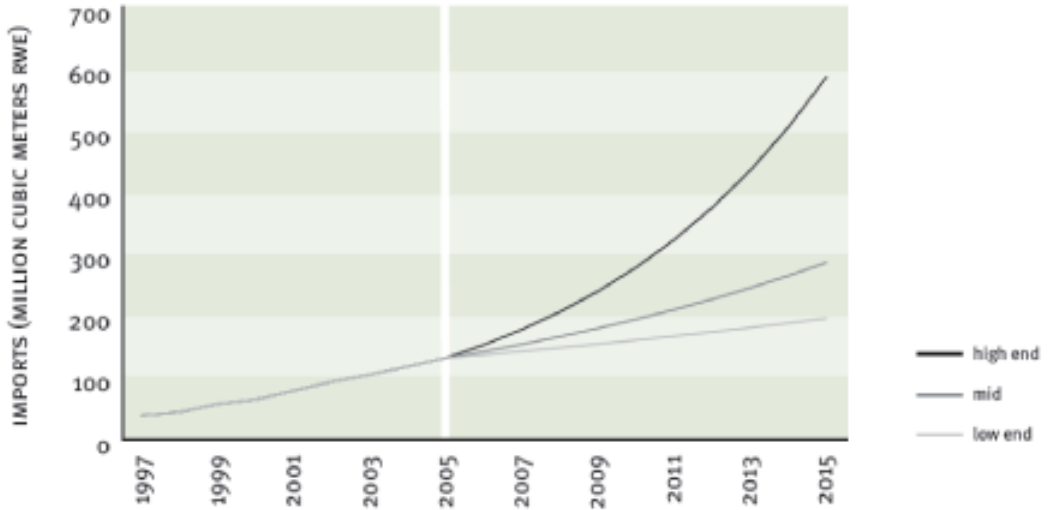


Source: Chinese customs statistics

Moreover, the nature of Chinese forest product imports has changed. Throughout the late 1990s, China imported large quantities of plywood. Nowadays, however China imports large quantities of raw logs or barely processed wood products to feed its own thriving plywood industry. This is a reflection of the spectacular increase in growth in domestic consumption and the demand for exports on the one hand, and the government’s decision to protect the country’s forests on the other. Details can be referred to from the following chart:



It is estimated that the trends of rising imports will almost certainly continue, possibly for several decades and the forest product imports of China are likely to double in the next 10 years alone. The following figure provides a graphic illustration of three possible scenarios for China’s forest product import trends through 2015.



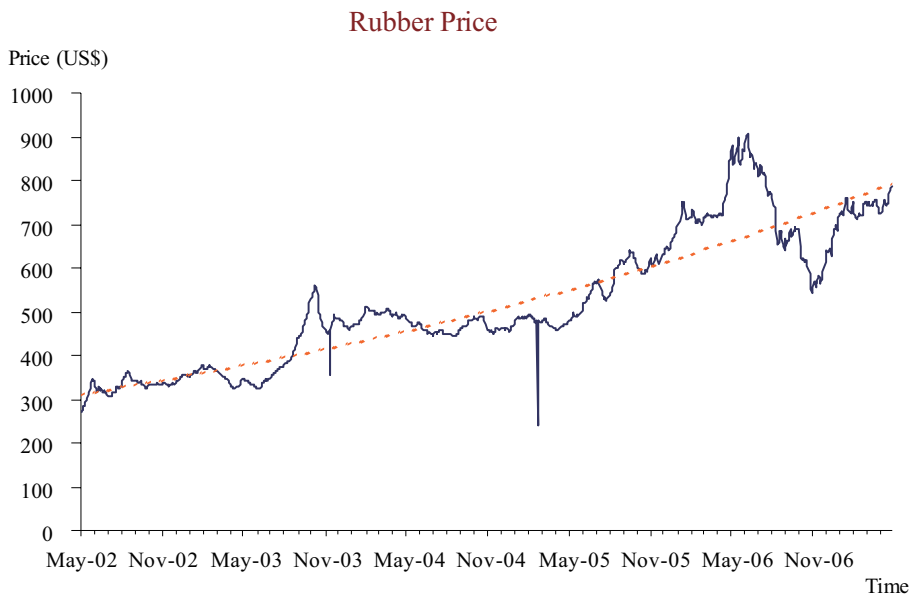
Source: Chinese customs statistics and FT projections

The Rubber Industry

Rubber made from latex obtained from the rubber tree (*Hevea brasiliensis*). Latex is a complex mixture of organic compounds, including various gum resins, fats, or waxes and in some instances, poisonous compounds, suspended in a watery medium with dissolved salts, sugars, tannins, alkaloids, enzymes, and other substances from which the latex can be concentrated, coagulated and vulcanized.

Referring to the China’s Rubber Products Market issued by China Rubber Industry Association, with 18 categories and more than 50,000 types of rubber products, the rubber industry is an important part of China’s national economy. China’s demand for industrial rubber products has grown at a fast pace in the past decade and it is anticipated that in the next five years, both production and demand will continue to grow. China’s nearly two-decade high economic growth has provided the stimulus for the rise in consumption of industrial rubber products.

Since 1990, the country's consumption of industrial rubber products has grown at a double digit rate of 11.9% annually. It is forecasted that the rapid development of the Chinese machinery and equipment, vehicles, construction, industrial engineering and agricultural sectors will continue to fuel demand for industrial rubber products and to further spur the growth of the industry. Today Asia is the main source of natural rubber, accounting for around 94% of global output in 2005 and three largest producing countries, including Indonesia, Malaysia and Thailand, together accounted for around 72% of all natural rubber production accordingly. The figure as follows shows the rubber price between May 2002 and November 2006.



SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related to Tong Min, which was provided by the senior management of the Company. We were also provided with various copies of documents related to our valuation, which have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature; therefore, no responsibility is assumed on the aspect of the legality and accuracy of the information provided by the senior management of the Company.

The valuation of Tong Min required consideration of all pertinent factors affecting the economic benefits of Tong Min and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to the following:

- The nature and the characteristics of the Forest;
- The business nature of Tong Min;
- The projected future economic benefits of the Forest;
- The continuity of the projected future business operation and sales/distribution network;
- The capability and determination of the senior management of the Company to develop and implement the business plan of the Forest;
- The economic and industry data affecting the feasibility of the business plan of the Forest;
- The specific economic environment and competition for the market in which Tong Min is exposed to;
- Market-derived investment returns of similar businesses; and
- The financial and business risks related to Tong Min, including the continuity of income and the projected future result.

Our opinion on the market value of Tong Min is chiefly based on the amount of the Forest's reserve and timber reserve extracted from the Technical Report prepared by the Technical Consultant. We need to state that we are not in the forestry survey profession, therefore, no responsibility is assumed on the aspect of the accuracy of the information contained in the Technical Report.

