

CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT

2001

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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.

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Corporate Information

EXECUTIVE DIRECTORS

Wong Sai Chung (*Chairman*)
Wong Sai Wa
Kwan Kai Cheong
Dr Tang Gang
Wong Fei Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Chiang Chiu Ping, Raymond
Tsim Tak Lung, Dominic

AUDIT COMMITTEE

Professor Chiang Chiu Ping, Raymond
Tsim Tak Lung, Dominic

COMPANY SECRETARY

Yu Ling Ling

QUALIFIED ACCOUNTANT

Cheng Kan Hei

PRINCIPAL BANKERS

Bank of China, PRC
China Construction Bank, PRC
The Agricultural Bank of China, PRC

REGISTERED OFFICE

Ugland House
P.O.Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

AUDITORS

Ernst & Young
Certified Public Accountants

SPONSOR

Core Pacific-Yamaichi (Hong Kong)
Company Limited
19th Floor, Bank of America Tower,
12 Harcourt Road
Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14th Floor, Wheelock House
20 Pedder Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Bank of Butterfield International (Cayman) Ltd.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Chairman's Statement

During the year ended 31st July 2001, China Medical Science Limited and its subsidiaries basically completed the various targets set down in the previous year, and achieved substantial development. The various subsidiaries of China Medical Science Limited maintained normal production output, and effectively expanded production scope through technological improvement. Production of infusion medicine of Chengdu Mt. Green Pharmaceutical Co., Ltd (“Chengdu Mt. Green”), the veterinary medicine of Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd (“Chengdu Yuan Heng”), the medical caps for infusion medicine of Sichuan Future Industrial Co., Ltd (“Sichuan Future”) all increased steadily. The market share of the products of China Medical Science Limited expanded steadily, and enjoyed corresponding recognition and reputation in its industry, with the demands of its products outpacing supplies. The research and development effort achieved encouraging results, with substantial progress being made in the registration of new products. These helped the company to effectively adjust the product mix. In summary, through the efforts during the year, the operations of the three subsidiaries progressed steadily.

ANALYSIS OF RESULTS

During the year under review, turnover in respect of manufacturing of medical caps for infusion medicine, veterinary drugs and human drugs amounted to HK\$184,045,000, which is about 7.3 times the turnover of the previous period. At the same time, the Group's profit after tax amounted to HK\$31,817,000. Profit attributable to shareholders for the year amounted to HK\$28,766,000, which is about 45.2 times the profit of the period ended 31 July 2000.

Basic earnings per share for the year under review rose to approximately HK\$6.65 cents from approximately HK\$0.16 cent for the period ended 31 July 2000.

REVIEW OF OPERATIONS

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

Chengdu Mt. Green achieved good performance with strengthened operating functions. Chengdu Mt. Green recorded revenue of HK\$91,817,000 and net profit of HK\$8,191,000, both of which were in line with the annual targets of Chengdu Mt. Green for the year ended 31 July 2001.

1. Through improvement of the bottle-neck problems of the production process, Chengdu Mt. Green had rapidly expanded the production capacity to over 5 million bottles per month and realised economics of scale. Chengdu Mt. Green implemented certain quality assurance measures in accordance with the requirements of Good Manufacturing Practice (“GMP”).
2. Chengdu Mt. Green implemented various measures to reduce production costs effectively. It continued strict control on raw materials management and packaging outsourcing with reduced inventory requirements. The company also selected a core group of suppliers and strengthened its

Chairman's Statement

negotiation position. Through control on consumption of raw materials, including supplementary and packaging materials, the utilization rates of such materials increased and the overall production costs were reduced substantially as compared with the previous period ended 31 July 2000.

3. Chengdu Mt. Green strengthened its sales management, increase its competitiveness and set a firm foundation for further development.

Sichuan Future Industrial Co., Ltd. (“Sichuan Future”)

During the year under review, Sichuan Future Industrial Co., Ltd. emphasized in the strengthening of internal management and realised the business target of the year.

1. During the year, Sichuan Future realised a revenue of HK\$58,795,000, which was slightly lower than expected. The discrepancy was mainly due to the price reductions of medicines. This negative impact imposed price pressure on packaging materials which led to a reduction in the selling price of the aluminium-plastic caps and hence the overall sales target of the company.
2. The setting up of GMP standards under the guidance of Sichuan Future progressed smoothly. A draft, after several amendments, was verified on site and approved by the Provincial Drug Administration and the experts and professors of the corresponding departments of the government. This draft was submitted to the State Drug Administration for certification currently scheduled to be before end of this year.
3. In research and development, under the joint efforts with South-West Aluminium, a company with one of the largest production capacity in the Asia Pacific region, Sichuan Future has developed a new product – an aluminium-plastic cap with high molecule material coating. It has a fine appearance with a superior quality. Its pricing has great competitiveness compared with products of similar type. The profit margin is higher by 20% compared with other producers. Currently, the product is being launched into the market.

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

The primary task of Chengdu Yuan Heng for the year was to pass the GMP certification, so that the operation of the company could achieve a major step forward. During the year, Chengdu Yuan Heng successfully completed this task, with enhanced competitive advantage.

1. Enhancement of production efficiency – Chengdu Yuan Heng performed renewals and upgrades to the existing equipments, resulting in substantial increment in production efficiency in the existing five production lines (two workshops). At the same time, failure rate of products was reduced, and the product quality was further improved.

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2. Expansion of production capacity – 1,800 square meters of production plant was newly built, with additions of three new production workshops – powdered medicine workshop, liquid medicine workshop and Chinese medicine extraction workshop. Among these, equipment installation in the Chinese medicine extraction workshop was completed, and production started in June 2001.
3. Chengdu Yuan Heng was qualified as a GMP enterprise in respect of the existing five production lines in two workshops on 25th September, 2001. Among the five enterprises which participated in the certification in the Sichuan province, Chengdu Yuan Heng passed the assessment with the highest points of 93.3 points. Furthermore, Chengdu Yuan Heng passed both the static and dynamic testing in one assessment, which was a rare case in the testing of veterinary drug production enterprises in the PRC.

Research and Development

Medicine for human consumption:

1. Chengdu Mt. Green cooperated with Taiwan 中化 , and introduced two infusion medicines of Taiwan 中化 , 補爾備 and 礦安命 , which are now actively under implementation. Preparation of information and trial production of other infusion medicine as well as the research on the production process are actively being carried out by the research team.
2. During the year, Chengdu Mt. Green had obtained approvals from the State Drug Administration for five additional infusion medicines.
3. Applications for two new infusion medicines, 已硯可可城 and 5單硝酸乙酸梨酯 were submitted to the State Drug Administration. The information and laboratory testing of 氟尿嘧啶 was completed and reported to the provincial administration, whereas the clinical testing of 左旋氧氟沙星 is progressing smoothly.

Veterinary drug: one product has obtained veterinary drug registration number: Yuan Heng 補血強 injection medicine. Among the seven other veterinary drugs being applied for registration, six have been approved.

Apart from the research and development of the infusion medicines and veterinary drugs stated above, the generic products proposed by ABC LifeScience Inc. are currently under study by the company for future introduction.

Chairman's Statement

Liquidity and financial resources

As at 31 July 2001, the net asset value of the Group was HK\$100,148,000, representing an increase of approximately 9.4 times as compared with that of the period ended 31 July 2000. Total borrowings mainly consisted of bank loans, other loan and the Convertible Note amounting to HK\$125,189,000, representing a significant increase of HK\$51,600,000 against that of period ended 31 July 2000. Among the total borrowings of HK\$125,189,000, 54.3% of which is due within one year and the remaining is repayable from two to five years.

The gearing ratio (total borrowing after the deduction of bank balance as a percentage of total assets) was 21.9% as at 31 July 2001 as compared with 39.1% of the period ended 31 July 2000.

Current ratio of the Group was significantly increased from 0.7 times as at 31 July 2000 to 1.3 times at end of the year under review.

Employees

As at 31st July 2001, the Group had 771 employees. The Group determined their salaries in accordance with their performance and market situation and provided them with other benefits, including a provident fund scheme, medical scheme and casualty insurance.

Business Strategy

1. Capitalising on the favorable regulation in the PRC towards drug producing enterprises and the restructure of the infusion medicine market in the PRC; on the solid foundation of Chengdu Mt. Green and the infusion medicine as a channel, to rapidly expand production scope to capture market share, and to build the leading enterprise in the infusion medicine market in the PRC.
2. Through the collaboration with domestic and overseas research institutes, actively making applications for registering human as well as veterinary drugs of self-researched and collaborated works, effectively adjusting the product mix of the Company to enhance its competitiveness.
3. Further strengthen internal management of the Group, reduce operating costs through various methods to enhance profitability.
4. Actively seeking opportunities in the overseas markets, especially the largest market in the developed countries, the United States, and the largest market in the developing countries, the PRC. Capitalizing on the internal information and resources of the Group, to facilitate communication in both domestic and overseas markets, and ultimately realize Group's development goals.

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Sales and Marketing

1. The sales network of Chengdu Mt. Green further strengthened. The sales strategy of the company was: strengthen the existing network, select and maintain quality customers, focus on developing hospital customers and expand market share. At present, Chengdu Mt. Green has established a nation-wide sales system and network commensurate with the production of the company. Its sales network covers 16 major regions including the northern, western, southern, eastern parts of Sichuan, North west, Huabei, Huadong, Guangzhou, Yunnan, Guangxi, Guizhou and Hunan. There are approximately 100 professional sales, with 95% of the whole sales team being university graduates. The company had over 200 core customers, with a growth rate of 140% as compared with the corresponding period of the last year. Relationships with over 150 large Grade-A hospitals were directly or indirectly developed, with a growth rate of 200% as compared with the same period of last year, and the company also established close partnership with over 30 Grade A hospitals.

The company further upgraded its sales management system, strengthened market efforts, and expanded its developments in hospitals. The market shares of the company in the various markets were respectively as follows: approximately 25% share in the Sichuan market, 35% share in the Yunnan market, over 40% share in the Guizhou market, 40% share in the Hunan market, 10% share in the North-west market, and 80% share in the Jiangsu, Suzhou, Wuxi, Changzhou markets.

