

CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

SECOND 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

- For the six months ended 31 January 2002, turnover generated from manufacturing of medical caps for infusion medicine, veterinary drugs and human drugs amounted to approximately HK\$89,965,000, representing an increase of approximately 16.1% as compared with the corresponding period in 2001.
- Profit attributable to shareholders for the six months ended 31 January 2002 amounted to approximately HK\$9,621,000, compared with a profit of HK\$11,456,000 recorded by the Group to the corresponding period ended 2001.
- Basic earning per share amounted to approximately 1.92 cents for the six months ended 31 January 2002.

RESULTS

The Board of Directors (the “Board”) 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 and six months ended 31 January 2002 together with comparative unaudited figures for the corresponding periods in 2001 are as follows:

Consolidated Profit and Loss Account — Unaudited

	<i>Note</i>	For the three months ended 31 January		For the six months ended 31 January	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	2	46,928	42,113	89,965	77,489
Cost of sales		<u>(30,883)</u>	<u>(27,364)</u>	<u>(60,829)</u>	<u>(49,672)</u>
Gross profit		16,045	14,749	29,136	27,817
Other revenue	2	332	118	937	306
Selling and distribution expenses		(2,136)	(3,609)	(4,853)	(6,126)
General and administration expenses		(4,743)	(2,958)	(7,726)	(4,891)
Other operating expenses		<u>(1,073)</u>	<u>(1,363)</u>	<u>(2,043)</u>	<u>(1,929)</u>
PROFIT FROM OPERATING ACTIVITIES		8,425	6,937	15,451	15,177
Finance costs		<u>(2,400)</u>	<u>(1,297)</u>	<u>(4,813)</u>	<u>(2,585)</u>
PROFIT BEFORE TAXATION	3	6,025	5,640	10,638	12,592
Taxation	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT BEFORE MINORITY INTEREST		6,025	5,640	10,638	12,592
Minority interest		<u>(601)</u>	<u>(508)</u>	<u>(1,017)</u>	<u>(1,136)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>5,424</u>	<u>5,132</u>	<u>9,621</u>	<u>11,456</u>
EARNINGS PER SHARE	5				
— Basic		<u>1.08 cents</u>	<u>1.28 cents</u>	<u>1.92 cents</u>	<u>2.86 cents</u>
— Diluted		<u>1.03 cents</u>	<u>N/A</u>	<u>1.83 cents</u>	<u>N/A</u>

Consolidated Balance Sheet

		As at 31 January 2002 HK\$'000 (Unaudited)	As at 31 July 2001 HK\$'000 (Audited)
	<i>Note</i>		
NON-CURRENT ASSETS			
Fixed assets	6	117,825	102,933
Intangible assets		15,272	17,201
Interest in associates		14,393	4,005
		<u>147,490</u>	<u>124,139</u>
CURRENT ASSETS			
Trade receivables	7	122,685	101,440
Inventories		21,722	18,425
Prepayment and other receivables	7	25,172	16,902
Pledged bank deposits		58,344	26,277
Cash and cash equivalents		2,071	29,677
		<u>229,994</u>	<u>192,721</u>
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		81,200	67,918
Trade payables	8	47,025	37,794
Note payable	8	30,775	16,014
Accruals and other payables	8	41,224	24,575
		<u>200,224</u>	<u>146,301</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>29,770</u>	<u>46,420</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>177,260</u>	<u>170,559</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans		57,271	57,271
NET ASSETS BEFORE MINORITY INTERESTS		119,989	113,288
Minority interests		10,220	13,140
		<u>109,769</u>	<u>100,148</u>
CAPITAL AND RESERVES			
Issued capital	9	25,000	25,000
Reserves	10	84,769	75,148
		<u>109,769</u>	<u>100,148</u>

Consolidated Statement of Recognized Gains and Losses

	For the six month ended 31 January 2002 HK\$'000	For the six month ended 31 January 2001 HK\$'000
	<i>Note</i>	<i>(Unaudited)</i>
Net profit for the period attributable to shareholders	9,621	11,456
Total recognised gains and losses	9,621	11,456
Goodwill eliminated directly against reserves	—	(8,344)
	<u>9,621</u>	<u>3,112</u>

Condensed Consolidated Cash Flow Statement

	For the six month ended 31 January 2002 HK\$'000
	<i>(Unaudited)</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	19,913
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(2,922)
TAX PAID, NET	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(8,451)
NET CASH INFLOW BEFORE FINANCING	8,540
NET CASH OUTFLOW FROM FINANCING	(13,714)
DECREASE IN CASH AND CASH EQUIVALENTS	(5,174)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	7,245
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>2,071</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Bank and cash balances	2,071
	<u>2,071</u>

1. Group reorganization 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") to rationalize the Group's structure in preparation for the listing of the shares 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 Company's shares have been listed on the GEM since 10 April 2001.