SCOPE OF WORKS

In the course of our valuation work for Tong Min, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Interviewed with the senior management of the Company;
- Obtained all relevant financial and operational information of Tong Min;
- Studied and based on the content of the supplied materials to arrive at our opinion. In the course of the valuation, we will assume the supplied data and information are correct and we will not ascertain the correctness of the information that contained in the supplied materials;

- Conducted appropriate research/consultation in order to obtain sufficient industrial information to support our valuation. The scope of research/consultation is at the value's own discretion;
- Examined all relevant bases and assumptions of both the financial and operational information of Tong Min, which were provided by the senior management of the Company;
- Held discussions with relevant personnel and to review various accounting, financial, operational and legal documents in order to get a better understanding on the Forest and the business plan;
- Prepared a business financial model to derive the indicated value of Tong Min; and
- Presented all relevant information on the background of the Forest, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Due to the changing environment in which Tong Min is exposed to, a number of assumptions had to be established in order to sufficiently support our concluded opinion of value of Tong Min. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where Tong Min is currently or will be exposed to, which will materially affect the revenues attributable to Tong Min;
- There will be no major changes in the current taxation law in the jurisdiction related to Tong Min, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The financial projections in respect of Tong Min were prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful consideration by the senior management of the Company;
- Economic conditions will not deviate significantly from economic forecasts;
- Tong Min is able to be granted the exploitation right by Cambodian government successfully by the end of September 2007;
- The business plan in respect of the exploration plan for tree logging and rubber plantation, tree clearing and plantation schedules and procedures provided by the Company is feasible and reliable;

- The operation of Tong Min will be carried out on a continuous basis during the 70-year forest concession period granted by Cambodian government and no major changes in the business environment that Tong Min is currently and/or will be operating in; and
- The growth rates for the prices of timber and rubber adopted are 5% and 2% respectively and there will be no significant fluctuations regarding the prices of both timber and rubber from the existing market price and the forecasted growth rates.

VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing Tong Min. They were the *market approach*, the *cost approach* and the *income approach*.

The market approach provides indications of value by comparing the subject to similar forests that have been sold in the market.

The cost approach provides indications of value by studying the amounts required to recreate Tong Min for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of Tong Min.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for Tong Min than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar forest with a similar risk profile.

We considered that the *market approach* was not appropriate to value Tong Min, as there are insufficient comparable transactions in the market. The *cost approach* was also regarded not adequate in this valuation, as this approach does not take future growth potential of Tong Min into consideration. Thus, we determined that the *income approach* was the most appropriate valuation approach for this valuation.

In the valuation, we applied the *income approach* also known as the discounted cash flow (DCF) method. We determined the market value by applying a discount rate (the cost of capital) in the DCF model to determine the net present value of Tong Min's future expected cash flows.

The first step of the valuation is to estimate the economic income projection. The projection of the future business operation model was prepared by the senior management of Tong Min and they are responsible for the assumptions upon which the future economic income projections are based. Having discussed with the senior management of Tong Min, we understood that the assumptions adopted by them reflected their familiarity with the business environment in Cambodia and also the close relationship with government of Cambodia.

The expected cash flows were determined from the net profits after tax plus non-cash expenses such as depreciation and amortization expenses, and after-tax interest expenses and less non-cash incomes, capital expenditures and changes in working capital.

The discount rate takes into account two different types of risks – systematic risks and non-systematic risks. Risks that are correlated with the return from the stock market are referred to as systematic risks. Other risks that are company-specific are referred to as non-systematic risks. We determined the rate of return for systematic risks based on the Capital Asset Pricing Model (“CAPM”). The CAPM states that an investor requires excess returns to compensate systematic risks but provides no excess return for non-systematic risks. The CAPM is computed using the following formula (for illustration purpose):

$$E(R_i) = R_f + \beta_{im}(E(R_m) - R_f)$$

Where:

$E(R_i)$	= the expected return on capital
R_f	= the risk-free rate of interest
β_{im}	= the sensitivity of the asset returns to the market returns
$E(R_m)$	= the expected return of the market
$(E(R_m) - R_f)$	= the market premium or risk premium

Under the CAPM, the appropriate rate of return is the sum of the risk-free rate and a related beta times the market risk premium. For the valuation of Tong Min as at 30 June 2007, we adopted the yield rate of the 10-year Chinese government bond as at the Date of Valuation as the risk-free rate, which was 4.430%. Besides, the market risk premium we adopted in the DCF model was 8.090%.

The beta was determined as the weighted-average of betas of publicly listed comparable companies that are in the same industry. In working out the weighted-average beta, we took into consideration the differences in market capitalization of each selected company. The estimated beta for Tong Min is 0.832. The comparables are:

Name of the Listed Company	Business Description	Beta (β_{im})
Stock Code Jilin Forest Industry Co. Ltd. (600189 CH)	The company’s products include timber, wood products, formaldehyde, impregnated paper, adhesive, and other related products.	0.87

Name of the Listed Company Stock Code	Business Description	Beta (β_{im})
Sino-Forest Corporation Limited (TRE CN)	The company owns rights to manage and operate hectares of plantations in southern China. The operations include timber harvesting, replanting, maintenance, wood chip processing, marketing and export.	0.73
China Grand Forestry Resources Group Limited (910 HK)	The company grows trees and manufactures timber and bark materials, and manufactures apparel and uniforms.	0.82
Plum Creek Timber Co. Inc. (PCL US)	The company grows, harvests and markets timber and logs, and manufactures forest products such as lumber and plywood.	0.86
	Weighted Average Beta	0.832

Source: from Bloomberg, current

In respect of non-systematic risks, we considered the size difference (a company-specific risk) between Tong Min and the selected comparable companies (with reference to “Risk Premia over Time Report: 2006”, published by Ibbotson Associates), and determined that a size premium of 3.950% was adopted. As a result, the discount rate was calculated as 15.114%.

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. In the valuation, 20% was used as the discount for lack of marketability.

VALUATION COMMENTS

For the purpose of this valuation and in arriving at our opinion of value, we referred to the information provided by the senior management of the Company to estimate the value of Tong Min. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

Neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this report is for the exclusive use of the addressee and for the purpose stated herein. No responsibility is accepted to any third party for the whole or any part of its contents.

Unless otherwise stated, all money amounts stated are in United States Dollars (US\$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, Tong Min, the Technical Consultant or us.

Based on our investigation and analysis outlined in this report, It is our opinion that the market value of the 100% equity interest in Tong Min as at 30 June 2007 was **US\$360,000,000 (UNITED STATES DOLLARS THREE HUNDRED AND SIXTY MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, Tong Min, the Technical Consultant or the value reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Marco T.C. Sze

*B.Eng(Hon), MBA(Acct), CFA
Associate Director*

Dr. Tony Cheng

*BSc, MUD, MBA(Finance), MSc(Eng),
PhD(Econ), MHKIS, MCI Arb, AFA, SIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIE
Director*

Notes:

1. Mr. Marco Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York – Baruch College and is a holder of Chartered Financial Analyst. He has about 3 years' experience in valuing similar assets or companies engaged in similar business activities as that of Tong Min in Hong Kong, China and the Asia-Pacific Region.
2. Dr. Tony Cheng is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 15 years' experience in valuing similar assets or companies engaged in similar business activities as that of Tong Min worldwide.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from The Research Institute of Tropical Forestry, Chinese Academy of Forestry, an independent technical consultant, in connection with its assessment of the Forest.

