CHINA MEDICAL SCIENCE LIMITED
中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL 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 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 enquiries, 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.

Contents

2
Corporate Information

3-9
Chairman's Statement

10-14
Profiles of Directors and Senior Management

15-19
Comparison of Business Objectives
with Actual Business Progress

20
Use of Net Proceeds from the
Issuing of the New Shares
and/or from Other Resources

21-30
Report of the Directors

31
Report of the Auditors

32
Consolidated Profit and Loss Account

33-34
Consolidated Balance Sheet

35-36
Consolidated Cash Flow Statement

37
Balance Sheet

38-74
Notes to Financial Statements

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 *(Deceased)*
Tsim Tak Lung, Dominic

AUDIT COMMITTEE

Professor Chiang Chiu Ping, Raymond *(Deceased)*
Tsim Tak Lung, Dominic

COMPLIANCE OFFICER

Kwan Kai Cheong

COMPANY SECRETARY

Yu Ling Ling, ACIS, ACS

QUALIFIED ACCOUNTANT

Hui Hok Sun, ACCA, AHKSA

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China, PRC
Bank of Communications, 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
36th Floor
Cosco Tower
Grand Millennium Plaza
183 Queen's 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

FINANCIAL REVIEW

The Group was primarily engaged in the manufacture of human drugs, veterinary drugs and medical caps for infusion medicine. For the year ended 31 July 2002, the audited consolidated turnover of the Group amounted to approximately HK$180,925,000, representing a decrease of approximately 1.7% as compared with the turnover of last year. The Group's profit from operating activities amounted to approximately HK$33,361,000 (2001: approximately HK$39,226,000) for the year under review. The decline was mainly attributable to the temporary suspension of production of Sichuan Future Industrial Co., Ltd and Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd during the year to reengineer their production workshop so as to conform to Good Manufacturing Practice (the "GMP") standard in the PRC. In addition, the price control for at least five hundred pharmaceutical products implemented by the State during the year further affected the profit margin of the human drugs.

SEGMENT INFORMATION

For the year under review, the Group is principally engaged in three business segments, which included human drugs, veterinary drugs and packaging materials for infusion medicine. All the activities of the business segments were mainly based in the PRC. The Group presented its segment information based on the nature of the operations and the products provided.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its operation primarily by its cash revenue derived from operating activities, supplier credit, and bank loans. At 31 July 2002, the Group had net current assets of approximately HK$65,578,000. In view of the Group's current liquidity position, the Directors are confident that the Group will have sufficient funds to meet the need for its operation and investment in future.

At 31 July 2002, the Group's borrowings comprised mainly short-term bank loans of approximately HK$64,723,000 (2001: approximately HK$65,469,000), long-term bank loans of approximately HK$39,117,000 (2001: approximately HK$30,530,000) and other loan and convertible note (the "Convertible Note") of approximately HK$29,190,000 (2001: approximately HK$29,190,000). The aggregate borrowings were approximately HK$133,030,000 (2001: approximately HK$125,189,000) of which approximately HK$64,276,000 (2001: approximately HK$63,218,000) were secured by bank deposits and by assets of certain subsidiaries. At 31 July 2002, the amount of banking facilities utilised was approximately HK$173,105,000 (2001: approximately HK$112,013,000). Except for the 3% Convertible Note, the Group's bank and other loans bear interest at the prevailing market rate.

The Group continues to adhere to prudent treasury policy with all bank deposits in either Hong Kong Dollars or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

GEARING RATIO

At 31 July 2002, the gearing ratio (total borrowing (including notes payable) after the deduction of bank balance as a percentage of total assets) was approximately 28.8% (2001: approximately 26.9%).

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs cost in Renminbi. The Directors consider that the impact of foreign exchange exposure of the Group is minimal and therefore, no hedging against foreign currency exposure is considered necessary.

CHARGES ON GROUP ASSET

At 31 July 2002, certain of the Group's leasehold land and buildings situated in the PRC, plant and machinery with net book values of approximately HK$55,842,000 (2001: approximately HK$52,558,000), and approximately HK$17,327,000 (2001: approximately HK$20,833,000) respectively and bank deposits of approximately HK$51,187,000 (2001: approximately HK$26,277,000) were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 July 2002, the Group did not have any significant contingent liabilities (2001: nil).