2. The sales networks of the Chengdu Yuan Heng was gradually expanded and improved, with its sales team expanded to 16 persons, comprising newly recruited professionals possessing sales management experience to take up the position of managers and sales representatives. With its comprehensive sales network, the products of the company entered into the Central Asia and South-east Asian countries through Xinjiang and Inner Mongolia with enhancement of sales promotion. During the year under review, the company actively participated nation-wide animal commodity fairs in Dalian and Zhengzhou, and set up exhibition booths to promote the image and products of the company. Such marketing efforts were most helpful for the enhancement of brand recognition and product sales. The company also organized lectures and customer forum, and was actively involved in technical projects to assist product promotion.
3. Focusing on its own industrial features, Sichuan Future established its sales team and sales network which suit with the company's own characteristics, and made substantial efforts to maintain the relationship with the customers to promote the sales of its products.

Outlook

1. Favorable Policies: The Group is enjoying the following favorable policies: Firstly, as a high technology foreign enterprise, 40% of the amount invested in purchases of domestically produced equipment out of the total investments can be deducted from the newly added enterprise income tax for the year prior to the year of the purchase of equipment. Secondly, upon the expiry of the statutory tax exemption and reduction periods, foreign enterprises which are still advanced technological

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enterprises are entitled to an extension of 50% tax reduction for three years. In the case of the reduced tax rates being less than 10%, the rate will become 10%. Thirdly, foreign enterprises of production in nature are entitled to ten years property tax exemption. Fourthly, advanced technology enterprises with operation term of over 10 years are entitled to three years exemption on land use fees starting from the commencement of its operating year, and 50% reduction for three years starting from the fourth year. Fifthly, advanced technology enterprises having been approved and recognised by the State are entitled to exemption on material price subsidy starting from the approval date.

2. A sizeable enterprise in the infusion medicine industry: Upon completion of the construction of the various projects currently in progress by Chengdu Mt. Green, the total production capacity of Chengdu Mt. Green will reach 200 million bottles per annum. Enterprises of such a capacity will enjoy a competitive advantage in the infusion industry.
3. Product Mix: Following the effective adjustment in the product mix, the profit of the Group will further improve. Upon the introduction of new products and successful registration, the products of Chengdu Mt. Green and Chengdu Yuan Heng will be more value adding. In addition, Sichuan Future has developed a new product - an aluminium-plastic cap with high molecule material coating under the joint efforts with South-West Aluminium, the enterprise with one of the largest production capacity in the Asia Pacific region. The Group hopes to realise higher profitability.
4. Market share: Assisted by the expansion of the sales team and its integration, the market share of the Group's products will be further expanded to ensure the realization of revenue targets.

In conclusion, following the Group's improvement in management, efficiency enhancement, further adjustment of the product mix, and capitalising on the relevant State policies, China Medical Science Limited will be able to maintain sustained growth in its business.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Sai Chung, aged 51, is one of the founders of the Group and is responsible for the overall policy and management of the Group. He is a director and sole shareholder of Seechain (prior to the group reorganisation for the purpose of listing), which invested in Sichuan Future, Chengdu Mt. Green and Chengdu Yuan Heng. After working in the management of various family businesses, Mr. Wong founded the Pacific Concord Group in 1982. He has over 20 years of experience in corporate management. Mr. Wong is also the Chairman and Joint Managing director of Pacific Concord Holding Limited, of which its shares are listed on the Main Board of the Stock Exchange. He is a brother of Mr. Wong Sai Wa.

Mr. Wong Sai Wa, aged 57, is one of the founders of the Group and is responsible for formulating the strategy and overseeing the development of the Group. Mr. Wong holds a degree in Mechanical Engineering from the Scientific and Engineering University in the PRC and completed the Stanford Executive Program in 1993. Mr. Wong is also a Joint Managing Director of Pacific Concord Holding Limited. He is a brother of Mr. Wong Sai Chung and the father of Mr. Wong Fei Fei.

Mr. Kwan Kai Cheong, aged 51, is responsible for general management and strategic alliance relationship of the Group. Mr. Kwan is also a Joint Managing Director of Pacific Concord Holding Limited. Prior to joining the Pacific Concord Group, he was the President for the Asia Pacific Region of Merrill Lynch & Co., Mr. Kwan graduated from the University of Singapore with a degree in Accounting and is qualified as a Chartered Accountant in Australia. He completed the Stanford Executive Program in 1992. Mr. Kwan was appointed as director in September 2000.

Mr. Kwan has been actively involved in the financial planning underlying the formation of the Group, the establishment of the accounting and reporting system for each of the operating subsidiaries of the Group, namely Sichuan Future, Chengdu Mt. Green and Chengdu Yuan Heng, to ensure the smooth and effective operation of the companies and the implementation of the initial public offering exercise.

Dr. Tang Gang, aged 52, is the general manager and one of the founders of Sichuan Future. He is responsible for the daily operations of the Group. Dr. Tang is a registered doctor in the PRC and graduated from Chongqing Medical University (重慶醫科大學). After graduation, Dr. Tang practiced and held various senior positions in the management of hospitals for many years. Prior to setting up Sichuan Future in 1997, Dr. Tang was director of various companies and has years of experience in corporate management. Dr. Tang was appointed as director in September 2000.

He is currently responsible for the daily operations of the Group as well as supervising the setting of GMP standard for production facility of packaging materials for pharmaceutical products in the PRC. Dr. Tang indirectly holds 4.5 per cent. interest in Sichuan Future.

Mr. Wong Fei Fei, aged 27, is responsible for general management. Mr. Wong obtained a Simultaneous Bachelor of Arts degree in Economics and Dramatic Arts (honours) from University of California, Berkeley. Mr. Wong was awarded the Roselyn Schneider Eisner Price, the highest honour for students in the creative arts from University of California, Berkeley. Since graduation he has worked at Dantz Development Inc., a software development company in Silicon Valley. Mr. Wong is the son of Mr. Wong Sai Wa. Mr. Wong was appointed as a director in September 2000.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Chiang Chiu Ping, Raymond, aged 50, joined the Group in September 2000. Currently, Professor Chiang is the Chair Professor in Financial Management and the Dean of the Faculty of Business of the Hong Kong Polytechnic University. Prior to joining the Hong Kong Polytechnic University, Professor Chiang has taught in renowned universities in the United States and Hong Kong for over 20 years. He has broad consulting and market experiences in the financial and securities industry including the financial regulatory and governing bodies and corporations in Hong Kong, the region and the United States. Professor Chiang holds a Ph. D in Finance from the Wharton School, University of Pennsylvania and a bachelor's degree from the City University of New York. Professor Chiang was appointed as a director in September 2000.

Mr. Tsim Tak-Lung, Dominic, aged 54, joined the Group in September 2000. He is also a non-executive director and the vice chairman of Playmates Toys Holdings Limited and a non-executive director of Far Eastern Polychem Industries Limited. He is also the chairman of New-Alliance Asset Management (Asia) Ltd. He operates his own consultancy business, advising multi-national companies on risk management and strategic planning. Mr. Tsim is very active in various community services in Hong Kong. He is a Justice of the Peace and has served two terms on the Central Policy Unit of the Hong Kong Government. He also serves as a trustee of Shaw College of The Chinese University of Hong Kong. Mr. Tsim was appointed as a director in September 2000.

INTERNATIONAL ADVISORY COMMITTEE

In order to formulate strategies suitable for the future development of the Group, the Group has invited the following experts to form an International Advisory Committee.

Mr. Song Rui Lin, aged 38, has years of experience and expertise in formulating regulations and policies for the pharmaceutical industry in the PRC. Mr. Song is a fellow of the Chinese Medical Association, a member of the PRC Law Association and he is also a member of the National Chinese Drugs Protection and Assessment Committee.

Mr. Lee Tak Foo, aged 45, has years of experience and expertise in the field of biotechnology products. Since 1967, Mr. Lee has been involved in the research for various viruses using live cells. Between 1994 and 1999, he was the deputy head of the PRC Biotechnology and Pharmaceutical Products Laboratory. Mr. Lee is now the secretary and deputy officer of (中國生物製品標準委員會), a member of (中國醫學會), the deputy chairman of (中國微生物學會), a general officer of (中國醫藥生物技術協會), and a committee member of (國家藥典委員會), National Committee on the Assessment of New Medicinal Products (國家新藥審評委員會) and a member of the State Drug Administration (國家藥品監督員) respectively.

Profiles of Directors and Senior Management

Dr. Xiao Min (肖敏), aged 42, has years of experience and expertise in the field of biomedical research. Since 1990, Dr. Xiao has conducted numerous “cutting-edge” research projects at Harvard Medical School, and Millennium Pharmaceuticals, Cambridge, Massachusetts. Dr. Xiao has been conducting genetic research to develop drugs that effectively treat cancers, pain, and inflammatory diseases. Dr. Xiao’s expertise in the tissue-engineering technology has far-reaching clinical applications.

Dr. Liu Zhi Min, aged 41 has years of experience and expertise in the field of genetic biotechnology engineering. He is now a committee member of (中國全軍醫學技術委員會生物工程專業員會), (中國生物工程學會) and (中國全軍醫學科學院生物工程研究所學術委員會), and (中國全軍醫藥評審專家) respectively.

Professor Zhang Si Liang, aged 58, has years of experience and expertise in the field of bio-chemical engineering. He is now an officer of National Biochemical Engineering Research Centre (Shanghai) (國家生化工程技術研究中心(上海)), the deputy dean of biotechnology engineering faculty of the Huadong Polytechnic University (華東理工大學生物工程學院), a committee member of (中國生物工程學會) and (中國微生物學會) respectively, and an editorial committee member of (中國醫藥工業雜誌).

Dr. Chu Ju, aged 37, has years of experience and expertise in the field of microbiology. Dr. Chu has been engaged in the research of micro organism in Japan since 1990 and a number of biotechnology projects in the US. Dr. Chu is now a committee member of (中國生物工程學會) and (國際腦研究組織) respectively.

SENIOR MANAGEMENT

Chengdu Mt. Green

Mr. Huang Jian, aged 37, is the general manager for Chengdu Mt. Green and is responsible for the overall strategy of Chengdu Mt. Green. Prior to joining the Group in May 2000, Mr. Huang owned and operated Chengdu Mt. Green since September 1998 and has held various positions in four pharmaceutical manufacturing companies and has 12 years of experience in the pharmaceutical industry in the PRC. He graduated from Chengdu Science and Technology University (成都科技大學) specializing in chemical engineering and is a registered engineer.

Mr. Yu Min, aged 41, is the principal supervisor of Chengdu Mt. Green and is responsible for overseeing the daily operations of Chengdu Mt. Green. Prior to joining the Group in May 2000, Mr. Yu worked for Chengdu Mt. Green since its inception of business since September 1998. He has 20 years of experience in the pharmaceutical industry in the PRC, especially in the research and development field. Mr. Yu holds a bachelor’s degree in pharmacy at the University of Western China-Medical (華西醫科大學) and is a registered engineer.

