

**CHINA MEDICAL SCIENCE LIMITED**

**中華藥業有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**THIRD QUARTERLY REPORT**

**2001**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast 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.

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*This report, for which the Directors of CHINA MEDICAL SCIENCE LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to CHINA MEDICAL SCIENCE LIMITED. The Directors of CHINA MEDICAL SCIENCE LIMITED, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover of the Group for the nine months ended 30th April, 2001 amounted to approximately HK\$118,755,000, representing an increase of 18.4 times to turnover of the Group as compared to the corresponding period ended 2000.
- Profit after taxation of the Group for the nine months ended 30th April, 2001 amounted to approximately HK\$17,611,000, compared with a profit of HK\$1,000 recorded by the Group to the corresponding period ended 2000.
- Basic earnings per share amounted to 4.30 cents for the nine months ended 30th April, 2001.

## RESULTS (UNAUDITED)

The board of directors (the "Board") of China Medical Science Limited (the "Company") is pleased to announce that the unaudited combined results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 30th April, 2001 together with comparative unaudited figures for the corresponding periods in 2000 are as follows:

	Note	For the		For the	
		three months ended	three months ended	nine months ended	nine months ended
		30th April, 2001	30th April, 2000	30th April, 2001	30th April, 2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	41,266	3,145	118,755	6,110
Cost of sales		(26,436)	(1,759)	(77,038)	(4,264)
Gross profit		14,830	1,386	41,717	1,846
Other revenue		663	—	1,899	—
Selling and distribution expenses		(2,985)	(147)	(9,110)	(353)
General and administration expenses		(3,195)	(503)	(8,128)	(1,135)
Other operating expenses		(755)	—	(2,643)	—
Profit from operating activities		8,558	736	23,735	358
Finance costs		(1,742)	(299)	(4,327)	(324)
Profit before tax		6,816	437	19,408	34
Tax	4	—	—	—	—
Profit before minority interest		6,816	437	19,408	34
Minority interest		(662)	(223)	(1,797)	(33)
Profit from ordinary activities attributable to shareholders		6,154	214	17,611	1
Earning per share	5	1.50 cents	0.05 cents	4.30 cents	0.00 cents
Diluted earning per share	5	1.50 cents	N/A	4.26 cents	N/A

*Notes:*

**1. Group reorganization and basis of presentation**

The Company was incorporated in the Cayman Islands as an exempted company under the Companies Law (2000 Revision) on 22nd September, 2000. The Company's shares have been listed on GEM of the Stock Exchange since 10th April, 2001 (the "Listing Date").

Pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the Company's shares on GEM, the Company became the ultimate holding company of the Group on 23rd March, 2001. Details of the Reorganization are set out in the prospectus of the Company dated 28th March, 2001 (the "Prospectus").

**2. Principal accounting policies**

The principal accounting policies adopted in preparing the unaudited combined results conform with Statements of Standard Accounting Practice and interpretations issued by the Hong Kong Society of Accountants.

This report is prepared under the merger basis of accounting based on the unaudited accounts of the companies now comprising the Group and includes the results of the companies now comprising the Group as if the current group structure had been in existence throughout the nine months ended 30th April, 2001 and the corresponding period ended 30th April, 2000 or since their respective dates of incorporation/establishment or acquisition by the Group, where this is a shorter period.

**3. Turnover**

Turnover represents the invoiced value of goods sold, net of discounts and returns. All significant intra-group transactions have been eliminated on combination.

The Group's turnover arose from the following activities:

	For the three months ended		For the nine months ended	
	30th April, 2001	30th April, 2000	30th April, 2001	30th April, 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of goods				
Chengdu Mt. Green Pharmaceutical Co., Ltd.: Human drugs - infusion medicine	18,473	—	47,879	—
Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd.: Veterinary drugs	9,884	—	26,646	—
Sichuan Future Industrial Co., Ltd: Packaging materials for infusion medicine	12,909	3,145	44,230	6,110
	<u>41,266</u>	<u>3,145</u>	<u>118,755</u>	<u>6,110</u>

#### 4. **Taxation**

No provision for any profits tax has been made in the accounts as the PRC subsidiaries of the Group are entitled to exemption from PRC income tax for two years commencing from the year of 2000, their first profit-making year of operation and thereafter, they are entitled to a 50 per cent. relief from PRC income tax for the following three years.

#### 5. **Basic earnings per share**

The calculation of basic earnings per share for the three months and nine months ended 30th April, 2001 is based on the unaudited combined profit from ordinary activities attributable to shareholders of HK\$6,154,000 and HK\$17,611,000 respectively (three months and nine months ended 30th April 2000: HK\$214,000 and HK\$1,000 respectively) and the weighted average number of 410,000,000 shares in issue during the period (three months and nine months ended 30th April, 2000: 400,000,000 shares) in issue.