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

At 31 July 2002, the Group had outstanding capital commitments of approximately HK$15,953,000 (2001: approximately HK$11,110,000) and except as disclosed in the financial statement, the Group did not have any significant investments.

FUTURE PLAN FOR INVESTMENT

Except as disclosed in the financial statements, at 31 July 2002, the Group had no future plans for material investments and capital assets.

MATERIAL ACQUISITIONS/DISPOSALS

During the year, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies.

EMPLOYEE INFORMATION

At 31 July 2002, the Group had 839 employees (2001: 771) in Hong Kong and in the PRC. The total remuneration to employees, including director's emoluments amounted to approximately HK$9,911,000 for the year ended 31 July 2002 (2001: approximately HK$8,761,000). Remuneration is determined by reference to market condition, the performance, qualification and experience of individual employee. Other benefits include contributions to statutory mandatory provident fund scheme and medical coverage to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

CHENGDU MT. GREEN PHARMACEUTICAL CO., LTD. ("CHENGDU MT. GREEN")

During the year under review, Chengdu Mt. Green emphasised in the strengthening of quality management to conform to GMP standard, and also adopted effective cost control measure to enhance operational efficiency, thereby optimising economies of scale.

The sale of infusion medicine by Chengdu Mt. Green for the year under review amounted to approximately HK$95,125,000, representing approximately 3.6% higher than that of corresponding period in the preceding year.

Through the implementation of the unified purchasing system on raw material and packaging material, Chengdu Mt. Green achieved cost saving on material purchase. Moreover in the year of 2002, the company placed more emphasis on technological and process reform so as to improve the overall quality standard of the company.

To maintain sustainable development of production capacity, Chengdu Mt. Green established a strategic OEM co-operation with the customers to substantially expand the market share of its products. The advantages from such strategic co-operations in short term may not be significant. However, this will ultimately ensure the company produces additional infusion medicines product lines.

In November 2001, the company has entered into an agreement with 成都市醫用塑料廠 and 成都利康實業有限公司 to establish a joint venture for the production of medical infusion medicine in PVC bags, with a production capacity of 30 million bags per annum. The procedure of GMP certification is expected to accomplish by the end of 2002. With the addition of infusion medicine in PVC bags, the market reach of the company will be significantly expanded and it will be greatly beneficial to the development of new products in the future.

SICHUAN FUTURE INDUSTRIAL CO., LTD. ("SICHUAN FUTURE")

During the year under review, the sale of packaging materials for infusion medicine amounted to approximately HK$52,433,000, representing a decrease of approximately 10.8% from the sale recorded for last year. This is primarily due to the temporary suspension of production in the first quarter for modification of workshops. However, with the re-engineering of the workshop, Sichuan Future further strengthened its operating functions. Sichuan Future achieved considerable growth in the production and market share of the products as compared with the previous year.

SICHUAN FUTURE INDUSTRIAL CO., LTD. ("SICHUAN FUTURE") *(continued)*

The policy on the "use of medical aluminium-plastic caps" was not properly enforced by the State, which eventually led the whole market with weak management. Illegal manufacturers pounded the market with inferior products. The seriousness of dump sale brought some negative impact on the sale of our product. In order to cope with this unfavourable market condition, the company regained the faiths of the customers through changes in sales strategy by providing the better after-sale service and promoting the products with better quality.

On 22 November 2001, the State Drug Administration of the PRC convened a national conference in Chengdu 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 market.

During the year under review, the new aluminium-plastic caps with high molecular material coating and multi-coloured transparent aluminium-plastic caps with new nano-technology, which were co-developed under the joint efforts with University of Sichuan, Sichuan High Molecule Material Institute and South-west Aluminium have been well recognized on the market since they were launched.

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, Sichuan Future widely applied its technology into the production facilities and process reform. In July 2002, Sichuan Future's instant heating system has been granted a patent right by the relevant authority in the PRC while application for its ultrasonic heating system is in process.

CHENGDU VIKING YUAN HENG PHARMACEUTICAL CO., LTD. ("CHENGDU YUAN HENG")

Chengdu Yuan Heng recorded turnover of approximately HK$33,367,000 and net profit of approximately HK$7,975,000 for the year under review, representing a decrease of approximately 24.4% as compared with the net profit of the previous year. The decrease is mainly due to the temporary suspension of production for two months to accomplish the procedures of GMP certification.