The Research Institute of
Tropical Forestry,
Chinese Academy of Forestry
No. 662,
Guangshan First Road
Longdong,
Tianhe District,
Guangzhou,
Guangdong
PRC
Postal Code: 510520

Medical China Limited

Unit B, 21st Floor, Teda Building
No. 87 Wing Lok Street
Sheung Wan
Hong Kong

Dear Sirs,

Evaluation Report on Forest Resources in Kratie, Cambodia

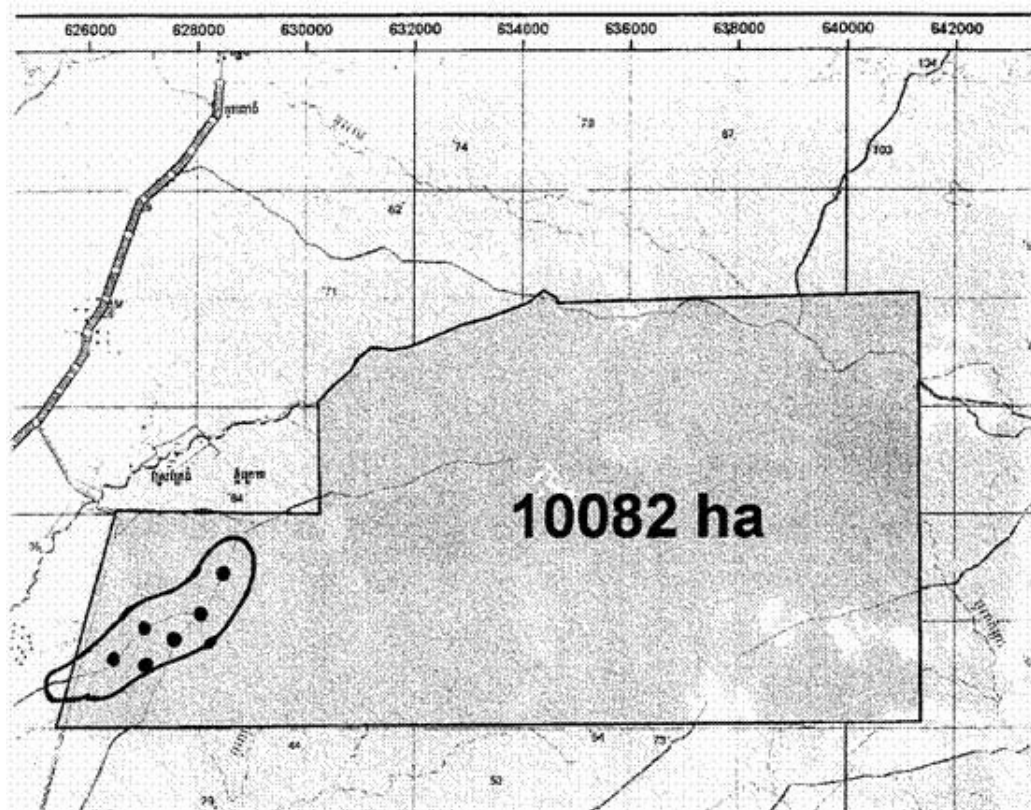
We are appointed by the Company (“Appointor”) to conduct a resource evaluation on a forest (“Forest”) adjacent to Kratie, Cambodia. The Forest mainly contains sparse woods and woods alongside the river, covering an area of 10,082 hectares, with a term of use of 70 years commencing from 2007. The appointor completed the field survey in early June, 2007, and we have completed the review of the plot on top of that survey.

The evaluation of the Forest was prepared in accordance with 森林資源規劃設計調查主要技術規定 (Principal Technique Regulations of Forest Resources Planning, Designing and Research*) issued by 國家林業部 (the State Forest Administration of the People’s Republic of China*), which is applicable for forest field surveying in Asia (including Cambodia) and is in conformity with internationally accepted standards.

1. Plot survey*1.1 Plot identification*

The survey of six selected plots were completed by the appointor, consisting of three plots with an area of 30m x 35m, two plots of 20m x 35m and one plot of 30m x 30m. The total area is 5,450m². See Figure 1 for details of the distribution of the plots.

Figure 1. Map of six plots



1.2 Plot survey

The plot survey is measured on the basis of diameter grade starting from 10cm and 2cm for each grade. See Table 1 for the ranges of diameter grades on survey.

Table 1. Ranges of diameter grades

Diameter grade (cm)	Range of diameter grade (cm)	Diameter grade (cm)	Range of diameter grade (cm)
10	9.0-10.9	30	29-30.9
12	11-12.9	32	31-32.9
14	13-14.9	34	33-34.9
16	15-16.9	36	35-36.9
18	17-18.9	38	37-38.9
20	19-20.9	40	39-40.9
22	21-22.9	42	41-42.9
24	23-24.9	44	43-44.9
26	25-26.9	46	45-46.9
28	27-28.9	48	47-48.9
≥30	≥29	≥50	≥49

The bases of the field survey include types, dbh (cm) and the length of timber (m). The dbh was measured using strapping method, while the length of timber was estimated directly. These data were written in the survey record (Schedule 1), and the locations of the plots were also recorded.

2. Classification of wood

With reference to the national standard of GB/T18107-2000 of redwood, and on the basis of the sale of wood in the market, various tree species are classified in accordance with the economic value of wood (see Table 2). Wood is classified into three classes, namely special timber (redwood type, non-redwood type), first-class timber and general timber. There are less tree species under special timber category, but more species of general timber category. For details, please refer to the analysis of the forest plants.

Table 2. Classification of timber on field survey

No.	Class		Genus name or species name	
1	Special timber	Redwood	Ebony Dalbergia nigra (Diospyros genus)	
2			Dalbergia Dalbergia millettii genus	
3			Pterocarpus Pterocarpus indicus genus	
4		Non-redwood		Doussie (Sapanwood)
5				Sindoor Sindora
6	First-class timber		Hopea hainansis genus	
7			Dipterocarpaceae category	Shorea genus
8				Dipterocarpus genus
9				Others
10			桶木 (Sterculiaceae category)	
11	General timber		斯諾撈 (Lythraceae category)	
12			Protea (Proteaceae category)	
13			磅諾 (Sapindaceae category)	
14			others	

3. Analysis of composition of plants in the Forest

The whole forest zone is flat without steep gradient. The Forest mainly comprises sparse woods and woods alongside the river of lower density, in which the plants are sparse and there are a great amount of herbages. A small proportion of the woods has experienced a longer recovery and is of higher density. There is a small portion of shrubs and vines, as well as some large arbors of long diameter class.

Special timber in the plot mainly composes of Pterocarpus plants while first-class timber mainly includes Dipterocarpaceae plants, and general timber comprises Lythraceae plants.

There are a total of 140 plants in the six plots mainly with a dbh below 50cm, which account for 76% of all the plants. Plants with a dbh between 50cm and 80cm account for 16% and dbh above 80cm for 8%.

The timber length of the plants in the six plots is mainly of the range between 4m and 8m, the plants of which in aggregate account for approximately 80% of all the plants. Plants with a timber length within the range between 2m and 4m account for approximately 8% while those with a timber length exceeding 8m account for approximately 12%.