Mr. Yang Shan Bin, aged 37, is the production manager of Chengdu Mt. Green and is responsible for the manufacturing operations of Chengdu Mt. Green. He is a practising pharmacist and a registered engineer. After graduating from University of Western China-Medical (華西醫科大學) with a master’s degree in pharmacy. Mr. Yang has worked as engineer, production manager and general manager for three pharmaceutical manufacturing companies. Prior to joining the Group in May 2000. Mr. Yang worked for Chengdu Mt. Green since September 1998. He has years of experience in the pharmaceutical industry in the PRC.

Profiles of Directors and Senior Management

Mr. Qin Xiao Feng, aged 38, is the administrative manager of Chengdu Mt. Green. He holds a bachelor's degree specialising in automation control system at the Harbin Electronic College (哈爾濱電工學院) and is a registered engineer. Mr. Qin worked for Chengdu Mt. Green since August 2000 and has nine years of experience in mechanical engineering.

Mr. Yu Tao, aged 31, is an assistant to general manager of Chengdu Mt. Green. He holds a bachelor's degree in business administration. Prior to joining the Group in May 2000, he has worked for Chengdu Mt. Green since its inception of business since September 1998 and has five years of experience in the sales and distribution of pharmaceutical products in the PRC.

Ms. Tang Li, aged 28 is an assistant to general manager of Chengdu Mt. Green. She holds a bachelor's degree in economics at Lanzhou University (蘭州大學). Prior to joining the Group in May 2000, she has worked at Project Planning Division of Zigong City, Sichuan (四川自貢市項目規劃處) and Economic Information Centre of Zigong city, Sichuan (自貢市經濟信息中心經研室).

Sichuan Future

Mr. Zhang Yue, aged 38, is the assistant general manager of Sichuan Future and is responsible for production and general administration. Prior to joining the Group in September 1999, he worked for Sichuan Future since its inception of business in May 1997. He also worked in Chengdu Railway Bureau (成都鐵路局) for 15 years. He graduated from Sichuan Technology University (四川科技大學).

Ms. Yu Qiong Qiong, aged 49, is the financial controller of Sichuan Future and is responsible for the accounting functions of Sichuan Future. She is a certified public accountant in the PRC and graduated from the accounting of South West Finance University (西南財經大學). Prior to joining the Group in September 1999, she worked for Sichuan Future since its inception of business in May 1997. Ms. Yu has years of experience in finance and accounting. Ms Yu is the wife of Dr. Tang Gang, an executive director of the Group.

Mr. Guan Jian Guo, aged 55, is an engineer of Sichuan Future specialising in the production automation and control, design of machinery and mechanical engineering. He graduated from the electrical engineering faculty of the Chongqing University (重慶大學). Prior to joining the Group in September 1999. Mr. Guan was the chief engineer of a machinery manufacturing company.

Mr. Tang Qiang, aged 50, is the deputy general manager of Sichuan Future and is responsible for the general administration of Sichuan Future. He graduated from Sichuan University (四川大學) in mathematics. Prior to joining the Group in September 1999, he worked for Sichuan Future since its inception of business in May 1997. Mr. Tang has years of experience in enterprise management and was a professor in the mathematics faculty of Chengdu University (成都大學). Mr. Tang is the brother of Dr. Tang Gang, an executive director of the Group.

Profiles of Directors and Senior Management

Chengdu Yuan Heng

Mr. Xiong Nan, aged 55, is the general manager of Chengdu Yuan Heng and is responsible for its daily operations. He graduated from Advance Learning Institute of Economic Management for Civil Servants in Chengdu (成都經濟管理幹部進修學院) as an economist in 1992. Prior to joining the Group in May 2000, Mr. Xiong worked for Chengdu Yuan Heng Veterinary Drugs Company since its inception of business in June 1996. He has years of experience in management.

Ms. Jiang Gui Bi, aged 44, is the deputy general manager of Chengdu Yuan Heng and is responsible for the finance and marketing of Chengdu Yuan Heng. She graduated from Chongqing Telecommunication College (重慶郵電學院) as an accountant in 1992. Prior to joining the Group in May 2000, Ms. Jiang worked for Chengdu Yuan Heng Veterinary Drugs Company since its inception of business in June 1996. She has years of experience in financial management and business administration.

Mr. Dai Yong De, aged 34, is the production manager and research and development manager and is responsible for the production and research and development of Chengdu Yuan Heng. He graduated from Jiangsu Animal Husbandry College (江蘇省畜牧獸醫藥專校) with a diploma on veterinary drugs (獸藥專業課程) in 1988 and became a veterinary doctor in 1996. Prior to joining the Group in May 2000, Mr. Dai worked for Chengdu Yuan Heng Veterinary Drugs Company since its inception of business in June 1996. He has years of experience in the research and development in veterinary drugs.

Hong Kong

Dr. Chan Ka Keung, aged 34, a General Manager of the Corporate Finance Department. Dr. Chan is also a General Manager of the Corporate Finance Department of Pacific Concord Holding Limited. Starting his career as an investment banker with Credit Suisse First Boston. Dr. Chan has 8 years of experience in major international investment banks, and focused on the origination and execution of capital markets and advisory transactions. Prior to that, Dr. Chan conducted research on state-of-the-art semiconductor materials and microelectronic device fabrication in Cambridge University, the United Kingdom. His research work was published and quoted in major international journals. Dr. Chan received his Bachelor of Arts (first class honours) in electrical and information sciences and Doctor of Philosophy degree in microelectronics from Cambridge University. Dr. Chan joined the Group in July 2000.

Mr. Cheng Kan Hei, aged 36, is the qualified accountant of the Company and Assistant General Manager of the Corporate Accounts Department of the Group. Mr. Cheng is a member of both the Hong Kong Society of Accountants and the Association of Certified Chartered Accountants with 12 years of experience in major international accounting firm and in the industries. Mr. Cheng joined the Group in July 2001.

Ms. Yu Ling Ling, aged 36, is the company secretary of the Company and Manager of the Company Secretarial Department of Pacific Concord Holding Limited. She is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Ms. Yu joined the Group in May 2000.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 28 March 2001 (the “Prospectus”).

	Business objective for the period of 10 April 2001 to 31 July 2001 as disclosed in the Prospectus	Actual business progress up to the period of 10 April 2001 to 31 July 2001
Research and Development	Continue to enhance the production methodology and use of ingredients for the existing product lines	Consistent with the Prospectus
	Jointly continue existing research and development projects with a research institute in the PRC on the application of Chinese medicine in the existing infusion medicine	Continued the joint development with a Chinese medicine research laboratory on the application of Chinese medicine in the existing infusion medicine produced by the Group. During the period under review, the pre-clinical testing of one infusion medicine was completed and was submitted to the provincial level SDA for review
	Continue to develop 7 infusion medicines with an overseas pharmaceutical corporation or research institutes and seek registration with the relevant authorities	Continue the joint development of two adjusting and electrolyte isotonic type of infusion medicines with 台灣中化
	Recruit suitable research and development professionals to expand research and development capabilities of the Group in the PRC	The Group is in progress of recruiting talented professionals but during the period under review, no suitable applicants were recruited.
	Registration of new drugs — Infusion Medicine: Awaiting for the registration of 12 additional infusion medicine	The Group has obtained pharmaceutical registration and production approvals from the relevant authorities in the PRC in respect of three new infusion medicines for human consumption 右旋糖酐玻璃瓶裝, 乳酸林格玻璃瓶裝 and 氧氟沙星注射液. The Group's other seven infusion medicines are pending approvals from the relevant authorities in the PRC

Comparison of Business Objectives with Actual Business Progress

	<p>— Veterinary drugs: Awaiting for the registration of at least one additional veterinary drugs.</p> <p>— Apply for the registrations of at least two additional veterinary drugs</p>	<p>The Group has also obtained the pharmaceutical registration and production approvals from the relevant government authorities in the PRC in respect of a new veterinary drug 元亨補血強注射液 in June 2001. It has obtained the pharmaceutical registrations in respect of six new veterinary drugs, namely, 球痢淨 0.5g, 球痢淨 0.1g, 球痢淨 0.25g, 應激抗病維他, 快克威注射液 and 炎黃之尊注射液 in September 2001</p>
	<p>Evaluate feasibility of introducing generic drugs proposed by ABC Life Science Inc. to the PRC market</p>	<p>The Group is in the processing of conducting the feasibility studies</p>
Production		
<i>Chengdu Mt. Green</i>	<p>Set up production line for infusion medicine packaged in PVC bags with a maximum annual production capacity of 10 million bags</p>	<p>Establishment of the production line for infusion medicine packaged in PVC bags was ahead of the planned schedule and the production line commenced commercial production in May 2001</p>
	<p>Commence production planning for Chengdu Mt. Green Pharmaceutical Co., Ltd — Non-PVC bags branch factory</p>	<p>The Group's initial production planning for Non-PVC bags branch factory was near completion as at 31 July 2001</p>
	<p>Commence trial production in Chengdu Mt. Green Pharmaceutical Co., Ltd — Non-PVC bags branch factory</p>	<p>The Non-PVC bags branch factory is under construction and the trial production is expected to commence in or around April 2002</p>
	<p>To set up two additional production lines for bottled infusion medicine with an additional annual production capacity of 60 million bottles</p>	<p>Additional production lines for bottled infusion medicine are currently under construction</p>
	<p>Identify suitable location for the additional branch factory of Chengdu Mt. Green Pharmaceutical Co, Ltd. — branch factory Mianyang</p>	<p>The Group is in the process of evaluating its investment in Chengdu Mt. Green — branch factory Mianyang is still under the review process</p>

Comparison of Business Objectives with Actual Business Progress

	Commence planning for the establishment of Chengdu Mt. Green Pharmaceutical Co, Ltd. — branch factory Mianyang, and the production facilities of Chengdu Mt. Green Pharmaceutical Co. Ltd in Guiyang	The Group is finalising the production planning of Chengdu Mt. Green in Guiyang while its production planning process for the branch factory of in Mianyang, the planning has been deferred
<i>Sichuan Future</i>	Modify existing production equipment/methodology	After modification on existing production equipment, and methodology, the overall production capacity is further enhanced
	Continue to cooperate with SDA to assist for the setting up the GMP standard	Consistent with the Prospectus
<i>Chengdu Yuan Heng</i>	Modify existing production equipment/methodology	Modifications on injection and powder workshop was completed and now fully complied with GMP standards
	Awaiting GMP approval for the two existing production lines	Recently completed the GMP review procedures of 農業部畜牧獸醫局. The GMP accredited certificate is expected to grant in the final quarter of 2001
	Identify suitable location for constructing the new vaccine factory, commence design of production facilities with an objective to obtain GMP approval in the future and apply for construction permit for the new vaccine factory	Still pending for the approval from the local authority

