

CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT

2002

** For identification purposes only*

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

HIGHLIGHTS

- Turnover generated from manufacturing of medical caps for infusion medicine, veterinary drugs and human drugs for the three months ended 31 October 2001 was approximately HK\$43,036,000, representing an increase of approximately 21.7% as compared with the corresponding period in 2000.
- Profit attributable to shareholders for the three months ended 31 October 2001 was approximately HK\$4,196,000, representing a decrease of approximately 33.7% as compared with profit of the corresponding period in 2000. The reduction in profit was mainly attributable to the temporary suspension of production for modifications of the workshops of Sichuan Future and Chengdu Yuan Heng in preparation for the GMP assessments. The production capacities of Sichuan Future and Chengdu Yuan Heng had returned to the normal levels as at 31 October 2001.
- Basic earnings per Share amounted to approximately HK\$0.84 cents for the three months ended 31 October 2001.

RESULTS

The board (the “Board”) of directors (the “Directors”) of China Medical Science Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 October 2001 together with comparative unaudited figures for the corresponding period in 2000 are as follows:

	<i>Note</i>	For the three months ended 31 October	
		2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	43,036	35,376
Cost of sales		(29,946)	(22,307)
Gross profit		13,090	13,069
Other revenue		606	188
Selling & distribution expenses		(2,717)	(2,517)
General & administration expenses		(2,983)	(1,933)
Other operating expenses		(971)	(566)
PROFIT FROM OPERATING ACTIVITIES		7,025	8,241
Finance costs		(2,413)	(1,288)
PROFIT BEFORE TAXATION		4,612	6,953
Taxation	3	-	-
PROFIT BEFORE MINORITY INTERESTS		4,612	6,953
Minority interests		(416)	(628)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		4,196	6,325
EARNINGS PER SHARE			
- Basic	4	0.84 cents	1.58 cents
- Diluted	4	0.80 cents	N/A

Notes:

1. Group reorganisation and basis of presentation

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 group reorganisation completed on 23 March 2001 (the "Reorganisation") in order to rationalise the Group's structure in preparation for the public listing of the shares (the "Shares") of the Company on GEM, the Company became the holding company of the companies now comprising the Group. Further details of the Reorganisation are set out in the prospectus of the Company dated 28 March 2001 (the "Prospectus"). The Shares have been listed on GEM since 10 April 2001.

The unaudited consolidated results 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 the financial periods presented, rather than from the date of their acquisition pursuant to the Reorganisation on 23 March 2001.

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

2. Turnover

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

	For the three months ended 31 October	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of human drugs - infusion medicine	23,694	10,162
Sale of veterinary drugs	5,335	7,960
Sale of packaging materials for infusion medicine	14,007	17,254
	<u>43,036</u>	<u>35,376</u>

3. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the three months ended 31 October 2001. (2000: Nil)

No provision for PRC corporate income tax has been made for the three months ended 31 October 2001 as all the subsidiaries of the Group in the PRC are exempted from the PRC corporate income tax for the first two profitable years of operation and 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 period ended 31 October 2001. (2000: Nil)

4. Basic earnings per Share

The calculation of the basic earnings per Share for the three months ended 31 October 2001 is based on the unaudited net profit attributable to shareholders of the Company of approximately HK\$4,196,000 (2000: net profit of approximately HK\$6,325,000) and the weighted average number of 500,000,000 ordinary Shares in issue during the period ended 31 October 2001 (2000: pro forma number of 400,000,000 ordinary Shares deemed to be in issue).

The calculation of diluted earnings per Share for the three months ended 31 October 2001 is based on the Group's unaudited net profit from ordinary activities attributable to shareholders of the Company of approximately HK\$4,399,000, after adjustment of interest saved upon deemed conversion of all convertible notes (the "Convertible Note") upon listing, and the weighted average number of 500,000,000 ordinary Shares outstanding plus the respective weighted average number of 48,619,564 ordinary Shares deemed to be issued as if the Convertible Note had been converted upon the listing of the Shares on GEM.

Diluted earnings per Share for the three months ended 31 October 2000 had not been calculated as no diluting events existed during that period.

5. Reserves

Movements in the reserves of the Group during the three months ended 31 October 2001 are summarised as follows:

	Share premium	Capital reserve	Exchange fluctuation reserve	Retained profit	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period	17,992	27,728	25	29,403	75,148
Profit for the period	-	-	-	4,196	4,196
At end of period	<u>17,992</u>	<u>27,728</u>	<u>25</u>	<u>33,599</u>	<u>79,344</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 October 2001 (2000: Nil).