4. Calculation of forest timber stock

4.1 Calculation of number of plants and volume of timber

The volume of three classes of timber, namely special timber (redwood type, non-redwood type), first-class timber and general timber, is calculated by reference to the log volume inspection standard of Thailand Forest Bureau, which also applies to Cambodia areas. The formula is as follows:

$$V = \frac{0.08 \times \pi^2 \times D^2 \times L}{10,000}$$

where D is the dbh at 1.3m (cm); L is the length of timber (m); V is the volume of timber (m³).

The information of the six plots was gathered and statistics were then compiled by type. The numbers of trees of each of the three classes (special, first-class and general) of timber by diameter grade were then calculated. The information is filled in table 3.

Table 3. Statistics of numbers of plants of the three classes of timber in the plots

Range of diameter grade (cm)	Total number of plants	Special timber		First-class timber		General timber	
		Number of trees	Proportion (%)*	Number of trees	Proportion (%)*	Number of trees	Proportion (%)*
10-30	58	9	60%	47	43%	2	12%
30-40	24	0	0%	23	21%	1	6%
40-50	24	5	33%	19	18%	0	0%
50-60	9	0	0%	9	8%	0	0%
60-70	5	1	7%	4	4%	0	0%
70-80	8	0	0%	3	3%	5	29%
80-90	2	0	0%	2	2%	0	0%
90-100	3	0	0%	1	1%	2	12%
> 100	7	0	0%	0	0%	7	41%
Total	140	15	100%	108	100%	17	100%
Total proportion**	100	11%	–	77%	–	12%	–

Proportion* refers to the percentage (%) of the number of plants of that class of timber with such diameter grade to the total number of plants of the same class, while the total proportion** refers to the proportion of the number of plants of that class of timber to the total number of plants.

As we can see from Table 3, there are a total of 140 plants in the plot with an area of 5,450m². A general descending trend can be observed in the total number of plants from small diameter grade to large diameter grade. There are 82 plants with a dbh less than 40cm, 46 plants with a dbh between 40cm and 80cm, and 12 plants with a dbh over 80cm. The number of plants of special timber is only 15 (11%) and accounts for the smallest portion. The plants of first-class timber amount to 108 (77%) and accounts for the largest portion. The number of plants of general timber is 17 (12%).

The volume of each class of timber under a particular diameter grade was calculated by multiplying the number of timber of each class of timber under that diameter grade by the corresponding volume of the single plant. The aggregate volume of all classes of timber under each diameter grade is filled in Table 4. Finally, we combined the volumes of timber of all diameter grades under a particular class and the sum is the total volume of that class of timber in the plot.

Table 4. Statistics of volumes of three classes of timber in the plot

Diameter grade (cm)	Total volume (m ³)	Special timber		Number of plants First-class timber		General timber	
		Volume (m ³)	Proportion %*	Volume (m ³)	Proportion %*	Volume (m ³)	Proportion %*
10-30	17.047	3.372	37%	13.163	18%	0.512	1%
30-40	12.344	0	0%	11.768	16%	0.576	1%
40-50	22.315	4.930	54%	17.385	23%	0	0%
50-60	10.436	0	0%	10.436	14%	0	0%
60-70	7.943	0.885	10%	7.058	9%	0	0%
70-80	16.976	0	0%	5.808	8%	11.168	12%
80-90	5.408	0	0%	5.408	7%	0	0%
90-100	11.044	0	0%	3.844	5%	7.200	8%
> 100	70.256	0	0%	0	0%	70.256	78%
Total	173.769	9.187	100%	74.870	100%	89.712	100%
Total proportion**	100	–	5%	–	43%	–	52%

Proportion* refers to the percentage (%) of the volume of that class of timber under that diameter grade to the total volume of the same class, while the total proportion** refers to the proportion of the volume of that class of timber to the total volume of timber.

As we can see from Table 4, there are a total timber volume of 173.769m³ in the plot with an area of 5,450m². There are 29.391m³ of a dbh less than 40cm, 57.670m³ of a dbh between 40cm and 80cm, and 86.708m³ of a dbh over 80cm. The volume of special timber is only 9.187m³ (5%) and accounts for the smallest portion. The first-class timber amounts to 74.870m³ (43%) while the general timber amounts to 89.712m³ (52%) and accounts for the largest portion.

4.2 Calculation of forest timber stock

The timber stock per hectare in the Forest can be calculated by dividing the timber stock of all diameter grades under all classes in the plot with an area of 5,450m² (Table 4) by 0.545. The information is filled in Table 5.

Table 5. Forest timber stock per hectare

Range of diameter grade (cm)	Timber stock per hectare (m ³)	Timber stock (m ³)					
		Special timber		First-class timber		General timber	
		V1	V2	V1	V2	V1	V2
10-30	31.279	3.372	6.187	13.163	24.152	0.512	0.939
30-40	22.650	0	0	11.768	21.593	0.576	1.057
40-50	40.944	4.930	9.046	17.385	31.899	0	0
50-60	19.149	0	0	10.436	19.149	0	0
60-70	14.575	0.885	1.624	7.058	12.951	0	0
70-80	31.149	0	0	5.808	10.657	11.168	20.492
80-90	9.923	0	0	5.408	9.923	0	0
90-100	20.264	0	0	3.844	7.053	7.200	13.211
> 100	128.910	0	0	0	0	70.256	128.910
Total	318.842	9.187	16.857	74.870	137.376	89.712	164.609
Total proportion	100%	–	5%	–	43%	–	52%

V1: Timber stock (m³) in the plot of 5,450m²; V2: Timber stock (m³) per hectare (10,000m²).

The total timber stock of each diameter grade and the total forest timber stock can be calculated by multiplying the timber stock per hectare by the total forest area of 10,082 hectare. The information is filled in Table 6 and Table 7.

Table 6. Total forest timber stock

Range of diameter (cm)	Total timber stock (m ³)	Timber stock (m ³)					
		Special timber		First-class timber		General timber	
		V2	V3	V2	V3	V2	V3
10-30	315,350.279	6.187	62,378.60	24.152	243,500.15	0.939	9,471.53
30-40	228,353.415	0	0	21.593	217,697.94	1.057	10,655.47
40-50	412,799.628	9.046	91,196.78	31.899	321,602.85	0	0
50-60	193,056.426	0	0	19.149	193,056.43	0	0
60-70	146,945.423	1.624	16,375.29	12.951	130,570.13	0	0
70-80	314,040.426	0	0	10.657	107,442.67	20.492	206,597.75
80-90	100,043.039	0	0	9.923	100,043.04	0	0
90-100	204,303.868	0	0	7.053	71,110.47	13.211	133,193.39
> 100	1,299,671.545	0	0	0	0	128.910	1,299,671.54
Total	3,214,564.048	16.857	169,950.67	137.376	1,385,023.69	164.609	1,659,589.70
Total (dbh >40cm)	2,670,860.354	10.670	107,572.07	91.631	923,825.59	162.613	1,639,462.69
Proportion*	83%	3%	3%	29%	29%	51%	51%

V2: Timber stock (m³) per hectare (10,000m²); V3: Total forest timber stock (m³); Proportion*: Proportion (%) of the timber volume of plants with a dbh > 40cm to the total timber volume of all plants.