The results of the Group 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 Reorganization 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 and Revenue

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.

Revenue from the following activities has been included in turnover:

	For the three months ended 31 January		For the six months ended 31 January	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of human drugs — infusion medicine	23,820	19,244	47,514	29,406
Sale of veterinary drugs	9,065	8,802	14,401	16,762
Sale of packaging materials for infusion medicine	14,043	14,067	28,050	31,321
Turnover	46,928	42,113	89,965	77,489
Interest income	331	14	934	21
Sundry income	1	104	3	285
Other revenue	332	118	937	306
Total revenue for the period	47,260	42,231	90,902	77,795

3. Profit from ordinary activities before taxation

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

	For the three months ended 31 January		For the six months ended 31 January	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	30,883	27,364	60,829	49,672
Depreciation of fixed assets	1,967	1,825	3,904	3,469
Amortisation of intangible assets	965	965	1,929	1,929
Interest income	(331)	(14)	(934)	(21)

4. Taxation

No provision for Hong Kong profits tax has been made, as the Group had no assessable profits arising in Hong Kong during the period ended 31 January 2002. (2001: Nil)

No provision for PRC corporate income tax has been made for the six months ended 31 January 2002 as all the subsidiaries of the Group in the PRC are exempted from 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 January 2002. (2001: Nil)

5. Basic earnings per share

The calculation of the basic earnings per share for the three months and six months ended 31 January 2002 is based on the unaudited net profit attributable to shareholders of approximately HK\$5,424,000 and approximately HK\$9,621,000 respectively (three months and six months ended 31 January 2001: net profit of approximately HK\$5,132,000 and approximately HK\$11,456,000 respectively) and the weighted average number of 500,000,000 ordinary shares for the three months and six months ended 31 January 2002 (three months and six months ended 31 January 2001: 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 and six months ended 31 January 2002 is based on the Group's unaudited net profit attributable to shareholders of approximately HK\$5,626,000 and approximately HK\$10,025,000 respectively, 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.

Diluted earnings per share for the three months and six months ended 31 January 2001 had not been calculated as no diluting events existed during that period.

6. Fixed Assets

During the period from 1 August 2001 to 31 January 2002, the Group had additions to buildings, plant and equipment and motor vehicles in the amount of approximately HK\$18,795,000.

7. Trade and Other Receivables

	31 January 2002	31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade receivables	122,685	101,440
Other receivables and prepayment	25,172	16,902
	<u>147,857</u>	<u>118,342</u>

The Group allows an average credit period ranging from 30 days to 90 days to its trade receivables. The ageing analysis of trade receivables, net of provision for bad debt, is as follows:

	31 January 2002	31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Within 3 months	58,839	77,359
Between 4 to 6 months	40,233	18,823
Between 7 to 12 months	22,910	4,773
Over 1 year	703	485
	<u>122,685</u>	<u>101,440</u>

8. Accounts Payable, Note Payable and Accrued Expenses

	31 January 2002	31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Trade payable	47,025	37,794
Note payable	30,775	16,014
Other payable and accrued expenses	41,224	24,575
	<u>119,024</u>	<u>78,383</u>

The ageing analysis of trade payable is as follows:

	31 January 2002	31 July 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Within 3 months	16,621	17,621
Between 4 to 6 months	12,757	3,010
Between 7 to 12 months	17,647	17,163
Over 1 year	—	—
	<u>47,025</u>	<u>37,794</u>

9. Share Capital

	No. of shares		Nominal value	
	At 31 January 2002 '000	At 31 July 2001 '000	At 31 January 2002 HK\$'000	At 31 July 2001 HK\$'000
Authorised Ordinary share of HK\$0.05 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>50,000</u>	<u>50,000</u>
Issued and fully paid Ordinary share of HK\$0.05 each	<u>500,000</u>	<u>500,000</u>	<u>25,000</u>	<u>25,000</u>