The calculation of diluted earnings per share for the three months and nine months ended 30th April, 2001 is based on the Group's net profit from ordinary activities attributable to shareholders for the period ended 30th April, 2001 of HK\$17,656,000, after adjustment of interest saved upon deemed conversion of all convertible notes upon listing. The weighted average number of ordinary shares used in the calculation is the weighted average of 410,000,000 shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 4,357,077 shares assumed to have been issued as a result of the conversion of the convertible note and the exercise of Pre-IPO share options upon the listing.

There was no dilution event for the three months and nine months ended 30th April, 2000 and there is, therefore, no comparative figure for the diluted earnings per share for the three months and nine months ended 30th April, 2001.

## 6. Reserves

Movements in the reserves of the Group during the periods are as follows:

	For the three months ended		For the nine months ended	
	30th April, 2001 HK\$'000	30th April, 2000 HK\$'000	30th April, 2001 HK\$'000	30th April, 2000 HK\$'000
Exchange fluctuation reserve				
At beginning of period	25	26	25	0
Arising from retranslation of financial statements of subsidiaries	—	—	—	26
At end of period	<u>25</u>	<u>26</u>	<u>25</u>	<u>26</u>
Share premium				
At beginning of period	—	—	—	—
Premium arising from IPO placing	50,000	—	50,000	—
Capitalization of share premium ( <i>Note</i> )	(20,000)	—	(20,000)	—
Issuance of listing expenses	(10,280)	—	(10,280)	—
At end of period	<u>19,720</u>	<u>—</u>	<u>19,720</u>	<u>—</u>
Capital reserve				
At beginning of period	624	5,102	8,968	—
Arising from the acquisition of subsidiaries	—	—	(8,344)	5,102
Arising from the effect of the Reorganization	27,104	—	27,104	—
At end of period	<u>27,728</u>	<u>5,102</u>	<u>27,728</u>	<u>5,102</u>

### *Note:*

Pursuant to the Reorganization, share premium of HK\$19,999,995 was capitalized for the issuance of 399,999,900 shares of HK\$0.05 each to Concord Pharmaceutical Technology (Holdings) Limited, the then existing shareholder of the Company.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th April, 2001. The Group has not declared any dividends for the corresponding period ended 30th April, 2000.

## **BUSINESS REVIEW AND OUTLOOK**

### **Business review**

The Group achieved a turnover of approximately HK\$118.8 million for the nine months ended 30th April, 2001, representing a growth of approximately 18.4 times, as compared with the corresponding period ended 2000. Profit attributable to shareholders amounted to approximately HK\$17.6 million, representing an increase of about 17,610 times over the corresponding period last year.

For the three months ended 30th April, 2001, turnover of the Group amounted to approximately HK\$41.2 million, representing an increase of approximately 12.1 times, as compared with the corresponding period last year. Profit attributable to shareholders amounted to approximately HK\$6.2 million, representing a growth of approximately 27.8 times, as compared with that for the corresponding period in 2000

This shows a rapid growth of the Group's operation since April 2000 in terms of market coverage, production capacities and product range. A source of growth in the profit attributable to shareholders comes from additional revenue brought in by the two new members of the Group, Chengdu Mt. Green Pharmaceutical Co., Ltd. and Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd., both of which were acquired by the Group since May 2000. More importantly, the growth is due to a combination of well-established distribution channels, which are still expanding, effective cost control and the Group's research and development efforts and modernized production facilities. For the periods ended 30th April, 2001, the Group's overall gross profit margin is approximately 35 per cent.

### **Sichuan Future Industrial Co., Ltd ("Sichuan Future")**

Sichuan Future, a 91 per cent. owned subsidiary of the Company, is principally involved in the manufacturing and distribution of various sizes of medical caps made of aluminium-plastic. It was also selected by the State Drug Administration of the PRC as a model for setting Good Manufacturing Practice ("GMP") standard for the production facility of packaging materials for pharmaceutical products in the PRC. Recently, Sichuan Future has been accredited as Year 2000 Export Product Enterprise and Advance Technology Enterprise from 成都市對外貿易經濟合作委員會.

During the period under review, Sichuan Future, in addition to its direct sales and marketing efforts, further expanded its sales network through participation in industry trade shows and organization of seminars to promote the use of its products. This has bolstered the overall sale and marketing operation as well as the expansion of market coverage from mainly Sichuan to Guangdong (廣東), Guangxi (廣西), Shandong (山東), Huazhong (華中), Huandong (華東), Hebei (河北) and Beijing (北京). Sichuan Future's net profit achieved a growth of approximately 30 times, as compared with the same period ended 2000.