Table 7. Summary of timber stocks categorized by class

Class	Timber stock in the plot (m^3)	Timber stock per hectare (m^3)	Total forest timber stock in the forest (m^3)	Timber stock (m^3) with <i>dbh</i> >40cm	Proportion (%) of timber with <i>dbh</i> >40cm
Special timber	9.187	16.857	169,950.67	107,572.07	63%
First-class timber	74.870	137.376	1,385,023.69	923,825.59	67%
General timber	89.712	164.609	1,659,589.70	1,639,462.69	99%
Total	173.769	318.842	3,214,564.048	2,670,860.354	83%

5. Conclusion

As we can see from Table 6 and Table 7, the total forest timber stock of the Forest amounts to 3,214,564.048 m^3 , in which 169,950.67 m^3 are of special timber, 1,385,023.69 m^3 of first-class timber and 1,659,589.70 m^3 of general timber which accounts for the largest proportion.

Li Yide (Researcher)

Professional Consultant

*The Research Institute of Tropical Forestry,
Chinese Academy of Forestry*

7 September 2007

Notes:

1. Mr. Li Yide enrolled in the Forestry Faculty of Central South Forestry University (currently known as “the Resources and Environment School of Central South Forestry University of Forestry and Technology”) since 1978. He has been working in the Research Institute of Tropical Forestry in Chinese Academy of Forestry since his graduation with a bachelor’s degree in July 1982. He has been studying the ecosystem of tropical forest, with a focus on forest botany, forest ecology, the reservation and monitoring of biodiversity, nature Reservation, etc. He was successively promoted as an assistant researcher and a deputy researcher in August 1988 and July 1993 respectively. Later, he was approved as a mentor to postgraduates by Chinese Academy of Forestry in 1994, and he was promoted as a researcher in July 1998. From April to July 1994, he had stayed in Smithsonian Institution in America to study the technological cooperation of the biodiversity monitoring of tropical and subtropical forest. In December 1999, he went to the LTER (the Long Term Ecology Research Network) in America to study the long term monitoring technology of forest ecosystem. In March 2003, he went to Thailand to attend the training for the vegetation restoration technology of tropical secondary forest, which was jointly organized by IUCN/ITTO. He currently acts as a researcher of Chinese Academy of Forestry, the chief expert in the monitoring and evaluation of forest ecological efficiency research, the director of the “State Pilot Station of Key Field Scientific Observations – State Field Scientific Observation and Research Station of Jianfengling Forest Ecosystem in Hainan” (the State Key Field Laboratory) operated by the Ministry of Science and Technology and State Forestry Administration, and a member of the Academic Committee of the Research Institute of Tropical Forestry. Besides, he also holds office as a director of Ecological Society of China and a member of the Long-term Ecology Committee under Ecological Society of China, an executive member of the Forest Ecology Committee of Chinese Society of Forestry, and a director of Ecological Society of Guangdong, a member of Japanese Society of Tropical Ecology and a member of the Evaluation Committee of Guangdong Nature Protection Zone.

The research projects he had participated or directed in past years:

1. the key project of National Natural Science Fund: “Ecosystem Research of Jianfengling Tropical Forest in Hainan” (in the first period from 1982 to 1986), in which he participated in the investigation of plant species and the study of vegetation ecology series;
2. the project of “Research on Palm Vines” (1985 to 1993) sponsored by International Development Research Center of Canada, in which he participated in the investigation of wild palms and vines and the study of plant species and structure;
3. the “Seventh Five-Year” key research project of the Ministry of Forestry: “Positioning Research of Ecosystem of Jianfengling Tropical Forest in Hainan” (1986 to 1990), in which he engaged in the research of vegetation ecology;
4. the key project of Guangdong Ministry of Forestry: “Investigation and Research of the Harm of *Heminberlesia pitysophila* Takagi to vegetation Status” (1988 to 1989), in which he was responsible for the research of the correlation between the Harm of *Heminberlesia pitysophila* Takagi and vegetation amount;
5. the sponsored project of National Natural Science Fund: “Ecosystem Research of Jianfengling Tropical Forest in Hainan” (in the second period from 1989 to 1993), in which he continued to participate in the investigation of plant species and the study of vegetation ecology series;
6. the “Eighth Five-Year” key research project of the Ministry of Forestry: “Positioning Research of Ecosystem of Jianfengling Tropical Forest in Hainan” (1991 to 1995), in which he engaged in the research of vegetation ecology, with a focus on the plant species botany of tropical forests, botany plant groups, biological strength and productivity;
7. the sub-title of National Natural Science Fund key project: “Research on the structure and function on the ecosystem of tropical rainforest” (1991 to 1995), in which he was in responsible for the research on the formation and structure of the community of forests;
8. the sub-title of the state key problems to be tackled in the “Eighth Five-Year”: “Research on the discharge volume of CO₂ by tropical mountain rainforest” (1992 to 1995), in which he served as the project director and the main researches included the measurement of various factors in the form of CO₂ such as forest respiration capacity, woodland CO₂ respiration capacity, community growth, and community CO₂ assimilation;
9. the fourth sub-project “tropical primeval forest protection Demonstration Zone” (1993 to 2000) of the International Tropical Timber Organization (ITTO) – funded project: “Research on the model of the classified operation and perpetual exploration of tropical forest in Hainan Island of China”; He served as a core member of the sub-project and the sub-projects director, in addition to the supervision of comprehensive work, he also specifically responsible for forest ecosystems and biodiversity research, GIS management system development and project planning development, the protection of natural resources in tropical forests;
10. the National Natural Science Fund Project: “Research on the impact of tropical storm (typhoon) to the hydrological function of tropical forest” (1996 to 1998), in which he engaged on the research on the impact of typhoon to community structure of forest and the destruction of forest resources;
11. the National Natural Science Fund Project: “Research on the change of CO₂ volume in the canopy of tropical mountain rainforest” (1998 to 2000), in which he was responsible for the physiological ecology study;
12. the National Natural Science Fund Major Projects: “Research on the mechanism of interaction between China’s eastern agricultural land ecosystem and global change” (1998 to 2001), in which he was responsible for the research of the types of tropical ecosystem;
13. the “9th to 11th Five-Year” key project of the Ministry of Forest: “Jianfengling Tropical Forest Ecosystem Positioning Research” (1996-2010), in which he served as the project leader, and was specifically in charge of the study of long-term monitoring for forest vegetation succession dynamics, biological productivity and biodiversity;
14. the State Forestry Administration Guide Project: “Research on tropical forest ecosystem positioning stations” (1998 to 2001), in which he served as the project leader;