Comparison of Business Objectives with Actual Business Progress

Sales and distribution

Enhance the sales and marketing teams in the PRC through recruitment and training in the Group's product lines	Consistent with business objective
Launch and promote two newly registered infusion medicine	Promotion mainly through existing distribution channels to end-users, including hospitals and clinics
Continue to keep in close contact with the distributors and its customers to collect market intelligence	Continue to promote better after sale service through the phone, frequent and infrequent visit in order to keep close contact with our customers
Continue to distribute the existing products through existing distribution channels	Independent distributors and direct sales remained the principal marketing channels for our products. During the period under review, the market coverage has expanded from mainly Sichuan Province to Guangdong Province, Guangxi Province, Shandong Province, Huazhong Province, Huandong Province, Hebei Province and Beijing
Monitor potential joint venture opportunities with distribution companies to expand distribution channels	The Group actively in negotiation with certain potential distribution companies, however subject to unsatisfactory terms, there is no agreement reached during the period under review
Seek new direct customers and potential distributors in the PRC	The Group was actively seeking additional potential co-partners in the PRC

Comparison of Business Objectives with Actual Business Progress

	Organize and conduct seminars to promote the adoption of products	Consistent with the Prospectus
	Continue to promote and market the products in the PRC with particular emphasis on the awareness of the Group's trademarks	Consistent with the Prospectus
Partnership and alliance activities	Complete investment in Chengdu Mt. Green Pharmaceutical Co., Ltd — No 1 branch factory (Guiyang) and Chengdu Mt. Green Pharmaceutical Co., Ltd. — Mianyang branch factory	In June 2001, Guizhou Concord Mt. Green Pharmaceutical Co., Ltd, previously known as Chengdu Mt. Green Pharmaceutical Co., Ltd — No 1 branch factory (Guiyang), was established and the business license was obtained. On the other hand, the Group is reviewing its investment in Mianyang branch factory
	Actively seek potential equity investment or strategic alliances	The Group has been in active negotiations with a number of potential pharmaceutical companies; however, no agreement was entered into during the period under review
	Actively seek investment opportunities in companies in the PRC that are complementary to the core business of the Group	Same as above
	Continue to enhance the relationship with existing strategic alliances	Closely worked with 台灣中化 and other research institutes to expand the existing product range by introducing generic drugs to the PRC in a cost effective and timely manner

Use of Net Proceeds from the Issuing of the New Shares and/or from Other Resources

Business scope	Project	Amount used for the period from 10 April 2001 to 31 July 2001 as disclosed in the Prospectus (HK\$/million)	Actual amount used for the period from 10 April 2001 to 31 July 2001 (HK\$/million)
Research and development	Recruitment of talented professionals	0.5	0
	Development/introduction of new products	1.8	0.3
Production	Construction of production facilities in accordance with GMP standards	0.4	0.1
	Purchase of production equipment	11.9	0.6
Joint venture partnership and alliance activities	Investment in Chengdu Mt. Green Pharmaceutical Co., Ltd — No. 1 branch factory (Guiyang) and Chengdu Mt. Green Pharmaceutical Co., Ltd — Mianyang branch factory	10.6	3.3

Use of Net Proceeds from the Issuing of the New Shares and/or from Other Resources

According to the Prospectus of the Company, the Group planned to use a total of approximately HK\$25.2 million of the net proceeds of the Share Offer during the relevant period, and particularly (i) approximately HK\$0.5 million for recruitment of talented professionals, (ii) approximately HK\$1.8 million for development of new products, (iii) HK\$0.4 million for construction of production facilities in accordance with GMP standards, (iv) approximately HK\$11.9 million for purchase of production equipment and (v) HK\$10.6 million for setting up joint ventures. As at the date of this announcement, none of the net proceeds of the Share Offer has been spent for items (i) referred above.

Following the listing of the shares in the Company on 11 April 2001 and up to 31 July 2001, the Company invested approximately HK\$3.3 million for establishment of Guizhou Concord Mt. Green Pharmaceutical Co., Ltd previously named as Chengdu Mt. Green Pharmaceutical Co., Ltd — No. 1 branch factory (Guiyang) in the Prospectus, 35% of the issued share capital of which is owned by the Group. The Group is in active negotiation for establishing another branch factory in Mianyang. It is the present intention of the Directors that the aggregate investment in the joint venture factories with Chengdu Mt. Green in Guiyang and Mianyang will remain to be approximately HK\$10.6 million which is the same as that disclosed in the Prospectus. During the year, the Group also utilized approximately HK\$1 million on production facilities and research and development. The remaining balance of the proceeds have been deposited at licensed banks as preparation for future use as set out in the business development plan in the Prospectus. The Directors do not envisage any circumstance, which may lead to material alteration as to the proposed use of net proceeds.

During the year, the Group actively in negotiation with certain research laboratory and universities for the development of new products, and also explored numerous potential investment opportunities in companies in the PRC that are complementary to the core business of the Group, however subject to unsatisfactory terms, there is no agreement reached during the year.

For the forward looking period, the Company will continue to further apply the remaining balance of approximately HK\$20.9 million of the Planned Investment Amount of approximately HK\$25.2 million for setting up more manufacturing facilities with other potential joint venture partners in the PRC.

Report of the Directors

The directors present their report and the audited financial statements of the Company for the period from 22 September 2000 (date of incorporation) to 31 July 2001 and of the Group for the year ended 31 July 2001.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 September 2000 under the Companies Law (2000 Revision) of the Cayman Islands. In preparing for the listing of the shares of the Company on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company and the subsidiaries acquired subsequently (collectively referred to as the “Group”) underwent a reorganisation (the “Reorganisation”) in March 2001, as further detailed in the prospectus of the Company dated 28 March 2001. As a result of the Reorganisation, the Company became the holding company of the Group on 23 March 2001. Further details of the Reorganisation are set out in note 1 to the financial statements.

The shares of the Company were listed on the GEM of the Stock Exchange with effect from 10 April 2001.

CHANGE OF NAME

Pursuant to a written resolution of all the shareholders of the Company dated 15 March 2001, the Company changed its name from Concord Biotechnology Limited to China Medical Science Limited.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company’s subsidiaries are set out in note 26 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

Report of the Directors

SEGMENTAL INFORMATION

The Group's turnover and contribution to profit from operating activities for the year ended 31 July 2001 were all derived from the People's Republic of China (the "PRC"). An analysis of the Group's turnover and contribution to profit from operating activities by principal activity for the year ended 31 July 2001 is as follows:

	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By principal activity:		
Sale of human drugs – infusion medicine	91,817	12,835
Sale of veterinary drugs	33,433	11,417
Sale of packaging materials for infusion medicine	58,795	17,205
	<hr/>	<hr/>
	184,045	41,457
	<hr/>	
Other expenses net of other revenue		(2,559)
		<hr/>
		38,898
		<hr/>

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 July 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 68.

The directors do not recommend the payment of any dividend for the year.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and the assets and liabilities of the Group prepared on the basis set out in the notes below. This summary is not part of the audited financial statements.

RESULTS

	Year ended 31 July 2001 HK\$'000	Period from 25 June 1999 to 31 July 2000 HK\$'000
Turnover	184,045	25,089
PROFIT BEFORE TAX	31,817	1,141
Tax	–	–
PROFIT BEFORE MINORITY INTERESTS	31,817	1,141
Minority interests	(3,051)	(504)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	28,766	637

ASSETS AND LIABILITIES

	31 July 2001 HK\$'000	2000 HK\$'000
TOTAL ASSETS	316,860	166,730
TOTAL LIABILITIES	(203,572)	(124,189)
MINORITY INTERESTS	(13,140)	(32,911)
NET ASSETS	100,148	9,630

Notes

1. The results of the Group for the period ended 31 July 2000 have been prepared on a combined basis as if the current group structure had been in existence throughout the period and have been extracted from the Company's prospectus dated 28 March 2001. The results of the Group for the year ended 31 July 2001 are those set out on page 32 of the financial statements.
2. Since the reorganisation of the Group was completed in March 2001, the only audited consolidated balance sheets for the Group that have been prepared are those set out on page 34 of the financial statements.

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries, all of which were acquired pursuant to the Reorganisation, are set out in notes 14 and 26 to the financial statements.

ASSOCIATE

Particulars of the Company's associate are set out in note 15 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in notes 18 and 19 to the financial statements.

INTEREST CAPITALISED

Interest of approximately HK\$941,000 was capitalised during the period from 25 June 1999 to 31 July 2000 in respect of the Group's construction in progress.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options since its date of incorporation, together with the reasons therefor, are set out in note 21 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights either under the Company's bye-laws/articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Other than in connection with the Company's Initial Public Offering on the GEM, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from 10 April 2001 (date of listing of the Company's shares on the GEM) to 31 July 2001.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 July 2001, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provision of the Companies Law (2000 revision) of the Cayman Islands, amounted to HK\$58,750,000. Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods to its five largest customers.

In the year under review, purchases from the Group's five largest suppliers accounted for 48.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22.7%.

None of the directors of the Company or any of their associates or any shareholders who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers noted above.

DIRECTORS

The directors of the Company since 22 September 2000 (date of incorporation) and up to the date of this report were as follows:

Executive directors

Mr. Wong Sai Chung (<i>Chairman</i>)	(appointed on 27 September 2000)
Mr. Wong Sai Wa	(appointed on 27 September 2000)
Mr. Kwan Kai Cheong	(appointed on 27 September 2000)
Dr. Tang Gang	(appointed on 27 September 2000)
Mr. Wong Fei Fei	(appointed on 27 September 2000)

Independent non-executive directors

Professor Chiang Chiu Ping, Raymond	(appointed on 27 September 2000)
Mr. Tsim Tak Lung, Dominic	(appointed on 27 September 2000)

Report of the Directors

In accordance with article 116 of the Company's articles of association, Mr. Wong Sai Wa and Mr. Kwan Kai Cheong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 13 of the annual report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of two years commencing from 10 April 2001 (the date on which dealings in the shares on the Stock Exchange commence), which may be terminated by either party giving to the other not less than six calendar months' prior notice in writing, which notice period shall not expire until the end of the second year.