Given the strong growth in demand, Sichuan Future has upgraded its existing production lines. The total production capacity of the 14 production lines has been increased to approximately one billion medical caps per annum during the period ended 30th April, 2001, as stated in the Prospectus.

Recently, two new medical caps have been granted patent right by the relevant authority in the PRC while application for another two new caps is under process.

### **Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd (“Chengdu Yuan Heng”)**

Chengdu Yuan Heng, a 91 per cent. owned subsidiary of the Company, is principally engaged in the development, production, sales and distribution of veterinary drugs (including infusion medicine, tablets and powders), animal feed additives, raw components for production of veterinary drugs and biotechnology products such as vaccines.

Research projects conducted by Yuan Heng with Sichuan Medical College and with Sichuan Agriculture University, have progressed as scheduled. Seven new products have obtained pharmaceutical registration and production approvals by the relevant authorities in the PRC during the nine months ended 30th April, 2001 as mentioned in the Prospectus, and are now being prepared for commercial production. These products will provide the Group with an additional source of income.

### **Chengdu Mt. Green Pharmaceutical Co., Ltd. (“Chengdu Mt. Green”)**

Chengdu Mt. Green, a 91 per cent. owned subsidiary of the Company, is principally engaged in the development, production, sales and distribution of infusion medicine for human consumption. Chengdu Mt. Green is one of the earliest infusion medicine producers to receive GMP approval located in the western part of the PRC.

During the period under review, Chengdu Mt. Green continued to expand its product lines and the use of new ingredients for better quality and efficiency through co-operation with research institutes in the PRC and abroad. These have added to the profitability of Chengdu Mt. Green. Two new infusion medicines for human consumption have obtained pharmaceutical registration and production approvals from the relevant authorities in the PRC during the nine months ended 30th April, 2001, and are now being prepared for commercial production.

The establishment of the new production line for infusion medicine contained in PVC plastic bags is in an advance stage and is tentatively scheduled for test production by end of June 2001 as described in the Prospectus.

### **Research and development**

The R&D projects undertaken by Chengdu Mt. Green and Chengdu Yuan Heng outlined in the Prospectus are progressing well. The Group continues to strengthen its research capabilities through strategic alliance, co-operation and technology transfer arrangement, recruitment and training of professionals and technicians.



## Outlook

The living standard continues to improve and the life expectancy tends to lengthen in the PRC. This results in an increase in health consciousness, hence, demand for health care services and products is expected to grow significantly. The Directors believe that manufacturers who are among the first to utilise advance technology and new methodologies to produce and develop effective and affordable biotechnology and pharmaceutical products will benefit from the expected growth. The Directors believe that the Group is well positioned to expand its business by utilising its competitive advantages.

The Directors believe that by forging the successful management philosophy and culture of the East and West, the Company can effectively and successfully implement its expansion plan to match the anticipated growing trend of the biotechnology and pharmaceutical industry worldwide. The Directors also believe that the Group's growth will be expedited by the synergy generated from the Group's research capabilities in the PRC and its strategic alliance and co-operation with biotechnology and pharmaceutical research institutes in the PRC and abroad.

Given the strong financial performance in the first nine months of this year, the Directors are optimistic about the prospect of the Group.

On behalf of the Board of Directors, I would like to take this opportunity to thank our shareholders for their support and our staff for their dedicated efforts.

## COMPETING INTEREST

None of the Directors or the management shareholders or significant shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any business which competes or may compete with the business of the Group.

## DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 30th April, 2001 according to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to Rule 5.4 of the GEM Listing Rules, the interest of the Directors in the securities of the Company and its subsidiaries was as follows:

Name of Director	Number of shares in the Company	Nature of interest
Mr. Wong Sai Chung ( <i>Note</i> )	400,000,000	Corporate interest

### *Note:*

The shareholding interest attributable to Mr. Wong Sai Chung in the Company is held through Concord Pharmaceutical Technology (Holdings) Limited and Concord Business Management Limited, each of Concord Pharmaceutical Technology (Holdings) Limited and Concord Business Management Limited is an investment holding company wholly owned by Mr. Wong Sai Chung who is an executive Director of the Company.

Pursuant to the Company's Pre-IPO Share Option Scheme adopted by the Company on 23rd March, 2001, the following executive Directors of the Company have personal interests in options to subscribe for shares of the Company which have been granted to them as follows:

<b>Name of Director</b>	<b>Date of grant</b>	<b>Exercise price per share</b>	<b>Number of underlying shares</b>
Mr. Wong Sai Wa	23rd March, 2001	HK\$0.55	3,200,000
Mr. Kwan Kai Cheong	23rd March, 2001	HK\$0.55	3,000,000

The exercise period of the Pre-IPO Share Option Scheme starting from the date of grant of the options, is set out under the paragraph headed "Share Option Schemes" below. Other principal terms of the Pre-IPO Share Option Scheme are set out in the Prospectus.