15. in 1999, he participated the research of “The further development of the forestry industry in Guangdong” organized by the Guangdong Provincial Political Consultation Committee and the Guangdong Provincial Forestry Department;
16. the Guangdong Provincial Forestry Department Project: “Guangdong Rare Plant Resources Survey (1998 to 2001)”, in which he served as the deputy director of the project;
17. the Guangdong Provincial Forestry Bureau projects: “The provincial nature protection zone planning in Luofu Mountain” (1999 to 2000), “Scientific expedition and the overall planning in Baipenzhu – Lianhua Mountain nature protection zone” (2000 to 2001), “Scientific expedition and the overall planning in Lanke Mountain provincial nature protection zone and provincial forest of Antelope Gap Park” (2001 to 2003) and “Scientific expedition and the overall planning in Chenhe Cave provincial nature protection zone” (2003 to 2005), in which he all served as the leader;
18. the social welfare project of Ministry of Science and Technology: “The supply and demand study on the adjustment of water by tropical forest” (2001 to 2004), in which he served as the leader;
19. the sub-title of the state technological problems to be tackled in the “10th Five-Year”: “Research on natural forest conservation technology in Hainan forest” (2001-2005), in which he served as the project leader;
20. the infrastructure platforms project of Ministry of Science and Technology: “Research on the construction of typical field ecological station database” (2002 to 2004), in which he served as the project leader;
21. the National Natural Science Fund Project: “Research on the conversion of measurement of the data measured in the field on the tropical forest ecosystem” (2004-2006), in which he served as the leader;
22. the sub-title of the National Natural Science Fund key project: “Tropical forest functional group study” (2005-2008), in which he serves as the leader;
23. the National Natural Science Fund Project: “Research on the maintaining strategy of low-density populations in tropical rainforest” (2007 to 2009), in which he serves as the main participant;
24. the sub-title of the infrastructure platform project of the Ministry of Science and Technology: “the protection and sustainable use of tropical plants resource” (2005 to 2006), in which he served as the leader;
25. the infrastructure platform project of the Ministry of Science and Technology: “Data Information System Construction of Jianfengling Positioning Station” (2002 to 2007, a total of two phases), in which he served as the leader;
26. Chinese Academy of Forestry and Research Institute of Tropical Forestry Fund Project: “Classification of Forest Insect Specimens” (2004 to 2006), in which he served as the leader;
27. APP Sponsored Project: “Major pests and their control strategy for eucalyptus plantation ecosystem” (2004 to 2005), in which he served as the leader;
28. The Guangdong Provincial Communications Department Meihe Expressway Company funded project: “Meihe expressway ecological and environmental protection research” (2004 to 2006), in which he served as the leader;
29. The Hainan Provincial Forestry Bureau and Hainan Bawangling State Nature Protection Zone funded project: “The construction and monitoring research of Bawangling forest ecological station” (2006 to 2007), in which he served as the leader;
30. Guangdong local standard: “The Construction Technical Specification for Nature Protection Zones in Guangdong Province” (2005 to 2006), in which he served as the leader;
31. Guangzhou local standard: “Guangzhou indicators’ system for health monitoring on forest communities, soil and ecosystem” (2004 to 2006), in which he served as the leader;

32. the construction planning part of Guangzhou Municipal Forestry Bureau Project: “Guangzhou Municipal Forestry Development Concept Plan, 11th Five-Year Plan and long-term development plan” (2004 to 2006), in which he served as the leader;
33. the harmful plants census of Guangzhou Municipal Forestry Bureau Project: “Census of harmful organism for forest in Guangzhou” (2006 to 2008), in which he served as the leader;
34. the State Forestry Administration Project: “Construction of Hainan Jianfengling tropical forest ecosystem positioning station” (2005 to 2007), in which he served as the leader;
35. the State Forestry Administration Project: “Construction of carbon sinks positioning observation ancillary facilities for Hainan Jianfengling tropical forest ecosystem station” (2006 to 2007), in which he served as the leader;
36. the State Forestry Administration Project No.948: “Introduction of carbon flux monitoring technology for tropical forest ecosystem” (2007 to 2009), in which he served as the leader;
37. the State Technology Support Project in the “11th Five-Year”: “Research on carbon flux effective monitoring and assessment of tropical forest ecosystem” (2006 to 2010), in which he served as the leader;
38. E-platform project of the Ministry of Science and Technology: “Digitization of biological specimens in main protection zones in tropical areas” (2007 to 2009), in which he served as the leader;
39. the plant specimens collection in Jianfengling area as part of the Ministry of Science and Technology Key Project: “Survey of land and oceanic biological resources in Hainan Island” (2007 to 2009), in which he served as the leader;
40. the State Field Key Scientific Observation Station of the Ministry of Science and Technology: “The forest ecosystem in Jianfengling Ecological Station and the long-term monitoring research on its environmental factors” (2006 to 2010), in which he served as the leader.



5/F, Ho Lee Commercial Building,
38-44 D' Aguilar Street, Central, Hong Kong
香港中環德己立街38-44號好利商業大廈5字樓

7 September 2007

The Directors
Medical China Limited

Dear Sirs,

We herein report on the calculations of the profit forecasts underlying the business valuation of (Cambodia) Tong Min Group Engineering Co., Ltd. (“(Cambodia) Tong Min”) (the “Valuation”) dated 7 September 2007 prepared by BMI Appraisals Limited (the “Valuer”) as at 30 June 2007 as set out in Appendix IV of the circular of Medical China Limited (the “Company”) dated 7 September 2007 (the “Circular”) in connection with the very substantial acquisition of a forestry business involving the acquisition of the entire equity interests in (Cambodia) Tong Min.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY, THE VALUER AND THE REPORTING ACCOUNTANTS

The directors of the Company and the Valuer are solely responsible for the preparation of the discounted cash flows for the Valuation which is regarded as a profit forecast under 19.61 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”).

It is our responsibility to report, as required by 19.62(2) of the GEM Listing Rules, on the calculations of the discounted cash flows on which the Valuation is based. The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. We have not reviewed, considered or conducted any work on the appropriateness and validity of the assumptions and express no opinion on the appropriateness and validity of the assumptions on which the discounted cash flows, and thus the Valuation, are based.

BASIS OF OPINION

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Reports on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants. We reviewed the arithmetical accuracy of the Valuation. Our work has been undertaken solely to assist the directors of the Company in evaluating whether the Valuation, so far as the

calculations are concerned, has been properly compiled and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work. Our work does not constitute a valuation of (Cambodia) Tong Min.

OPINION

Based on our review of the arithmetical accuracy of the Valuation, so far as the calculations are concerned, the Valuation has been properly compiled in accordance with the bases and assumptions made by the Valuer as set out in the “Valuation Assumptions” and “Valuation Methodology” sections of the Valuation, respectively.

Yours faithfully,

Kennic L. H. Lui & Co. Ltd.

Certified Public Accountants (Practising)

Lau Wu Kwai King, Lauren

Practising certificate number: P02651

Hong Kong

德 國 商 業 銀 行

COMMERZBANK 

(Public Limited Company Incorporated in the Federal Republic of Germany)

HONG KONG BRANCH

G.P.O. BOX 11378
HONG KONG

21/F, The Hong Kong Club Building
3A Chater Road, Central

telephone 28429666
telex 66 400 cbk hk hx
fax 28681414
swift COBAHK HX XXX

7 September 2007

The Directors
Medical China Limited
Unit B, 21st Floor
Teda Building
87 Wing Lok Street
Hong Kong

Dear Sirs,

We refer to the valuation prepared by BMI Appraisals Limited (the “Valuer”) in relation to the fair value assessment of (Cambodia) Tong Min Group Engineering Co., Ltd. (“(Cambodia) Tong Min”) (the “Valuation”) as set out in Appendix IV to the circular (the “Circular”) issued by Medical China Limited (the “Company”) dated 7 September 2007 and the requirements under Rules 19.62(3) of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

We understand that the Valuation is prepared based on, among other things, the technical report set out in Appendix V of the Circular.