BUSINESS REVIEW AND OUTLOOK

ANALYSIS OF RESULTS

Turnover generated from manufacturing of medical caps for infusion medicine, veterinary drugs and human drugs for the three months ended 31 October 2001 was approximately HK\$43,036,000, representing an increase of approximately 21.7% as compared with the turnover of the corresponding period in 2000. At the same time, the Group's profit from operations amounted to approximately HK\$7,025,000. Profit attributable to shareholders for the three months ended 31 October 2001 was approximately HK\$4,196,000, representing a decrease of approximately 33.7% as compared with the profit of the corresponding period in the previous year.

During the period under review, the production of Sichuan Future and Chengdu Yuan Heng had been temporarily suspended for a period of three weeks and two months respectively due to modifications of production workshops in preparation for the Good Manufacturing Practice (the "GMP") assessments, resulting in lesser sales and profit for the period. With the obtaining the GMP accreditation and completion of the modification of workshops in this period, the production capacities of Sichuan Future and Chengdu Yuan Heng had returned to the normal levels as at 31 October 2001.

REVIEW OF OPERATIONS

Chengdu Mt. Green Pharmaceutical Co., Ltd. ("Chengdu Mt. Green")

1. As stated in paragraph 2 above, the sale of infusion medicine by Chengdu Mt. Green for the 3-month period under review amounted to approximately HK\$23,694,000, representing approximately 133.2% higher than that of the corresponding period in the preceding year.
2. 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 achieved economies of scale. Chengdu Mt. Green implemented certain quality assurance measures in accordance with the requirements of the GMP.
3. During the period under review, Chengdu Mt. Green proceeded to trial production of various new products and adjustments of product lines. With the joint efforts from various departments, the current production capacity for infusion medicine packaged into PVC bags has risen to the level of one million bags per month.

4. Chengdu Mt. Green implemented various measures to reduce production costs effectively. It continued strict control on raw materials management and packaging material outsourcing resulting in reduced inventory. The company also selected a core group of suppliers and strengthened its negotiation position.

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

1. As stated in paragraph 2 above, the sale of packaging materials for infusion medicine for 3-month period under review amounted to approximately HK\$14,007,000, representing a decrease of approximately 18.8% from the sales recorded in the corresponding period in the preceding year. This is primarily due to the temporary suspension of production for a period of three weeks in the quarter under review for the reason stated below.
2. On 22 November 2001, the State Drug Administration of the PRC convened a national conference in Chengdu, the PRC on “Regulations for the Monitoring and Management of Quality of Packaging Materials for Drugs” and “Rules for Production Quality Management of Aluminium-Plastic Medical Caps”. During the conference, Sichuan Future completely demonstrated its quality of product standardization and achievement of economies of scale in production. The presentation of Sichuan Future drew a high level of interest in its products from the participants and led to opportunities for Sichuan Future to meet with various valuable and potential customers.
3. The setting up of the GMP standards under the guiding hand of Sichuan Future progressed smoothly. A draft, after several amendments, was verified 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 of the PRC for certification currently scheduled to be before the end of this year. As result of setting up the GMP standards, the existing workshops was suspended and re-engineered for a period of three weeks. This caused negative impact on the operational results of the period under review. As at 31 October 2001, the production capacity of Sichuan Future had resumed to the normal level.
4. 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, yet its profit margin is higher. Currently, the product is being launched into the market.

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

As stated in paragraph 2 above, sale of veterinary drugs for the quarter under review amounted to approximately HK\$5,335,000, a decrease of approximately 33% from the corresponding period in the preceding year. This is primarily attributable to the temporary suspension of production of Chengdu Yuan Heng as described below.

The primary task of Chengdu Yuan Heng for the period was to pass the GMP certification, so that the operation of the company could move a major step forward. During the period, 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).
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.
3. Chengdu Yuan Heng was qualified as a GMP enterprise in respect of the existing five production lines in two workshops on 25 September 2001. Among the five enterprises which participated in the certification in the Sichuan province, Chengdu Yuan Heng passed the assessment with the highest results of 93.3 points. Furthermore, Chengdu Yuan Heng passed both the static and dynamic testing in one assessment, reflecting on its superiority.

During the period under review, the company had fully completed the GMP certifications and the re-engineering of the new workshops. In doing so, production was suspended for a period of two months, resulting in lesser sales and profitability. With the GMP accreditation behind us, the Directors expect to return to normal production schedule with much improved productivity.

Research and Development

Medicine for human consumption:

Applications for three new infusion medicines, Pentoxifylline and Glucose Injection, Isosorbide 5 Monoitrate Glucose Injection, and Fluorouracil and Sodium Chloride Injection were submitted to the State Drug Administration of the PRC, whereas the clinical testing of Levofloxacin Hydrochloride Injection is progressing smoothly.