10. Reserves

Movements in the reserves of the Group during the six months ended 31 January 2002 are summarised as follows:

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1 August 2001	17,992	27,728	25	29,403	75,148
Profit for the period	—	—	—	9,621	9,621
At 31 January 2002	<u>17,992</u>	<u>27,728</u>	<u>25</u>	<u>39,024</u>	<u>84,769</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2002. (2001: Nil)

BUSINESS REVIEW AND OUTLOOK

ANALYSIS OF RESULTS

For the three months and six months ended 31 January 2002, turnover generated from manufacturing of medical caps for infusion medicine, veterinary drugs and human drugs amounted to approximately HK\$46,928,000 and HK\$89,965,000 respectively, representing an increase of approximately 11.4% and 16.1% respectively as compared with the turnover of the corresponding period in 2001. At the same time, the Group's profit from operations amounted to approximately HK\$8,425,000 and HK\$15,451,000 respectively for the three months and six months under review. Profit attributable to shareholders for the three months and six months ended 31 January 2002 was approximately HK\$5,424,000 and HK\$9,621,000 respectively.

With the obtaining the GMP accreditation and completion of the modification of workshops in the first quarter, the productivity of Sichuan Future and Chengdu Yuan Heng returned to the normal level. Turnover for the second quarter ended 31 January 2002 increased by approximately 9% as compared with the first quarter ended 31 October 2001.

Liquidity and financial resources

The Group's operation was primarily financed with its cash revenues derived from operating activities, supplier credit, and bank loans. As at 31 January 2002, the Group had net current assets of approximately HK\$29,770,000. The liquidity position, at the Director's opinion, was sufficient to meet the need for operation and investment in future.

Capital commitments and significant investments

As at 31 January 2002, the Group did not have any significant capital commitments and significant investments.

Material acquisitions/disposals

The Group had no material acquisitions or disposals during the period under review.

Employee Information

At 31 January 2002, the Group employed 681 employees. They were remunerated in accordance with their performance and market condition. Other employer benefits available for eligible employees include a provident fund scheme, medical scheme and casualty insurance.

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

1. The sale of infusion medicine by Chengdu Mt. Green for the 3-month ended 31 January 2002 amounted to approximately HK\$23,820,000, representing approximately to 23.8% higher than that of the corresponding period in the preceding year.
2. During the period under review, Chengdu Mt. Green continued to reform its production equipment through re-engineering of water control system, bottling system and disinfectant system. These further improved the productivity of Chengdu Mt. Green.
3. With the implementation of a new unified tendering system on raw material and packaging material, Chengdu Mt. Green achieved cost saving on material purchased. As a result, Chengdu Mt. Green has since been benefited by a core group of suppliers and strengthened its quality control.
4. The existing arrangement under which Chengdu Mt. Green procures aluminium plastic caps for its infusion medicine products is currently under review. Negotiations between Chengdu Mt. Green and Sichuan Future are taking place with a view to concluding an agreement to formalise the arrangement, having regard to prevailing market condition, other commercial factors and applicable regulatory requirements. Chengdu Mt. Green is also considering other possible alternative arrangements. Appropriate disclosures will be made if any such arrangement, when concluded, would give rise to any disclosure obligation under applicable regulatory requirements.

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

1. The sale of packaging materials for infusion medicine for the 6-month period under review amounted to approximately HK\$28,050,000, representing a decrease of approximately 10.4% from the sales recorded in the corresponding period in the preceding year. This is primarily due to the temporary suspension of production in the first quarter. However, with the re-engineering of the workshop, the production capacities of Sichuan Future already returned to the normal in the second quarter.
2. Through the enhancement of production management and operation mode, Sichuan Future offered a wide variety of products to the market, thereby meeting the need of the customers. Sichuan Future implemented the performance-based remuneration measure, resulting in a growth in productivity.
3. The new product, an aluminium-plastic cap with high molecule material coating under the joint co-operation with Sichuan Lian Da, Sichuan High Molecule Material Institute and South-West Aluminium, was well received since it was launched. Sichuan Future widely applied the new innovation into the existing products and its production facilities since obtaining the patent of “接橋型鋁塑組合蓋”, “開花型鋁塑組合蓋” “選蓋裝置” and “鋁塑組合蓋裝置” from the State. The application for two new patents is under process.