We have discussed with the Company and the Valuer the basis and assumptions upon which the cash flow projection (the “Projection”) as contemplated under the Valuation has been prepared. We have also reviewed and considered the letter dated 7 September 2007 issued by Kennic L. H. Lui & Co. Ltd. as set out in Appendix VI of the Circular regarding whether the Valuation was compiled properly so far as the calculations are concerned.

On the basis above, we are of the opinion that the Projection, for which you are solely responsible, has been made after your due and careful enquiry.

For and on behalf of
Commerzbank AG
Hong Kong Branch

Kenneth Chan
Head of Corporate Finance – Asia Pacific

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (i) the information contained in this circular 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 circular misleading; and
- (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company, together with changes proposed in this circular, are as follows:

Authorised share capital

<i>Shares</i>	<i>HK\$</i>
<u>2,000,000,000</u> (as at the Latest Practicable Date)	<u>20,000,000</u>
<u>5,000,000,000</u> (after the increase in the authorised share capital)	<u>50,000,000</u>

Issued and fully paid up

<i>Shares</i>	<i>HK\$</i>
1,002,000,000 Existing Shares	10,020,000
400,000,000 Consideration Shares to be issued	4,000,000
70,000,000 Conversion Shares to be issued upon conversion of the Convertible Bonds (assuming the exercise of the Convertible Bonds in full)	700,000
<u>233,000,000</u> Subscription Shares to be issued	<u>2,330,000</u>
<u>1,705,000,000</u>	<u>17,050,000</u>

3. DISCLOSURE OF INTERESTS

(a) Disclosure of interests by the Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the underlying shares of the Company

Name	Name of company	Capacity	Number of Shares
Mr. Li Wo Hing	The Company	Interest of controlled corporation	193,360,000
			(Note 1)
		Beneficial owner	32,800,000
			(Note 2)
			226,160,000
Mr. Li Tai To	The Company	Beneficial owner	9,560,000
			6,840,000
			(Note 3)
Dr. Li Nga Kuk, James	The Company	Beneficial owner	32,800,000

Notes:

- Mr. Li Wo Hing holds 70.60% in the share capital of PMM and is deemed to be interested in 193,360,000 Shares held by PMM. As at the Latest Practicable Date, PMM did not hold any Shares as a result of the Top-up Placing. Pursuant to the Placing and Share Subscription Agreement, PMM agreed to subscribe for 193,360,000 Subscription Shares under the Subscription.
- As at the Latest Practicable Date, Mr. Li Wo Hing did not own any Shares as a result of the Top-up Placing, but agreed to the subscription of 32,800,000 Subscription Shares pursuant to the Placing and Share Subscription Agreement.
- As at the Latest Practicable Date, Mr. Li Tai To held 9,560,000 Shares as a result of the Top-up Placing. Pursuant to the Placing and Share Subscription Agreement, Mr. Li Tai To agreed to subscribe for 6,840,000 Subscription Shares under the Subscription.

(b) Particulars of Directors' Service Contracts

As at the Latest Practicable Date, the non-executive Directors have entered into service contracts with the Company. Messrs. Fan Wan Tat and Chen Minshen have renewed service contracts with the Company for terms of one year commencing on 1 December 2006. The service contract of Mr. Tam Wai Leung, Joseph was renewed for a term of one year commencing on 30 September 2006 and the service contract of Mr. Chan Kim Chung, Daniel was signed for a term of one year on 16 June 2007.

Save as aforesaid, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into service contracts with any member of the Group, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation).

(c) Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors and chief executive held 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 the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange;
- (ii) none of the Directors and OSK Asia Capital Limited had any direct or indirect interests in any assets which have been, since the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (iii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement subsists at the date of this circular and which is significant in relation to the business of the Group.

(d) Directors' interests in competing businesses

As at the Latest Practicable Date, no Directors had an interest in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

4. INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies were interested in 5% or more in the Shares or underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Number of Shares	Capacity	Approximate percentage of equity interest held
PMM	193,360,000 Shares <i>(Note)</i>	Beneficial owner	19.30%
Keywise Capital Management (HK) Limited	60,650,000 Shares	Beneficial owner	6.05%
UBS AG	66,550,000 Shares	Beneficial owner	6.64%

Note:

PMM is owned as to 70.60% by Mr. Li Wo Hing. As at the Latest Practicable Date, PMM did not hold any Shares as a result of the Top-up Placing. Pursuant to the Placing and Share Subscription Agreement, PMM agreed to subscribe for 193,360,000 Subscription Shares under the Subscription.

Save as disclosed above, so far as was known to the Directors, there were no other persons (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, beneficially interested in 5% or more of the issued share capital of the Company; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claims of material importance are known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. QUALIFICATION AND CONSENT OF EXPERT

The following are the experts, and their qualifications, who have given opinions contained in this circular:

Name	Qualification
Kennic L. H. Lui & Co. Ltd.	Certified Public Accountants
BMI Appraisals Limited	Independent Valuer
中國林業科學研究院熱帶林業研究所 (The Research Institute of Tropical Forestry, Chinese Academy of Forestry*)	Technical Adviser
OSK Asia Capital Limited	Independent Financial Adviser
Commerzbank	Financial Adviser

Each of Kennic L. H. Lui & Co. Ltd., BMI Appraisals Limited, The Research Institute of Tropical Forestry, Chinese Academy of Forestry, OSK Asia Capital Limited and Commerzbank have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their reports, letters or opinions as set out in this circular and references to their names in the form and context in which they appear.

As at the Latest Practicable Date, none of Kennic L. H. Lui & Co. Ltd., BMI Appraisals Limited, 中國林業科學研究院熱帶林業研究所 (The Research Institute of Tropical Forestry, Chinese Academy of Forestry*), OSK Asia Capital Limited and Commerzbank were beneficially interested in the share capital of any member of the Enlarged Group, nor did they have any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did they have any direct or indirect interest in any assets which were, since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and management shareholders and their respective associates had any direct or indirect interests in businesses which compete or may compete with the businesses of the Enlarged Group.

8. MATERIAL CONTRACTS

Save for the Acquisition Agreement and the Placing and Share Subscription Agreement, no other contracts (being contracts not entered in the ordinary course of business) were entered into by any members of the Group within two years immediately preceding the date of this circular which are or may be material.

9. MISCELLANEOUS

- (i) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is Unit B, 21st Floor, Teda Building, 87 Wing Lok Street, Hong Kong.
- (iii) The compliance officer of the Company is Mr. Li Wo Hing, MBA, an executive Director.
- (iv) The Secretary of the Company is Ms. Lai Tin Yin, Fion, who is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Lai is also the qualified accountant of the Company.
- (v) The Company has established an audit 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 systems of the Group and to provide advice and comments to the Directors. As at the Latest Practicable Date, the committee comprises three independent non-executive Directors, namely, Mr. Fan Wan Tat, Mr. Tam Wai Leung, Joseph and Mr. Chan Kim Chung, Daniel. Mr. Fan Wan Tat is the chairman of the committee.

Mr. Fan Wan Tat is a medical doctor in Hong Kong.