Chengdu Yuan Heng was qualified as a GMP enterprise in respect of the existing five production lines in two workshops on 25 September 2001, and obtained "GMP Qualified Enterprise" certificate in November 2001.

Three new production workshops were built, namely the powdered medicine workshop, the orally administrated liquid medicine workshop and the Chinese medicine extraction workshop. The Chinese medicine extraction workshop has been in operation since the second half of 2001. In relation to the powdered medicine workshop and the orally administrated liquid medicine workshop, air-purifying works and overall infrastructures have been completed, but the equipments are still under preparation. The orally administrated liquid medicine workshop has already been put into trial production. The latter workshops are expected to operate in full capacity in the next quarter.

CHENGDU VIKING YUAN HENG PHARMACEUTICAL CO., LTD. ("CHENGDU YUAN HENG") *(continued)*

During the year under review, the acquisition of Sichuan Veterinary Medicine Factory (the "Sichuan Veterinary") has reached final stage. It is expected that the acquisition will be completed in the next quarter. Currently, the company is in process of legal registration procedures of the changes of shareholding, legal representative, nature of business, registered address, and business name. The plant for Sichuan Veterinary is scheduled for completion and production by 2003.

RESEARCH AND DEVELOPMENT

Infusion medicine:

The R&D projects undertaken by Chengdu Mt. Green are progressing well. During the year under review, the company has also established strategic alliance with ABC LifeScience. Through the co-operation, new products are expected to be produced commercially with resultant economic benefits for the company in the near future.

Veterinary drug:

During the year under review, 15 products had obtained the pharmaceutical registrations, namely Diclazuril Solution 50 ml, Diclazuril Solution 100 ml, Diclazuril Solution 200 ml, Vitamini Composita, Metronidazole Injection, Oxytetracycline Injection, Procaine Benzylpenicillin for Injection, Avermectini Injection 5 ml, Avermectini Injection 25 ml, Injection Streptomycin Sulfate Composita (120M), Injection Streptomycin Sulfate Composita (240M), Sulfamonomethoxine Sodium Injection, Robenidine Hydrochliride Premix, Compound Sulfavhlorpyridazine Sodium Powder, and Jieretuishaozhen. Also Chengdu Yuan Heng had obtained other pharmaceutical registrations in respect of Qingtianfenzhen and Jiaoyangfenzhen in August 2002.

BUSINESS STRATEGY

The Group will adopt the strategies as follows to ensure a promising future in the Bio-pharmaceutical industry in the PRC.

1. Strengthening internal management of the Group, effectively adjusting various measures including staff performance appraisal and incentive mechanisms, thereby creating a solid base for achieving better management efficiency.

2. Promoting the utilization rate of the existing production facilities through the technical innovation to cope with the need for mass production.

3. Taking advantage of its production process which conforms to GMP standards, and its established sales network to improve overall resource allocation.

4. Continue to take a market-oriented approach and place more emphasis on the expansion of market share associated with major products.

BUSINESS STRATEGY *(continued)*

5. Continue to develop new competitive products that both suit modern pharmaceutical consumption and meet local and international market demand, thereby creating the economic benefits to the Group.

6. In addition to grasping the investment opportunities currently available, the Group will concentrate more on strategic alliance through mergers and acquisitions with potential companies, which are complementary to business of the Group so as to increase economic effectiveness.

SALES AND MARKETING

1. Chengdu Mt. Green further upgraded its sales management strategy by adopting new marketing approaches. First, by replacing the regional manager system with larger regional agent system, more emphasis has been placed on effective cost control, minimizing the credit risk, and expanding the market share of our products. Additionally, the company established contractual sale system in which appropriate pharmaceutical companies will be contracted as sole agents in restricted areas with favourable terms. This is helping to further increase the market share of the new products. Under the newly implemented agent system, the company placed more emphasis on direct sale to pharmaceutical companies and hospitals.

   During the year under review, the sales network of Chengdu Mt. Green spread across 29 cities in the PRC. The customer base and market coverage is further extended to Henan Province, Guangxi Province and Shanghai in the PRC.