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

With the completion of the GMP certification and the re-engineering of the new workshops, sale of veterinary drugs for the quarter under review amounted to approximately HK\$9,065,000, approximately an increase of 69.9% as compared with the first quarter.

The improvement in production efficiency and upgrading of existing workshops allowed Yuen Hang to rapidly expand its production capacity as well as to reduce its failure rate. The Chinese medicine extraction workshop is currently operating smoothly. The ingredients of Kang Du Te Ling Injection and Re Bu Pa Injection are mainly extracted and developed by the Chinese medicine extraction workshop. These products will provide an additional source of income to the company.

During the period under review, Chengdu Yuan Heng continued to expand the production capacity, with additions of two new production workshops — orally administrated liquid medicine workshop and powdered medicine workshop. Equipment installation on both workshop were completed, and production is expected to start at the end of March 2002.

Research and Development

The R&D projects undertaken by Chengdu Mt. Green and Chengdu Yuan Heng are progressing well. During the period under review, the clinical testing of Levofloxacin Injection and Sorbide Mononitrate Injection were completed and were submitted to the provincial level SDA for review.

For veterinary drugs, Procaine Benzylpenicillin for Injection, Avermectini Injection and Injection Streptomycin Sulfate Composita obtained pharmaceutical registration. Application for registration for four other veterinary drugs is currently being made.

OUTLOOK

The Group will continue to maintain steady growth in the business operation, gradually introducing mass production, thereby realising the target of product diversification in order to optimise the economies of scale. In addition, the Group will concentrate more on strategic alliances in order to widen its scope of development and expansion, and will be actively engaged in exploring the bio-pharmaceutical business. The Directors believe that the various efforts made by the Group have formed a solid foundation for its development in the future and will increase shareholder's value.

USE OF NET PROCEEDS FROM THE ISSUING OF THE NEW SHARES AND/OR FROM OTHER RESOURCES

Business scope	Project	Amount used for the six months ended 31 January 2002 as disclosed in the Prospectus (HK\$ million)	Actual amount used for the six months ended 31 January 2002 (HK\$ million)
Research and development	Recruitment of talented professionals	0.2	0.2
	Development/introduction of new products	0.5	1.4
Production	Construction of production facilities in accordance with GMP standards	7.5	5.5
	Purchase of production equipment	0	0.9
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	0	0.5
	Investment in Chengdu Mt. Green Pharmaceutical Co. Ltd-Non-PVC bags branch factory	0	9.6

Up to 31 January 2002, the Group invested approximately HK\$9.6 million for establishment of 成都青山利康醫葯技術有限公司 previously named as Chengdu Mt. Green Pharmaceutical Co. Ltd-Non-PVC bags branch factory in the Prospectus, 34% of the issued share capital of which is owned by the Group. During the period under review, the Group further invested approximately HK\$0.5 million in Guizhou Concord Mt. Green Pharmaceutical Co., Ltd and also utilized approximately HK\$8 million on production facilities and research and development.

For the forward looking period, the Company will continue to further apply the unused proceeds of approximately HK\$11 million for setting up more manufacturing facilities with other potential joint venture partners in the PRC.

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 six months ended 31 January 2002 as disclosed in the Prospectus	Actual business progress for the six months ended 31 January 2002
Research and Development	Continue development effort on existing product lines and new products.	Consistent with the Prospectus.
	Continue to jointly develop with three research institutes in the PRC on the application of Chinese medicine in the existing infusion medicine.	Consistent with the Prospectus.
	Continue to develop 6 infusion medicines with an overseas pharmaceutical corporation or research institutes and seek registration with the relevant authorities.	During the period under review, the clinical testing of two infusion medicine were completed and were submitted to the provincial level SDA for review.

Business objective for the six months ended 31 January 2002 as disclosed in the Prospectus

Actual business progress for the six months ended 31 January 2002

Registration of new drugs

The Group had obtained pharmaceutical registration and production approvals from the relevant authorities in the PRC in respect of one new infusion medicines for human consumption, Ciprofloxacin Lactate Injection.