Mr. Tam Wai Leung, Joseph is currently the President to the Executive Committee of the Hong Kong Institute of Business Management Ltd. and the Macau Association of Higher Education. He holds a Doctor of Philosophy degree from Preston University, U.S.A. and is a fellow member of the Institute of Cost and Executive Accountants in the U.K. and the Association of Taxation and Management Accountants in Australia.

Mr. Chan Kim Chung, Daniel, is currently the General Manager of Royal Media Limited that is specialized in the provision of consultancy services in software testing and quality assessment. He holds a Doctor of Philosophy degree in computer sciences from the University of Glasgow, United Kingdom and is a Chartered Engineer and a Chartered Information Technology professional of the Engineering Council of the United Kingdom.

- (vi) The branch share registrar and transfer agent of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (vii) In the event of any inconsistencies, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the principal place of business of the Company in Hong Kong at Unit B, 21st Floor, Teda Building, 87 Wing Lok Street, Hong Kong, up to and including the date of the SGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2006 and 2005;
- (c) the letter of advice from OSK Asia Capital Limited, the text of which is set out on pages 39 to 50 of this circular;
- (d) the Accountants' report on (Cambodia) Tong Min, the text of which is set out in Appendix II to this circular;
- (e) the unaudited pro forma financial information of the Enlarged Group and the comfort letter thereon from Kennic L. H. Lui & Co. Ltd., the text of each of which is set out in Appendix III to this circular;
- (f) the written consents as referred to in the paragraphs headed "Experts and consents" in this appendix;
- (g) the material contracts as referred to in the paragraphs headed "Material contracts" in this appendix; and
- (h) the Technical Report prepared by the Technical Adviser, the text of which is set out in Appendix V to this circular.

NOTICE OF SGM



MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8186)

NOTICE IS HEREBY GIVEN that a special general meeting of Medical China Limited (神州醫療科技有限公司) (“**Company**”) will be held at SALON IV, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Tuesday, 2 October 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as special and ordinary resolutions:

SPECIAL RESOLUTION

- (1) “**THAT** subject to the approval of the Registrar of Companies in Bermuda and the approval of the Registrar of Companies in Hong Kong, the English name of “Medical China Limited” be and is hereby changed to “China Asean Resources Limited” and the Chinese name of “神州東盟資源有限公司” be and is hereby adopted in place of “神州醫療科技有限公司” for identification purpose in Bermuda and registration purpose under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).”

ORDINARY RESOLUTIONS

- (2) “**THAT** the Directors be and are hereby authorised to do all such acts and things and execute all such documents they consider necessary or expedient to give effect to the change in the English and Chinese names of the Company as referred to in Resolution no. (1) above.”
- (3) “**THAT** the authorised share capital of the Company be and it is hereby increased from HK\$20,000,000 divided into 2,000,000,000 shares of HK\$0.01 (“**Shares**”) each to HK\$50,000,000 divided into 5,000,000,000 Shares of HK\$0.01 each.”
- (4) “**THAT**:
 - (i) the Acquisition Agreement (as defined in the Company’s circular dated 7 September 2007 of which this notice of special general meeting forms part) relating to the Acquisition (as defined in the said circular) by China Cambodia Resources, a wholly-owned subsidiary of the Company, of the entire issued share capital of (Cambodia) Tong Min, a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified;

* For identification only

NOTICE OF SGM

- (ii) the issue of 400,000,000 Consideration Shares (as defined in the said circular) at the issue price of HK\$0.188 per Share as settlement for part of the Consideration (as defined in the said circular) of the Acquisition pursuant to the terms and conditions of the Acquisition Agreement be and it is hereby approved;
- (iii) the creation and issue by the Company of the Convertible Bonds (as defined in the said circular) in the principal amount of HK\$13.16 million to the Second Vendor and the Third Vendor as settlement for part of the Consideration of the Acquisition pursuant to the terms and conditions of the Acquisition Agreement be and it is hereby approved; and
- (iv) the directors (“**Directors**”) of the Company be and they are hereby generally and specifically authorised (“**Special Mandate**”) to allot and issue such number of new Shares (“**Conversion Shares**”) as may be required to be allotted and issued at the Conversion Price (as defined in the said circular) upon the exercise of the conversion right attaching to the Convertible Bonds approved to be issued under Resolution no. (4)(iii) above (or to the extent necessary) on and subject to the terms and conditions of the Acquisition Agreement and the terms and conditions (“**Bond Conditions**”) of the Convertible Bonds contained in the schedule to the Acquisition Agreement and **THAT** the Special Mandate shall be in addition to, and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 25 June 2007 or such other general or special mandate(s) which may from time to time be granted to the Directors prior to the passing of this Resolution,

and that all the transactions contemplated under the Acquisition Agreement (together the “**Transactions**”) be and they are hereby approved and that any one director of the Company (the “**Director**”) be and he is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents by hand and, where required, under the common seal of the Company together with such other Director or person authorized by the board of Directors, which in his or their opinion may be necessary desirable or expedient to carry into effect or to give effect to the Acquisition Agreement and/or the Transactions, including such changes and amendment thereto as any one Director may consider necessary, desirable or expedient.”

- (5) “**THAT** the issue of the Subscription Shares (as defined in the Company’s circular dated 7 September 2007 of which this notice of special general meeting forms part) to the Top-up Sellers (as defined in the said circular) at the Subscription Price (as defined in the said circular) pursuant to the terms and conditions of the Placing and Share Subscription Agreement (as defined in the said circular and a copy of which has been produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification) be and it is hereby approved.”

NOTICE OF SGM

- (6) “**THAT** conditional on the passing of Resolutions no. (4) and (5) above, the Acquisition Agreement (as defined in Resolution no. (4) above), the Transactions (as defined in Resolution no. (4) above) contemplated under the Acquisition Agreement, the issue of the Convertible Bonds, the allotment and issue of Conversion Shares upon exercise of the conversion right attached to the Convertible Bonds, the allotment and issue of the Consideration Shares and the Subscription Shares and all other matters of and incidental thereto or in connection therewith, be and they are hereby generally and unconditionally approved in all respects and that the Directors be and they are hereby generally and unconditionally authorised to issue such corresponding amount of the Convertible Bonds, Conversion Shares, Consideration Shares and Subscription Shares on and subject to the respective terms of the Acquisition Agreement and the Placing and Share Subscription Agreement (as the case may be), to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the Directors, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the Transactions contemplated by, the Acquisition Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Acquisition Agreement and the Placing and Share Subscription Agreement (as the case may be)) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

By order of the board of directors of
Medical China Limited
Li Nga Kuk, James
Chairman

Hong Kong, 7 September 2007

Registered office:
Canon’s Court,
22 Victoria Street,
Hamilton HM 12,
Bermuda

*Head office and principal place
of business in Hong Kong:*
Unit B, 21st Floor,
Teda Building,
87 Wing Lok Street,
Hong Kong

Notes:

1. Voting on all Resolutions nos. (1) to (6) will be conducted by way of poll.
2. PMM, Mr. Li Wo Hing and Mr. Li Tai To will abstain from voting in respect of Resolutions nos. (4), (5) and (6) proposed to be considered and approved at the SGM.
3. Resolution no. (4)(i), (ii), (iii) and (iv) shall be voted as a single resolution only.
4. A proxy form to be used for the meeting is enclosed.

NOTICE OF SGM

5. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.
7. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting.
8. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.