2. Sichuan Future implemented changes by adopting a regional sales management system, and strengthening market efforts through the implementation of new commission-based remuneration measure. During the year under review, four sales regions have been set up in the PRC including the South Western region, the region of Zhengzhou, Jiangxi and Wuhan so that the sales personnel can provide better after-sale services and secures the market share of the company.

   Additionally, the company adopted a market-oriented approach by primarily focusing on high-end products, which are complemented by low-mid range products. Ultimately, all products ranges step toward high-end products. The sales network will be expanded by primarily targeting at hospital market; thereby enabling the market share to remain at over 20%. This will further create a foundation for future development and bring economic benefits for the company in near future.

3. The sales networks of Chengdu Yuan Heng have further strengthened, with its sales team expanded to 19 salesmen. The sales from provinces outside Sichuan currently amounted to approximately 70% of the total sales of the company. It is expected that this trend will increase in the future.

OUTLOOK

With the steady growth of economy, the ongoing reform of medical system in the PRC and China's entry into the World Trade Organisation, the PRC market continues to provide a golden business opportunity for pharmaceutical manufacturers. The Group believes the enormous potential of the bio-tech and medical packaging businesses will ensure rapid growth of the Group, thus providing a fundamental improvement to operating results and bringing satisfactory returns to shareholders.

The PRC government recently has been actively promoting the rationalization of veterinary drug industry. In order to target for the long-term business development in the veterinary drug industry, the accomplishment of GMP certification become inevitable. The State Ministry of Agriculture has currently adopted a series of measures to rationalise veterinary drug manufacturer, and firmly reiterated the policy for GMP certification to be strictly enforced by 2005. Meanwhile, the approval for technology transfer for non-GMP manufacturer is completely suspended with effective from 19 June 2002. At present, amongst hundreds of veterinary drug manufacturers, only five manufacturers including Chengdu Yuan Heng are qualified for product application. Taking advantage of favourable policies imposed by the State, we believe there will be a promising growth in the operations of Chengdu Yuan Heng.

In respect of the medical packaging business, apart from the existing products which are already on the market, Sichuan Future will continue to expand the sales network of multi-colored transparent aluminium-plastic caps with new nano-technology, which are self-developed by the company. Compared with similar products of other manufacturers in the PRC, the price is more competitive. The multi-colored transparent aluminium-plastic caps with new nano-technology are predicted to have huge market potential and will bring substantial profit contribution to the Group. Sichuan Future will continue its efforts towards new achievements while developing the existing products, so as to maintain the business growth. With the advancement of production facilities and expansion of sales networks, the Group will further enhance its ability to achieve the diversification of products and realize the continued development in the future.

Looking ahead, the Company is very confident on the prospects for its operation in the PRC bio-pharmaceutical market. It will grasp the investment opportunities currently available for high growth business. It will also explore further opportunities for mergers, acquisition, and potential investment and to explore new profitable business to create a foundation for future development.

EXECUTIVE DIRECTORS

Mr. Wong Sai Chung, aged 52, 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 59, 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 52, 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 53, 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 28, 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 51, joined the Group in September 2000. Currently, Professor Chiang was 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 had taught in renowned universities in the United States and Hong Kong for over 20 years. He had 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 held 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 55, 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 39, 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 46, 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.

INTERNATIONAL ADVISORY COMMITTEE *(continued)*

Dr. Xiao Min (肖敏), aged 43, 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 42 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 59, 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 38, 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 38, 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 42, 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 38, 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 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.

SENIOR MANAGEMENT *(continued)*

Chengdu Mt. Green *(continued)*

Mr. Qin Xiao Feng, aged 39, is the administrative manager of Chengdu Mt. Green. He holds a bachelor 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 32, is an assistant to general manager of Chengdu Mt. Green. He holds a bachelor 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 29 is an assistant to general manager of Chengdu Mt. Green. She holds a bachelor 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 39, 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 50, 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 56, 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 51, 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.

SENIOR MANAGEMENT *(continued)*

Chengdu Yuan Heng

Mr. Xiong Nan, aged 56, 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 45, 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 35, 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 (江蘇省畜牧獸醫葯專校) with a diploma on veterinary drugs (獸葯專業課程) 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 35, 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. He also holds a degree of LL.B. (Hons.) from London University. Dr. Chan joined the Group in July 2000.