The two independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's memorandum and articles of association.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 to the financial statements, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 July 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "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 were as follows:

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

Note:

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

The interests of the directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares" in this report.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the terms of the Company's Pre-IPO Share Option Scheme (the "Pre-IPO Plan") adopted by the Company on 23 March 2001, the Company granted options to the following directors to subscribe for shares in the Company at any time from 10 October 2001 up to and including 9 April 2011 at an exercise price of HK\$0.55 per share. Summary details of these options which remain outstanding as at 31 July 2001 are as follows:

Name of director	Number of shares subject to the options
Mr. Wong Sai Wa	3,200,000
Mr. Kwan Kai Cheong	3,000,000

Further details of the Pre-IPO Plan are set out in note 21 to the financial statements.

Under the terms of a share option scheme adopted by the Company on 23 March 2001 (the "Share Option Scheme"), the directors may at their discretion grant options to full time employees of the Group, including executive directors of the Company and of its subsidiaries, to subscribe for shares in the Company. Further details of the Share Option Scheme are set out in note 21 to the financial statements. The Share Option Scheme became effective on 23 March 2001 for a period of ten years. No options have been granted to any directors of the Company under the Share Option Scheme up to the date of this report.

Report of the Directors

Concord Pharmaceutical Technology (Holdings) Limited holds a convertible note (the “Convertible Note”), the outstanding principal amount of which is HK\$26,740,760. The Convertible Note confers the right on Concord Pharmaceutical Technology (Holdings) Limited to convert such note into approximately 48,619,564 new shares with an issue price of HK\$0.55 per share, representing approximately 9.7% of the issued share capital of the Company and approximately 8.9% of the issued share capital of the Company as enlarged by the shares which may fall to be issued on conversion. Further details of the Convertible Note are set out in note 19 to the financial statements.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company’s directors, their respective spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following interest, being 10% or more in the Company’s issued share capital:

Name	Number of shares held	Percentage of issued share capital
Concord Pharmaceutical Technology (Holdings) Limited (<i>Notes 1, 2</i>)	400,000,000	80%
Concord Business Management Limited (<i>Note 1</i>)	400,000,000	80%
Mr. Wong Sai Chung (<i>Note 1</i>)	400,000,000	80%

Notes:

- (1) *Concord Pharmaceutical Technology (Holdings) Limited is a wholly-owned subsidiary of Concord Business Management Limited, the entire issued share capital of which 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.*
- (2) *Concord Pharmaceutical Technology (Holdings) Limited holds the Convertible Note, the outstanding principal amount of which is HK\$26,740,760. The Convertible Note confers the right on Concord Pharmaceutical Technology (Holdings) Limited to convert such note into approximately 48,619,564 new shares with an issue price of HK\$0.55 per share, representing approximately 9.7% of the issued share capital of the Company and approximately 8.9% of the issued share capital of the Company as enlarged by the shares which may fall to be issued on conversion. For details of the principal terms of the Convertible Note, please refer to note 19 to the financial statements.*

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in shares” above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Report of the Directors

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.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed in note 27 to the financial statements, which also constituted connected transactions under the GEM Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

STAFF RETIREMENT SCHEME

Details of the staff retirement scheme of the Group and the employer's staff retirement costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

SPONSOR'S INTEREST

Yuanta Securities (Hong Kong) Company Limited (name changed to Core Pacific-Yamaichi (Hong Kong) Company Limited) ("Yuanta Securities") has entered into a sponsorship agreement with the Company on 27 March 2001, pursuant to which Yuanta Securities would act as the continuing sponsor to the Company for the period from the listing date (10 April 2001) to 31 July 2003 (the "Period"). On 4 May 2001, Yuanta Securities notified the Stock Exchange and the Company that, Yuanta Securities would be merged with Core Pacific-Yamaichi Capital Limited ("CPY Capital"). Accordingly, the Company appointed CPY Capital as the continuing sponsor on 3 August 2001 for the balance of the Period.

As at 31 July 2001, CPY Capital, 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.

Report of the Directors

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 23 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 the two independent non-executive directors of the Company. The audit committee has held one meeting since its formation.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wong Sai Chung

Chairman

Hong Kong

23 October 2001

Report of the Auditors



To the members
China Medical Science Limited
(Formerly known as Concord Biotechnology Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 32 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG
Certified Public Accountants

Hong Kong
23 October 2001

Consolidated Profit and Loss Account

Year ended 31 July 2001

	<i>Notes</i>	Year ended 31 July 2001 HK\$'000	Period from 25 June 1999 to 31 July 2000 HK\$'000
TURNOVER	4	184,045	25,089
Cost of sales		(120,326)	(16,660)
Gross profit		63,719	8,429
Other revenue	4	958	63
Selling and distribution costs		(11,052)	(1,561)
General and administrative expenses		(9,538)	(3,125)
Other operating expenses		(5,189)	(1,233)
PROFIT FROM OPERATING ACTIVITIES	5	38,898	2,573
Finance costs	6	(7,081)	(1,432)
PROFIT BEFORE TAX		31,817	1,141
Tax	9	–	–
PROFIT BEFORE MINORITY INTERESTS		31,817	1,141
Minority interests		(3,051)	(504)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	28,766	637
EARNINGS PER SHARE	11		
– Basic		6.65 cents	0.16 cent
– Diluted		6.47 cents	N/A

Consolidated Statement of Recognised Gains and Losses

Year ended 31 July 2001

		Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
	<i>Note</i>		
Exchange differences on translation of the financial statements of foreign entities	22	—	25
Net gains not recognised in the profit and loss account		—	25
Net profit for the year/period attributable to shareholders	22	28,766	637
Total recognised gains and losses		28,766	662
Goodwill eliminated directly against reserves	22	(8,344)	8,968
		20,422	9,630

Consolidated Balance Sheet

31 July 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	<i>12</i>	102,933	97,555
Intangible assets	<i>13</i>	17,201	21,059
Interest in an associate	<i>15</i>	4,005	–
		124,139	118,614
CURRENT ASSETS			
Trade receivables		101,440	15,389
Inventories	<i>16</i>	18,425	7,269
Prepayments and other receivables		16,902	17,069
Pledged bank deposits	<i>17</i>	26,277	–
Cash and cash equivalents	<i>17</i>	29,677	8,389
		192,721	48,116
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	<i>18</i>	67,918	43,059
Trade payables		37,794	12,054
Notes payable		16,014	–
Accruals and other payables		24,575	11,442
		146,301	66,555
NET CURRENT ASSETS/(LIABILITIES)		46,420	(18,439)
TOTAL ASSETS LESS CURRENT LIABILITIES		170,559	100,175
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	<i>19</i>	57,271	30,530
Due to a shareholder	<i>20</i>	–	27,104
		57,271	57,634
NET ASSETS BEFORE MINORITY INTERESTS		113,288	42,541
Minority interests		13,140	32,911
		100,148	9,630
CAPITAL AND RESERVES			
Issued capital	<i>21</i>	25,000	–
Reserves	<i>22</i>	75,148	9,630
		100,148	9,630

Wong Sai Wa

Director

Kwan Kai Cheong

Director

Consolidated Cash Flow Statement

Year ended 31 July 2001

		Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
	<i>Notes</i>		
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	23(a)	7,123	(16,522)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		555	6
Interest paid on bank and other loans		(6,793)	(2,373)
Interest paid on the Convertible Note		(288)	–
Net cash outflow from returns on investments and servicing of finance		<u>(6,526)</u>	<u>(2,367)</u>
INVESTING ACTIVITIES			
Purchases of fixed assets		(12,454)	(11,346)
Proceeds from disposal of fixed assets		1	–
Acquisition of subsidiaries	23(c)	–	(15,872)
Acquisition of additional equity interests in subsidiaries		(21,573)	–
Investment in an associate		(3,297)	–
Increase in unpledged time deposits with maturity over three months		(22,432)	–
Advances to an associate		(708)	–
Net cash outflow from investing activities		<u>(60,463)</u>	<u>(27,218)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(59,866)	(46,107)

Consolidated Cash Flow Statement

Year ended 31 July 2001

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
	<i>Note</i>	
FINANCING ACTIVITIES	<i>23(b)</i>	
Proceed from issue of shares	55,000	–
Share issue expenses	(12,008)	–
New bank loans	65,469	10,562
New other loan	2,449	–
Repayment of bank loans	(43,059)	–
Advances from minority shareholders of subsidiaries	–	16,785
Repayment of advances from minority shareholders of subsidiaries	(9,593)	–
Advances from a shareholder	26,741	27,104
Increase in pledged bank deposits	(26,277)	–
	<hr/>	<hr/>
Net cash inflow from financing activities	58,722	54,451
	<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,144)	8,344
Cash and cash equivalents at beginning of year/period	8,389	–
Effect of foreign exchange rate change, net	–	45
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	7,245	8,389
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	7,245	8,389
	<hr/>	<hr/>

Balance Sheet

31 July 2001

	<i>Notes</i>	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	<i>12</i>	14
Interests in subsidiaries	<i>14</i>	<u>67,431</u>
		<u>67,445</u>
CURRENT ASSETS		
Other receivables		472
Pledged bank deposits	<i>17</i>	18,270
Cash and cash equivalents	<i>17</i>	<u>26,848</u>
		45,590
CURRENT LIABILITIES		
Accruals and other payables		<u>2,544</u>
NET CURRENT ASSETS		
		<u>43,046</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		
		110,491
NON-CURRENT LIABILITIES		
Convertible Note	<i>19</i>	<u>26,741</u>
		<u>83,750</u>
CAPITAL AND RESERVES		
Issued capital	<i>21</i>	25,000
Reserves	<i>22</i>	<u>58,750</u>
		<u>83,750</u>

Wong Sai Wa

Director

Kwan Kai Cheong

Director

Notes to Financial Statements

31 July 2001

1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 September 2000 under the Companies Law (2000 Revision) of the Cayman Islands.

Pursuant to a reorganisation completed on 23 March 2001 (the “Reorganisation”) to rationalise the Group’s structure in preparation for the public listing of the Company’s shares on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired by share exchange the entire issued share capital of China Biotechnology Limited, the then holding company of the subsidiaries included in the Reorganisation, and thereby became the holding company of the companies now comprising the Group.

Further details of the Reorganisation are set out in the prospectus issued by the Company dated 28 March 2001 and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 26 to the financial statements. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 10 April 2001.

2. CORPORATE INFORMATION

The Group is involved in the development, production, sale and distribution of packaging materials for biotechnological and pharmaceutical products, and a range of biotechnological and pharmaceutical products for human use as well as for cattle and other domestic animals, such as pigs, sheep and poultry in the PRC.