Veterinary drugs:

During the period under review, Yuan Heng had obtained the pharmaceutical registrations in respect of six new veterinary drugs, namely 球痢淨 200ml, 球痢淨 50ml, 球痢淨 100ml, 快克威注射液, 炎黃之尊注射液, and 應激抗病維他散. It also obtained another pharmaceutical registrations in respect of 高效普林混黑劑, 三效粉針 and 克蟲優注射液 in November 2001.

OUTLOOK

With successful GMP accreditation of Chengdu Yuan Heng, resumption of normal production of Chengdu Yuan Heng and Sichman Future, we anticipate that the Group will resume to operate smoothly in the future.

COMPETING INTEREST

None of the directors, the management shareholders, significant shareholders and substantial shareholders (as defined in the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”)) of the Company had any interest in any business, which competes or may compete with the business of the Group.

DIRECTORS’ INTERESTS IN THE SHARES

As at 31 October 2001, the interests of the Directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) or as otherwise notified to the Company pursuant to the minimum standards of dealings by the directors as referred to Rule 5.4 of the GEM Listing Rules were as follows:

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

Note:

- (a) The shareholding interest attributable to Mr. Wong Sai Chung, an executive director, in 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.

Saves as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests 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 has granted options to the following Directors to subscribe for Shares 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 October 2001 are as follows:

Name of Director	Number of underlying shares
Mr. Wong Sai Wa	3,200,000
Mr. Kwan Kai Cheong	3,000,000

The exercise period (the "Exercise Period") of the Pre-IPO Plan is set out under the paragraph headed "Share Option Schemes" below. Details of the Pre-IPO Plan are set out in the Prospectus.

Pursuant to the Convertible Note issued by the Company on 23 March 2001, the following Director has personal interests in the Convertible Note convertible into the Shares:

Name of Director	Outstanding principal	Number of underlying shares
Mr. Wong Sai Chung (<i>Note</i>)	HK\$26,740,760	48,619,564

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

Principal terms of the Convertible Note have been set out in the Prospectus.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under 18 years of age to acquire benefits by means of acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTION SCHEMES

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

Pursuant to the Pre-IPO Plan, five employees of the Group (including two executive directors) were conditionally granted options on 23 March 2001 to subscribe for an aggregate of 7,400,000 shares, which upon exercise in full will result in 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. All of these options have a duration of 10 years from the date of grant of the options, each is exercisable in accordance with their terms of issue after 6 months from the date of listing of the Shares on GEM, but each shall lapse if the relevant grantee ceases to be employed by the relevant companies. The option of 400,000 shares granted to Ms. Yip Yuk Lin, the former qualified accountant of the Group, was cancelled on 17 August 2001 due to her resignation from the Group. Therefore, the number of outstanding share options granted to the employees is 7,000,000 shares. The aggregate amount of HK\$3,850,000 will be generated if all share options are fully exercised. As at 31 October 2001, none of the Directors or the employees of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

On 23 March 2001, the Company adopted a Share Option Scheme (the “Share Option Scheme”) under which the Board may at their discretion, grant options to full time employees of the Group, including any executive directors of any member of the Group, to subscribe for shares in accordance with the provisions in the Share Option Scheme. The Share Option Scheme became effective upon the listing of the Shares on GEM on 23 March 2001 for a period of ten years. Further details of the Share Option Scheme are set out in the Prospectus. No options were granted under the Share Option Scheme during the year.

Save as disclosed herein, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any director, chief executive and substantial shareholder of the Company or their respective associates.

SUBSTANTIAL SHAREHOLDERS

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

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

Note: Concord Pharmaceutical Technology (Holdings) Limited is a wholly-owned subsidiary of Concord Business Management Limited, the entire issued share capital of which 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 of the Company held by Concord Pharmaceutical Technology (Holdings) Limited.

SPONSOR'S INTEREST

Pursuant to the Sponsor's agreement dated 3 May 2001 entered into between the Company and Core Pacific - Yamaichi Capital Limited (the "Sponsor"), the Sponsor has received and will receive a fee for acting as the Company's retained sponsor for the period from 3 May 2001 to 31 July 2003.

Saved as disclosed above, as at 31 October 2001, the Sponsor, its directors, employees or associates, did not have any interest in the securities of the Company and any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

AUDIT COMMITTEE

The Company set up an audit 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 two independent non-executive directors of the Company.

PURCHASE, SALE OR REDEMPTION

During the three months ended 31 October 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Wong Sai Chung
Chairman

Hong Kong, 11 December, 2001