Ms. Hui Hok Sun, aged 35, is the qualified accountant of the Company. Ms. Hui was appointed in place of Mr. Cheng Kan Hei on 5 July 2002. She is a member of both the Association of Chartered Certified Accountants and Hong Kong Society of Accountants with more than 10 years experience in the accounting field.

Ms. Yu Ling Ling, aged 37, 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 year ended 31 July 2002 as disclosed in the Prospectus	Actual business progress for the year ended 31 July 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 six infusion medicines with an overseas pharmaceutical corporation or research institutes and seek registration with the relevant authorities	During the year under review, the clinical testing of two infusion medicines were completed and were submitted to the provincial level SDA for review.
	Registration of new drugs	
	— Infusion Medicine: Obtain registration of various additional infusion medicine from the relevant authorities	The Group had obtained pharmaceutical registration and production approvals from the relevant authorities in the PRC in respect of one new infusion medicine for human consumption Ciprofloxacin Lactate Injection.

	Business objective for the year ended 31 July 2002 as disclosed in the Prospectus	Actual business progress for the year ended 31 July 2002
Research and Development *(continued)*	Registration of new drugs *(continued)*	
	— 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 fifteen new veterinary drugs, namely Diclazurial Solution 50ml, Diclazurial Solution 100ml, Diclazurial Solution 200ml, Vitamini Composita, Metronidazole Injection, Oxytetracycline Injection, Procaine Benzylpenicillin for Injection, Avermectini Injection 5ml, Avermectini Injection 25ml, Injection Streptomycin Sulfate Composita (120M), Injection Streptomycin Sulfate Composita (240M), Sulfamonomethoxine Sodium Injection, Robenidine Hydrochliride Premix, Compound Sulfavhlorpyridazine Sodium Power and Jieretuishaozhen.
	— Drugs introduced through ABC LifeScience Inc. — Commence to apply for registration of at least one generic drugs selected	The Group is in the processing of selecting the generic drugs for application of registration.
	— Apply for registration of several vaccines from the relevant authorities	Deferred due to the delay of an acquisition. The Group is currently in the process of finalising the acquisition of Sichuan Veterinary.

Comparison of Business Objectives with Actual Business Progress

	Business objective for the year ended 31 July 2002 as disclosed in the Prospectus	Actual business progress for the year ended 31 July 2002
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 the Non-PVC bags branch factory is progressing smoothly. The trial production is expected to commence in or around December 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 completed as planned. However, the Group subsequently reviewed the overall development plan and determined that the newly constructed plant did not meet the overall planning of the Group. Accordingly, the company entered into an agreement with 貴州省醫葯（集團）有限責任公司六枝醫葯採購供應站 being a shareholder of Chengdu Mt. Green Pharmaceutical Co. Ltd. — No. 1 branch factory Guiyang on 19 April 2002 to transfer all its 35% shareholding interest to the counter party and the above transfer already obtained the Board's approval.

	Business objective for the year ended 31 July 2002 as disclosed in the Prospectus	Actual business progress for the year ended 31 July 2002
Production *(continued)*		
Sichuan Future	Obtain GMP certification	During the year under review, the production facilities underwent modification; the GMP certification will be processed by the end of 2002.
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	Deferred due to the delay of an acquisition. The Group is currently in the process of finalising the acquisition of Sichuan Veterinary.
	Complete the construction of the vaccine factory and commence production	Same as above
	Commence preparation for applying the GMP certification of the newly constructed factory including the preparation of an internal compliance manual on biotechnology products manufacturing process	Same as above
	Obtain GMP certification	Same as above

Comparison of Business Objectives with Actual Business Progress

	Business objective for the year ended 31 July 2002 as disclosed in the Prospectus	Actual business progress for the year ended 31 July 2002
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 region	Under negotiation with few potential co-partners. However, there is no agreement reached during the year under review.
Partnership and alliance activities	Continue active search for strategic alliances	The Group will continue to locate potential alliance possibilities; however, no agreement was reached during the year under review.
	Select potential companies which are complementary to business of the Group and commence merger and acquisition negotiations	Same as above