Pursuant to the convertible note issued by the Company on 23rd March, 2001, the following Director of the Company has personal interest in the convertible note to convert into shares of the Company which have been issued to him as follows:

<b>Name of Director</b>	<b>Outstanding principal</b>	<b>Number of underlying shares</b>
Mr. Wong Sai Chung ( <i>Note</i> )	HK\$26,740,760.00	48,619,564

*Note:*

The shareholding interest attributable to Mr. Wong Sai Chung in the Company is held through Concord Pharmaceutical Technology (Holdings) Limited and Concord Business Management Limited, each of Concord Pharmaceutical Technology (Holdings) Limited and Concord Business Management Limited is an investment holding company wholly-owned by Mr. Wong Sai Chung who is an executive Director of the Company.

The principal terms of the convertible note are set out in the Prospectus.

Save as disclosed above, none of the Directors and chief executives of the Company or their associates had any interests in any securities of the Company or any associated corporation as defined in the SDI Ordinance.

## **SHARE OPTION SCHEMES**

On 23rd March, 2001, the Company conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, the principal terms of which are set out in the Prospectus.

Pursuant to the Pre-IPO Share Option Scheme, five employees of the Group (including two executive Directors) were conditionally granted options on 23rd March, 2001 to subscribe for an aggregate of 7,400,000 shares, which upon exercise in full will represent approximately 1.48 per cent. of the enlarged share capital of the Company as at 30th April, 2001, at an exercise price of HK\$0.55 per share. All of these options have a duration of 10 years from the date of grant of the options, each is exercisable in accordance with their terms of issue after 6 months from the date of listing of the Shares on GEM, but each shall lapse if the relevant grantee ceases to be employed by the relevant companies.

As at 30th April, 2001, none of the Directors or employees of the Company exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme. The total number of shares underlying the options granted is unchanged at 7,400,000 shares.

Save as disclosed herein, there was no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, chief executive or their respective spouse or children under 18 years of age.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th April, 2001, save for interests of the Directors disclosed above, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following interests, being 10% or more in the Company's issued share capital:

<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>% of shareholding</b>
Concord Pharmaceutical Technology (Holdings) Limited <i>(Note)</i>	400,000,000	80
Concord Business Management Limited <i>(Note)</i>	400,000,000	80
Mr. Wong Sai Chung <i>(Note)</i>	400,000,000	80

### ***Note:***

Concord Pharmaceutical Technology (Holdings) Limited is a wholly-owned subsidiary of Concord Business Management Limited, the entire issued share capital of which, in turn, is owned by Mr. Wong Sai Chung. Accordingly, each of Concord Business Management Limited and Mr. Wong Sai Chung is deemed to have an interest in the 400,000,000 shares held by Concord Pharmaceutical Technology (Holdings) Limited.

## **SPONSOR'S INTEREST**

Yuanta Securities (Hong Kong) Company Limited (name changed to Core Pacific-Yamaichi (Hong Kong) Company Limited) ("Yuanta") has entered into a sponsorship agreement dated 27th March, 2001 with the Company whereby, for a fee, Yuanta has been acting and will act as the Company's continuing sponsor for the period from the Listing Date to 31st July, 2003 (the "Period"). On 4th May, 2001, Yuanta has notified the Stock Exchange and the Company that, due to the merger between the Yuanta group and the Core Pacific group, the employment of the then existing staff of Yuanta has been transferred to Core Pacific-Yamaichi Capital Limited ("CPYC") and the then existing business of Yuanta has been transferred to CPYC. As Yuanta no longer continues to satisfy the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules, Yuanta will be removed from the list of eligible sponsors and will cease to act as sponsor of the Company. Yuanta has proposed to the Company to appoint CPYC as the replacement sponsor for the balance of the Period up to 31st July, 2003. The Company may also consider appointing other companies which have been admitted to the list of sponsors maintained and published by the Stock Exchange from time to time within 3 months of the date on which Yuanta ceased to act as sponsor to the Company, in accordance with Rule 6.63 of the GEM Listing Rules. As at the date of this report, the Company has yet to appoint its new sponsor.

As at 30th April, 2001, Yuanta, its Directors, employees or associates, did not have any interest in the share capital of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

## **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 23rd March, 2001 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive Directors of the Company.

## **PURCHASE, SALE OR REDEMPTION**

From the Listing Date to 30th April, 2001, neither of the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By order of the Board  
**Wong Sai Chung**  
*Executive Director*

Hong Kong, 14th June, 2001