— Infusion Medicine: Obtain registration of various additional infusion medicine from the relevant authorities.

— Veterinary drugs: Obtain the registration of two veterinary drugs from the relevant authorities.

The Group had also obtained the pharmaceutical registration and production approvals from the relevant government authorities in the PRC in respect of ten new veterinary drugs, namely Diclazurial Solution 100ml, Diclazurial Solution 20ml, Diclazurial Solution 50ml, Vitamini Composita, Metronidazole Injection, Oxytetracycline Injection, Procaine Benzylpenicillin for Injection, Avermectini Injection, Injection Streptomycin Sulfate Composita (2400 Thousand), and Injection Streptomycin Sulfate Composita (1200 Thousand).

— Drugs introduced through ABC LifeScience Inc. - Commence to apply for registration of at least one generic drugs selected.

Business objective for the six months ended 31 January 2002 as disclosed in the Prospectus

Actual business progress for the six months ended 31 January 2002

The Group is in the processing of selecting the generic drugs for application of registration.

Production

Chengdu Mt. Green

Chengdu Mt. Green Pharmaceutical Co. Ltd - Non-PVC bags branch factory in full operation with maximum production capacity of 10 million Non-PVC bags of infusion medicine per annum.

The construction of Non-PVC bags branch factory is progressing smoothly. The trial production is expected to commence in or around July 2002.

Obtain construction permit and commence construction of Chengdu Mt. Green pharmaceutical Co. Ltd - branch factory Mianyang.

The directors decided to postpone the investment.

Identify suitable location of Chengdu Mt. Green Pharmaceutical Co. Ltd. - No 1 branch factory Guiyang.

Establishment of Chengdu Mt. Green Pharmaceutical Co, Ltd - No 1 branch factory Guiyang was ahead of the planned schedule. The No.1 branch factory Guiyang is currently under construction and the trial production is expected to commence before June 2002.

	Business objective for the six months ended 31 January 2002 as disclosed in the Prospectus	Actual business progress for the six months ended 31 January 2002
Sichuan Future	Obtain GMP certification.	During the period under review, the production facilities underwent modification; the GMP certification will be processed in 2002.
	Continue to cooperate with SDA to assist for the setting up the GMP standard.	Consistent with the Prospectus.
Chengdu Yuan Heng	Obtain the GMP approval for the two existing production lines of Chengdu Yuan Heng.	Consistent with the Prospectus.
	Obtain construction permit and commence construction of the new vaccine factory.	Still pending for the approval from the local authority.
Sales and distribution	Expand marketing efforts and product promotion activities in the South East Asia.	Under review and to be in conjunction with our expansion pace in the South East Asia.
	Continue to distribute the existing product lines through the Group's sale force and its existing distribution channels.	Independent distributors and direct sales remained the principal marketing channels for our products.
	Continue to expand the Group's customer base and strengthen relationships with customers in the South East Asia.	Under negotiation with few potential co-partners, however, there is no agreement reached during the period under review.

	Business objective for the six months ended 31 January 2002 as disclosed in the Prospectus	Actual business progress for the six months ended 31 January 2002
Partnership and alliance activities	Continue active search for strategic alliances.	Continue to locate potential pharmaceutical companies, however, no agreement was reached during the period under review.
	Select potential companies which are complementary to business of the Group and commence merger and acquisition negotiation.	Same as above.

COMPETING INTEREST

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

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 January 2002, 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 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 January 2002 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 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 shares of the Company:

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

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

Principal terms of the Convertible Note are 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 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.

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 Grop (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 shares issue expense. 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 certified accountant, was cancelled on 17 August 2001 due to her resignation from the Group. Therefore, as at 31 January 2002, the number of share options granted to the employees remains 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 January 2002, none of the Directors or 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 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. The Share Option Scheme became effective upon the listing of the Company on the 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 January 2002, 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 January 2002, 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.

COMPLIANCE WITH BOARD PRACTICES AND PROCEDURES

All of the recommendations and guideline of the Board of Best Practice issued by the Stock Exchange have been complied with by the Company.

PURCHASE, SALE OR REDEMPTION

During the six months ended 31 January 2002, 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 Wa
Executive Director

Hong Kong, 13 March, 2002