In the opinion of the directors, the ultimate holding company of the Company is Concord Business Management Limited, which is incorporated in the British Virgin Islands.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

Notes to Financial Statements

31 July 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation and presentation

The consolidated financial statements have been prepared using the merger basis of accounting. On this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorganisation for both financial years presented, rather than from the date of their acquisition pursuant to the Reorganisation on 23 March 2001. Accordingly, the consolidated results and cash flows of the Group for the period ended 31 July 2000 and the year ended 31 July 2001 include the results and cash flows of the Company and its subsidiaries with effect from 25 June 1999 or since their respective dates of incorporation/establishment or acquisition by the Group, where this is a shorter period. The comparative consolidated balance sheet as at 31 July 2000 has been prepared on the assumption that the above Reorganisation had been completed at that date. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

As the Company was incorporated on 22 September 2000, no comparative balance sheet of the Company at 31 July 2000 has been presented in these financial statements.

Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Notes to Financial Statements

31 July 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates *(Continued)*

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors. Goodwill arising from the acquisition of the associate, which is not eliminated directly to reserves, is included as part of the Group's interest in the associate.

The results of the associate are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in the associate is stated at cost less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

Goodwill

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Capital reserve

The capital reserve arising on the consolidation of subsidiaries represents the excess of the fair values ascribed to the net underlying assets of the subsidiaries at the date of acquisition over the purchase consideration, and is credited to reserves in the year of acquisition.

In the case of gains arising from deemed disposals of the Group's interests in its subsidiaries, an amount equal to the increase in the Group's share of the non-distributable reserves of the subsidiaries is transferred to the capital reserve.

Notes to Financial Statements

31 July 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation.

The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amounts are reduced to their recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of an asset, including its residual value on disposal. In determining the recoverable amount, expected future cash flows generated by the assets are not discounted to their present values. The amount of the reduction to the recoverable amount is charged to the profit and loss account.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the terms of the joint venture or land use right, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Computer equipment	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, is stated at cost and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Notes to Financial Statements

31 July 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets and amortisation

Intangible assets are recognised when it is probable that future economic benefits that are attributable to the assets will flow to the Group and that the costs of the assets can be measured reliably.

Intangible assets are stated at cost less accumulated amortisation. The cost of an asset comprises its purchase price. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Technical know-how	Over the terms of the joint venture or 7 years, whichever is shorter
Production licences	Over the terms of the joint venture or 5 years, whichever is shorter

The carrying amounts of intangible assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amounts are reduced to their recoverable amounts. The recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. In determining the recoverable amount, expected future cash flows generated by the assets are not discounted to their present values. The amount of the reduction to the recoverable amount is charged to the profit and loss account.

Trade receivables

Trade receivables are stated at cost less provision for doubtful debts. Specific and general provisions for doubtful debts are made based upon the directors' knowledge of the customers, the creditworthiness and settlement history of the customers, and the aging of the outstanding trade receivables.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

31 July 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Advertising and marketing expenses

Advertising and marketing expenses are charged to the profit and loss account in the period in which they are incurred.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to Financial Statements

31 July 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Capitalisation rates adopted are based on the respective weighted average costs of the related borrowings.

All other borrowing costs are expensed in the period in which they are incurred.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Retirement benefits scheme

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. The Scheme became effective in December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 employer contributions vest fully with the employees when contributed into the Scheme. No forfeited contributions are available to reduce the contributions payable in future years.

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 profit and loss account as they become payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

Notes to Financial Statements

31 July 2001

4. TURNOVER AND REVENUE

The Group's turnover represents the net invoiced value of goods sold, net of value-added tax, and after allowance for returns and trade discounts.

Revenue from the following activities has been included in turnover:

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
Sale of human drugs - infusion medicine	91,817	7,255
Sale of veterinary drugs	33,433	3,063
Sale of packaging materials for infusion medicine	58,795	14,771
	<hr/>	<hr/>
Turnover	184,045	25,089
	<hr/>	<hr/>
Interest income	555	6
Sundry income	403	57
	<hr/>	<hr/>
Other revenue	958	63
	<hr/>	<hr/>
Total revenue for the year/period	185,003	25,152
	<hr/>	<hr/>

Notes to Financial Statements

31 July 2001

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
Cost of inventories sold	120,326	16,660
Depreciation of fixed assets	7,056	2,042
Amortisation of intangible assets	3,858	643
Auditors' remuneration	500	–
Staff costs (including directors' emoluments in note 7)		
– Wages and salaries	8,118	1,680
– Staff retirement benefits*	643	–
	8,761	1,680
Loss on disposal of fixed assets	19	–
Provision for doubtful debts	780	102
Research and development expenditure	1,127	196
Interest income	(555)	(6)

* At 31 July 2001, there were no forfeited contributions available to the Group to reduce contributions of the staff retirement scheme in future years (2000: Nil).

Notes to Financial Statements

31 July 2001

6. FINANCE COSTS

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
Interest on bank and other loans wholly repayable within five years	6,793	2,373
Interest on Convertible Note	288	–
	<u>7,081</u>	<u>2,373</u>
Interest capitalised	–	(941)
	<u>7,081</u>	<u>1,432</u>

7. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
Fees:		
Executive directors	120	–
Non-executive directors	–	–
Independent non-executive directors	200	–
	<u>320</u>	<u>–</u>
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	33	22
Retirement scheme contributions	–	–
Discretionary bonuses	–	–
	<u>33</u>	<u>22</u>
	<u>353</u>	<u>22</u>

Notes to Financial Statements

31 July 2001

7. DIRECTORS' REMUNERATION (Continued)

The remuneration paid by the Group to the two (period ended 31 July 2000: One) executive directors of the Company for the year ended 31 July 2001 analysed on an individual basis was approximately HK\$120,000 (2000: Nil) and HK\$33,000 (2000: HK\$22,000), respectively. The remuneration paid by the Group to the two independent non-executive directors of the Company for the year ended 31 July 2001 was HK\$100,000 each (2000: Nil). The remaining three (2000: Six) directors did not receive any remunerations during the year/period.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, share options to subscribe for 3,000,000 shares and 3,200,000 shares in the Company of HK\$0.05 each at an exercise price of HK\$0.55 per share were granted to two executive directors of the Company, respectively. In the absence of a readily available market value for options on the shares in the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in director's remuneration in respect of the share options granted.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (period ended 31 July 2000: One) directors, whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2000: Four) highest paid, non-director employees during the year are as follows:

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
Employees:		
Salaries and allowances	236	62
Retirement benefits costs	5	–
	<u>241</u>	<u>62</u>

Notes to Financial Statements

31 July 2001

8. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid, non-director employees whose remuneration fell within the following band is as follows:

	Number of employee	
	2001	2000
Nil - HK\$1,000,000	<u>2</u>	<u>4</u>

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

During the year, share options to subscribe for 400,000 shares in the Company of HK\$0.05 each at an exercise price of HK\$0.55 per share, were granted to one of the highest paid, non-director employees of the Group. In the absence of a readily available market value for options on the shares in the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in the remuneration of the highest paid employees in respect of the share options granted. No share options were granted to the five highest paid, non-director employees of the Group for the period ended 31 July 2000.

9. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2000: Nil).

No provision for PRC corporate income tax has been made as all the PRC subsidiaries of the Group are exempted from corporate income tax for the first two profitable years of operation and thereafter, are entitled to a 50% relief from corporate income tax for the following three years.

The Group did not have any significant unprovided deferred tax liabilities in respect of the year (2000: Nil).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$28,766,000, a loss of HK\$2,118,000 has been dealt with in the financial statements of the Company for the period from 22 September 2000 (date of incorporation) to 31 July 2001.

Notes to Financial Statements

31 July 2001

11. EARNINGS PER SHARE

	Year ended 31 July 2001 HK\$'000	Period ended 31 July 2000 HK\$'000
Earnings:		
Net profit from ordinary activities attributable to shareholders	28,766,000	637,000
Adjustment for interest paid related to the Convertible Note	242,000	–
Earnings used in diluted earnings per share calculation	<u>29,008,000</u>	<u>637,000</u>
Shares:		
Weighted average number of ordinary shares used in the basic earnings per share calculation	432,602,740	400,000,000
Weighted average number of ordinary shares: Assumed issued at no consideration on deemed exercise of the Convertible Note outstanding during the year	15,052,084	–
Assumed issued at no consideration on deemed exercise of all options outstanding during the year	419,260	–
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>448,074,084</u>	<u>400,000,000</u>

The weighted average number of shares used to calculate both the current year and the prior period's earnings per share includes the pro forma issued share capital of the Company on the basis that the Reorganisation had been completed on 25 July 1999. The weighted average number of shares used in the current year's earnings per share calculation also includes the 100,000,000 shares issued for the public listing.

Notes to Financial Statements

31 July 2001

12. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:							
At beginning of year	64,927	25,429	322	1,995	417	6,507	99,597
Additions	21	1,444	140	1,767	490	8,592	12,454
Disposals	-	(9)	(1)	-	(12)	-	(22)
Reclassification	2,920	4,981	-	-	-	(7,901)	-
At 31 July 2001	67,868	31,845	461	3,762	895	7,198	112,029
Accumulated depreciation:							
At beginning of year	748	1,059	12	189	34	-	2,042
Provided during the year	3,052	3,177	84	620	123	-	7,056
Disposals	-	(1)	-	-	(1)	-	(2)
At 31 July 2001	3,800	4,235	96	809	156	-	9,096
Net book value:							
At 31 July 2001	64,068	27,610	365	2,953	739	7,198	102,933
At 31 July 2000	64,179	24,370	310	1,806	383	6,507	97,555

The cost of leasehold land and buildings comprises:

	Group	
	2001 HK\$'000	2000 HK\$'000
PRC:		
Long term leases	6,858	6,766
Medium term leases	61,010	58,161
	67,868	64,927

Notes to Financial Statements

31 July 2001

12. FIXED ASSETS (Continued)

The relevant title certificate for a piece of land (the "Land") with a cost of approximately HK\$146,000 and a net book value of approximately HK\$141,000 as at 31 July 2001 is in the process of being transferred to one of the Company's subsidiaries. For the purpose of these consolidated financial statements, the Land is stated at its net book value as at 31 July 2001 as, in the opinion of the directors, no impairment to the value of the Land has occurred. In the opinion of the Group's PRC legal adviser, there is no legal impediment for the Group to obtain good title to the Land after compliance with the outstanding requisite procedures.

At 31 July 2001, certain of the Group's leasehold land and buildings situated in the PRC, plant and machinery and construction in progress with net book values of approximately HK\$52,558,000 (2000: HK\$44,562,000), HK\$20,833,000 (2000: HK\$18,982,000) and nil (2000: HK\$6,886,000), respectively, were pledged to secure general banking facilities granted to the Group.

Company

	Computer equipment HK\$'000
Cost:	
At beginning of period	–
Additions	15
	<hr/>
At 31 July 2001	15
	<hr/>
Accumulated depreciation:	
At beginning of period	–
Provided during the period	1
	<hr/>
At 31 July 2001	1
	<hr/>
Net book value:	
At 31 July 2001	14
	<hr/>

Notes to Financial Statements

31 July 2001

13. INTANGIBLE ASSETS

Group	Technical know-how HK\$'000	Production licences HK\$'000	Total HK\$'000
Cost:			
At beginning of year and at 31 July 2001	11,642	10,060	21,702
Accumulated amortisation:			
At beginning of year	277	366	643
Provided during the year	1,663	2,195	3,858
	1,940	2,561	4,501
Net book value:			
At 31 July 2001	9,702	7,499	17,201
At 31 July 2000	11,365	9,694	21,059

14. INTERESTS IN SUBSIDIARIES

	Company HK\$'000
Unlisted shares, at cost	42,876
Due from subsidiaries	26,764
Due to a subsidiary	(2,209)
	<u>67,431</u>

The amounts due from/to the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries as at 31 July 2001 are set out in note 26 to the financial statements.

Notes to Financial Statements

31 July 2001

15. INTEREST IN AN ASSOCIATE

	Group	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	3,297	–
Amount due from an associate	708	–
	<u>4,005</u>	<u>–</u>

The unlisted shares represent the Group's 31.85% equity interest in a company, Guizhou Concord Mt. Green Pharmaceutical Co., Ltd, which was established in the People's Republic of China on 19 June 2001 with paid-up share capital of RMB10,000,000. The production plant is now under construction and it will commence business once the construction is completed. The principal activity of the associate will be the manufacture and sale of human drugs - infusion medicine.

No equity accounting is prepared for the associate as there were no material transactions during the period from 19 June 2001 to 31 July 2001.

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

16. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	8,524	3,222
Work in progress	6	210
Finished goods	9,895	3,837
	<u>18,425</u>	<u>7,269</u>

Notes to Financial Statements

31 July 2001

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	15,252	8,389	4,416	–
Time deposits	40,702	–	40,702	–
	<u>55,954</u>	<u>8,389</u>	<u>45,118</u>	<u>–</u>
Less: Pledged bank deposits	(26,277)	–	(18,270)	–
	<u>29,677</u>	<u>8,389</u>	<u>26,848</u>	<u>–</u>

The time deposits of approximately HK\$40,702,000 (2000: Nil) are deposited with a related company of the Group, which is a bank. In addition, bank balances and time deposits of HK\$8,007,000 (2000: Nil) and HK\$18,270,000 (2000: Nil), are pledged as securities for certain banking facilities, respectively.

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Note	Group	
		2001 HK\$'000	2000 HK'000
Bank loans:			
Secured		30,239	17,804
Unsecured		35,230	25,255
		<u>65,469</u>	<u>43,059</u>
Other loan - secured		2,449	–
Current portion of bank and other loans	19	<u>67,918</u>	<u>43,059</u>

Notes to Financial Statements

31 July 2001

19. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans:				
Secured	60,769	48,334	–	–
Unsecured	35,230	25,255	–	–
	<u>95,999</u>	<u>73,589</u>	<u>–</u>	<u>–</u>
Other loan, secured	2,449	–	–	–
Convertible Note, unsecured	26,741	–	26,741	–
	<u>125,189</u>	<u>73,589</u>	<u>26,741</u>	<u>–</u>
Bank loans repayable:				
Within one year or on demand	65,469	43,059	–	–
In the second year	1,413	–	–	–
In the third to fifth years, inclusive	29,117	30,530	–	–
	<u>95,999</u>	<u>73,589</u>	<u>–</u>	<u>–</u>
Other loan repayable:				
Within one year or on demand	2,449	–	–	–
Convertible Note repayable:				
In the third to fifth years, inclusive	26,741	–	26,741	–
	<u>125,189</u>	<u>73,589</u>	<u>26,741</u>	<u>–</u>
Portion classified as current liabilities - note 18	(67,918)	(43,059)	–	–
Long term portion	<u>57,271</u>	<u>30,530</u>	<u>26,741</u>	<u>–</u>

Notes to Financial Statements

31 July 2001

19. INTEREST-BEARING BANK AND OTHER LOANS *(Continued)*

The Group's bank and other loans bear interest at rates ranging from 6% to 11% and 10% per annum, respectively.

At 31 July 2001, the Group's secured loans of approximately HK\$60,769,000 (2000: HK\$48,334,000) and the other loan of HK\$2,449,000 (2000: Nil) were secured by certain of the Group's leasehold land and buildings, plant and machinery and construction in progress with net book values of approximately HK\$52,558,000 (2000: HK\$44,562,000), HK\$20,833,000 (2000: HK\$18,982,000) and nil (2000: HK\$6,886,000), and bank deposits of HK\$26,277,000, respectively.

At 31 July 2001, the Group's unsecured loans amounting to HK\$4,898,400 were guaranteed by Mr. Wong Sai Chung or his related companies. Please refer to note 27 to the financial statements.

The redeemable convertible note (the "Convertible Note") is unsecured, held by the Company's immediate holding company - Concord Pharmaceutical Technology (Holdings) Limited, a company wholly owned by Mr. Wong Sai Chung, and bears interest at 3% per annum. The Convertible Note, which is transferable in whole (but not in part), confers the right on the holder to convert such note into shares of the Company at a conversion price of HK\$0.55 per share. The conversion period is from 10 October 2001 to 9 October 2004. The exercise in full of the conversion right would, with the present capital structure of the Company, result in the issue of approximately 48,619,564 additional ordinary shares of HK\$0.05 each.

The Convertible Note may be converted in full or in part (in amounts of not less than HK\$2 million on each conversion) of the principal amount thereof; any new shares issued as a result of the exercise of the conversion right attaching to the Convertible Note shall rank *pari passu* in all respects with the existing shares. The holder of the Convertible Note is not entitled to attend or vote at any general meeting of the Company.

Concord Pharmaceutical Technology (Holdings) Limited has given an undertaking to the Stock Exchange that it will not exercise the conversion right attaching to the Convertible Note which may result in the public holding of the Company's shares falling below 20%.

Further details of the Convertible Note are set out in the prospectus issued by the Company dated 28 March 2001.

Notes to Financial Statements

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20. DUE TO A SHAREHOLDER

The amounts due to a shareholder, Mr. Wong Sai Chung, were unsecured and interest-free. On 23 March 2001, all amounts due to Mr. Wong Sai Chung were aggregated and the resulting balance of approximately HK\$53,845,000 was assigned to Concord Pharmaceutical Technology (Holdings) Limited, the immediate holding company. Thereafter, an amount of HK\$27,104,000 was capitalised in exchange for shares in China Biotechnology Limited, a subsidiary of the Company. The remaining balance of HK\$26,741,000 was converted into an unsecured 3% redeemable convertible note due 22 March 2004. Future details of the Convertible Note are set out in note 19 to the financial statements.

21. SHARE CAPITAL

Shares

The following changes in the authorised and issued share capital of the Company took place during the period from 22 September 2000 (date of incorporation) to 31 July 2001:

- (a) On 22 September 2000, the authorised share capital of the Company was HK\$387,000 divided into 387,000 ordinary shares of HK\$1.00 each. One share was allotted and issued at par;
- (b) On 23 March 2001, the authorised share capital of the Company was increased from HK\$387,000 to HK\$50,000,000 by the creation of 49,613,000 additional ordinary shares of HK\$1.00 each, ranking *pari passu* in all respects with the then existing issued share capital of the Company;
- (c) On 23 March 2001, pursuant to the Reorganisation described in note 1 to the financial statements, the Company acquired through China Biotechnology Limited the entire issued share capital of Seechain Investment Limited and its subsidiaries in consideration for the allotment and issue of four new ordinary shares of HK\$1.00 each, all credited as fully paid;
- (d) On 23 March 2001, the authorised share capital of 50,000,000 ordinary shares of HK\$1.00 each of the Company was sub-divided into 1,000,000,000 ordinary shares of HK\$0.05 each by subdividing each ordinary share of HK\$1.00 each of the Company into 20 ordinary shares of HK\$0.05 each.
- (e) On 23 March 2001, the Company issued 399,999,900 shares of HK\$0.05 each at par credited as fully paid to its then shareholders by way of capitalisation of the sum of HK\$19,999,995 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new share issue by way of placing and public offer on 10 April 2001.
- (f) On 10 April 2001, pursuant to the listing of the Company's shares on the GEM of the Stock Exchange, the Company issued by way of the share placement and the public offer (the "Share Offer") 100,000,000 ordinary shares of HK\$0.05 each at HK\$0.55 per share for a total cash consideration of HK\$55,000,000 before the related issue expenses.

Notes to Financial Statements

31 July 2001

21. SHARE CAPITAL (Continued)

Shares (Continued)

The following is a summary of the above movements in the authorised and issued share capital of the Company:

	<i>Notes</i>	Number of shares authorised	Number of shares issued	Paid-up nominal value HK\$'000
On incorporation, share issued at par	<i>(a)</i>	387,000	1	–
Increase in authorised share capital	<i>(b)</i>	49,613,000	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of China Biotechnology Limited	<i>(c)</i>	–	4	–
Share subdivision	<i>(d)</i>	950,000,000	95	–
Capitalisation issue to be paid up from the share premium arising from the public share issue	<i>(e)</i>	–	399,999,900	–
Pro forma share capital as at 31 July 2000		1,000,000,000	400,000,000	–
New issue on public listing	<i>(f)</i>	–	100,000,000	5,000
Capitalisation of share premium account as set out above	<i>(e)</i>	–	–	20,000
Share capital as at 31 July 2001		<u>1,000,000,000</u>	<u>500,000,000</u>	<u>25,000</u>

Share options

On 23 March 2001, the shareholders adopted a Pre-IPO Share Option Scheme (the “Pre-IPO Plan”). The principal terms of the Pre-IPO Plan are set out in the Company’s prospectus dated 23 March 2001. Pursuant to the terms of the Pre-IPO Plan, 7,400,000 options to subscribe for ordinary shares in the Company were granted to a number of grantees, including two executive directors on 23 March 2001.

Notes to Financial Statements

31 July 2001

21. SHARE CAPITAL (Continued)

Share options (Continued)

Summary details of these options are as follows:

Grantees	Date of grant	Exercise period of the options	Exercise price per share HK\$	Number of underlying shares
Two executive directors	23 March 2001	10/10/2001 – 9/4/2011	0.55	6,200,000
Three employees	23 March 2001	10/10/2001 – 9/4/2011	0.55	1,200,000
				<u>7,400,000</u>

The above options granted under the Pre-IPO Plan will not be exercisable within the first six months from the date of listing of the shares on the GEM (10 April 2001).

The exercise in full of the outstanding share options under the Pre-IPO Plan would, under the present capital structure of the Company, result in the issue of 7,400,000 additional ordinary shares of HK\$0.05 each for aggregate proceeds of HK\$4,070,000 before the related share issue expenses.

On 23 March 2001, the Company adopted a share option scheme (the “Share Option Scheme”) under which the board of directors of the Company may, at their discretion, grant options to full time employees of the Group, including any executive directors of the Company and any of its subsidiaries, to subscribe for shares in the Company in accordance with the provisions in the Share Option Scheme.

Under the Share Option Scheme, the subscription price of the shares over which the options are granted will be determined by the directors, but may not be less than the higher of the closing price of the shares on the GEM of the Stock Exchange on the date of the grant of the option, or the average closing price of the shares on the GEM of the Stock Exchange for the five business days immediately preceding the date of grant of the option, and the nominal value of the shares. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant. The maximum number of shares to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and have been granted under the Pre-IPO Plan, when aggregated with any shares subject to any other schemes of the Company, shall not exceed 30% of the shares in issue from time to time which have been duly allotted and issued. The Share Option Scheme became effective upon the listing of the Company on the GEM of the Stock Exchange on 23 March 2001 for a period of ten years. Further details of the Share Option Scheme are set out in the Company’s prospectus dated on 28 March 2001.

No options were granted under the Share Option Scheme during the year.

Notes to Financial Statements

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22. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ accumulated losses) HK\$'000	Total HK\$'000
Group						
At beginning of period	–	–	–	–	–	–
Arising on acquisition of the PRC subsidiaries	–	–	8,968	–	–	8,968
Exchange realignments	–	–	–	25	–	25
Profit for the period	–	–	–	–	637	637
At 31 July 2000 and 1 August 2000	–	–	8,968	25	637	9,630
Arising on acquisition of additional interests in Sichuan Future Industrial Co. Ltd. and Chengdu Mt. Green Pharmaceutical Co. Ltd.	–	–	(8,344)	–	–	(8,344)
Issue of shares	50,000	–	–	–	–	50,000
Capitalisation issue of shares	(20,000)	–	–	–	–	(20,000)
Share issue expenses	(12,008)	–	–	–	–	(12,008)
Arising on capitalisation of loan	–	–	27,104	–	–	27,104
Profit for the year	–	–	–	–	28,766	28,766
At 31 July 2001	17,992	–	27,728	25	29,403	75,148
Company						
Issue of shares	50,000	–	–	–	–	50,000
Capitalisation issue of shares	(20,000)	–	–	–	–	(20,000)
Share issue expenses	(12,008)	–	–	–	–	(12,008)
Arising on acquisition of subsidiaries	–	42,876	–	–	–	42,876
Loss for the period	–	–	–	–	(2,118)	(2,118)
At 31 July 2001	17,992	42,876	–	–	(2,118)	58,750

The capital reserve arising on capitalisation of a loan represents the difference between the amount due to Mr. Wong Sai Chung capitalised and the nominal value of shares issued by China Biotechnology Limited. Further details of the capitalisation of a loan are set out in note 20 to the financial statements.

The contributed surplus of the Company represents the excess of the combined net asset value of the subsidiaries acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account may be distributed to shareholders under certain circumstances.

Notes to Financial Statements

31 July 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	38,898	2,573
Interest income	(555)	(6)
Loss on disposal of fixed assets	19	–
Depreciation	7,056	2,042
Amortisation of intangible assets	3,858	643
Increase in trade receivables	(86,051)	(11,299)
Increase in inventories	(11,156)	(219)
Decrease/(increase) in prepayments and other receivables	167	(6,750)
Increase in trade payables	25,740	4,203
Increase in notes payable	16,014	–
Increase/(decrease) in accruals and other payables	13,133	(7,709)
Net cash inflow/(outflow) from operating activities	<u>7,123</u>	<u>(16,522)</u>

Notes to Financial Statements

31 July 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year/period

	Share capital and share premium HK\$'000	Bank, other loans and Convertible Note HK\$'000	Due (from)/to shareholders HK\$'000	Minority interests HK\$'000	Pledged bank deposits HK\$'000
At beginning of period	–	–	–	–	–
Cash inflow from					
financing activities, net	–	10,562	27,104	16,785	–
Arising on acquisition of subsidiaries	–	63,027	–	15,602	–
Share of profit for the period	–	–	–	504	–
Exchange realignments	–	–	–	20	–
Balance at 31 July 2000 and 1 August 2000	–	73,589	27,104	32,911	–
Cash inflow/(outflow) from					
financing activities, net	–	24,859	26,741	(9,593)	(26,277)
Proceeds from shares issued					
on initial public offering	55,000	–	–	–	–
Share issue expenses	(12,008)	–	–	–	–
Arising on acquisition of additional equity interests in subsidiaries	–	–	–	(13,229)	–
Share of profit for the year	–	–	–	3,051	–
Arising on capitalisation of loan	–	–	(27,104)	–	–
Arising on issue of the Convertible Note	–	26,741	(26,741)	–	–
Balance at 31 July 2001	42,992	125,189	–	13,140	(26,277)

Notes to Financial Statements

31 July 2001

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries during the prior period:

	Period ended 31 July 2000 HK\$'000
Net assets acquired:	
Fixed assets	87,310
Intangible assets	21,702
Cash and cash equivalents	1,951
Trade receivables	4,090
Prepayments and other receivables	10,319
Inventories	7,050
Trade payables	(7,851)
Accruals and other payables	(19,151)
Bank loans	(63,027)
Minority interests	(15,602)
	<hr/>
	26,791
Capital reserve arising on acquisition	(8,968)
	<hr/>
	17,823
	<hr/>
Satisfied by:	
Cash	17,823
	<hr/>
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary:	
Cash paid	(17,823)
Cash and cash equivalents acquired	1,951
	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(15,872)
	<hr/>

(d) Major non-cash transactions

- (i) The Reorganisation of the Group in preparation for the public listing of the Company's shares involved the acquisition of certain subsidiaries by the issuance of new shares in the Company as further explained in notes 1 and 21 to the financial statements.
- (ii) As further explained in note 20 to the financial statements, on 23 March 2001, the shareholder loan of HK\$27,104,000 was capitalised in exchange for shares in China Biotechnology Limited, a subsidiary of the Company. The remaining balance of HK\$26,741,000 was converted into an unsecured 3% redeemable convertible note (the "Convertible Note") due 22 March 2004.

Notes to Financial Statements

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24. CONTINGENT LIABILITIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Guarantees of banking facilities granted to a subsidiary	<u>18,270</u>	<u>–</u>

The Group did not have any significant contingent liabilities at the balance sheet date.

25. COMMITMENTS

At the balance sheet date, the Group had the following material commitments:

(a) Capital commitments

	Group	
	2001 HK\$'000	2000 HK\$'000
Authorised and contracted for	11,110	2,779
Authorised, but not contracted for	–	577
	<u>11,110</u>	<u>3,356</u>

(b) Commitments under operating leases

Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	<u>150</u>	<u>–</u>

(c) Save as disclosed above, the Group and the Company had no material capital and financial commitments as at 31 July 2001.

Notes to Financial Statements

31 July 2001

26. SUBSIDIARIES

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Biotechnology Limited	Cayman Islands 7 July, 2000	US\$3	100%	–	Investment holding
Glazier Limited	British Virgin Islands 25 June, 1999	US\$2	–	100%	Investment holding
Seechain Investments Limited	British Virgin Islands 12 August, 1999	US\$1	–	100%	Investment holding
Sichuan Future Industrial Co., Ltd.	The People's Republic of China 15 September, 1999	RMB23,980,000	–	91%	Manufacture and distribution of medical caps
Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd.	The People's Republic of China 26 May 2000	RMB4,000,000	–	91%	Manufacture and distribution of veterinary drugs
Chengdu Mt. Green Pharmaceutical Co., Ltd.	The People's Republic of China 29 May 2000	RMB18,000,000	–	91%	Manufacture and distribution of infusion medicine

Notes to Financial Statements

31 July 2001

27. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year/period:

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Interest income received from a related company	(i)	476	–
Commission paid to a related company	(ii)	179	–
Licence fee for office premises paid to Frank Union Limited	(iii)	400	–
Interest paid to Concord Pharmaceutical Technology (Holdings) Limited	(iv)	288	–
		1,343	–

Mr. Wong Sai Chung, a director and beneficial shareholder of the Company, is also a director and beneficial shareholder of the above companies.

- (i) The interest income was generated from the accounts held by a related company, which is a bank. The deposit interest rate was 5.625% per annum.
- (ii) The commission paid relates to a guarantee for a RMB15 million bank loan provided by a related company, which is a bank, to a subsidiary of the Company. The commission was charged based on the market rate.
- (iii) The licence fee relates to the use of certain portion of the premises located at 14th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong. The licence fee was charged at HK\$50,000 per month.
- (iv) The interest paid relates to the Convertible Note of HK\$26,741,000 issued on 23 March 2001 to the immediate holding company, Concord Pharmaceutical Technology (Holdings) Limited. The interest was charged at 3% per annum. Further details of the Convertible Note are set out in note 19 to the financial statements.

In the opinion of the directors, all the above transactions were conducted in the normal course of the Group's business.

Notes to Financial Statements

31 July 2001

27. RELATED PARTY TRANSACTIONS *(Continued)*

In addition to the above related party transactions, during the year, Mr. Wong Sai Chung and his related companies provided guarantees as follows:

- (i) A personal guarantee of US\$284,335 was granted to a subsidiary of the Company.
- (ii) A corporate guarantee of RMB5,011,600 was granted by Chengdu Concord Telecommunication Development Co. Limited to a subsidiary of the Company. Mr. Wong Sai Chung is a director and controlling shareholder of Chengdu Concord Telecommunication Development Co. Limited.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 October 2001.