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

Business scope	Project	Amount used for the year ended 31 July 2002 as disclosed in the Prospectus *(HK$ million)*	Actual amount used for the year ended 31 July 2002 *(HK$ million)*
Research and development	Recruitment of talented professionals	0.4	0.4
	Development/introduction of new products	1.0	1.1
Production	Construction of production facilities in accordance with GMP standards	10.6	5.8
	Purchase of production equipment	7.0	3.5
Joint venture partnership and alliance activities	Investment in Chengdu Mt. Green Pharmaceutical Co., Ltd — Non-PVC bags branch factory	—	9.6

During the year under review, the Group invested approximately HK$9.6 million for the establishment of Chengdu Mt. Green Li Kong Medical Technology Co., Ltd（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, 30.94% of the issued share capital of which is owned by the Group. The Group also utilised approximately HK$1.5 million on research and development and approximately HK$9.3 million on production facilities.

The under-utilisation is mainly attributable to the proportion of proceeds set aside for construction of production facilities in accordance with GMP standards and the purchase of production equipment. These accounts have not been utilised as expected during the year given certain business activities having been delayed which caused the postponement of facilities construction.

Unused proceeds are mainly kept as short-term bank deposits. For the forward-looking period, the Company will continue to further apply the unused proceeds of approximately HK$19.5 million for research and development projects or setting up more manufacturing facilities with other potential joint venture partners in the PRC.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 33 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 July 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 July 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 74.

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

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the last three financial periods as extracted from the audited financial statements. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 July 2002 HK$'000	Year ended 31 July 2001 HK$'000 (Restated)	Period from 25 June 1999 to 31 July 2000 HK$'000 (Restated)
Turnover	**180,925**	184,045	25,089
PROFIT BEFORE TAX	**23,569**	32,145	1,179
Tax	**(848)**	—	—
PROFIT BEFORE MINORITY INTERESTS	**22,721**	32,145	1,179
Minority interests	**(2,223)**	(3,051)	(504)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**20,498**	29,094	675
ASSETS AND LIABILITIES			
TOTAL ASSETS	**416,104**	316,602	157,800
TOTAL LIABILITIES	**(286,675)**	(203,572)	(124,189)
MINORITY INTERESTS	**(9,041)**	(13,140)	(32,911)
NET ASSETS	**120,388**	99,890	700

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 and 31 July 2002 are those set out on page 32 of the financial statements.*

2. *The comparative amounts for the period ended 31 July 2000 and year ended 31 July 2001 have been adjusted for the effects of the retrospective changes in accounting policy affecting goodwill and negative goodwill, as detailed in note 3 to the financial statements.*

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and movements in the Company's share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 July 2002, 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$55,939,000. 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

In the year under review, sales to the Group's five largest customers amounted to less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 39.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 12.2%.

None of the directors of the Company or any of their associates or any shareholders (which, 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.

DIRECTORS

The directors of the Company during the year were:

Executive directors

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

Independent non-executive directors

Professor Chiang Chiu Ping, Raymond
Mr. Tsim Tak Lung, Dominic

Subsequent to the balance sheet date, on 12 August 2002, Professor Chiang Chiu Ping, Raymond passed away.

Accordingly, three waivers from the strict compliance of Rules 5.05 and 5.23 of the GEM Listing Rules were applied to the Stock Exchange for a period of one month each and were granted by the Stock Exchange on 16 August, 11 September and 11 October 2002. Pursuant to the waiver granted on 11 October 2002, the Company will recomply with the requirements of these rules to include at least two independent non-executive directors in its board of directors and audit committee by 10 November 2002.

In accordance with article 116 of the Company's articles of association, Dr. Tang Gang and Mr. Wong Fei Fei will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 14 of the Annual Report.

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 is subject to termination by either party giving not less than six calendar months' written notice, 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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies and subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 July 2002, 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 *(note)*	Corporate	400,000,000

Note: The shareholding interest in the Company 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 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 "Share option schemes" in this report.

Save 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 OR DEBENTURES

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 27 to the financial statements.

Apart from as disclosed under the headings "Directors' interests in shares" above, "Share option schemes" below and save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

(a) The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full time employees and executive directors of the Company and/ or any of its subsidiaries. The Scheme became effective on 23 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Options granted are exercisable at any time after the first anniversary of the grant of the option and during a period to be notified by the Board to each grantee, such period of time being not less than three years and not more than ten years from the date of grant of the options, but each shall lapse if the relevant grantee ceases to be employed by the relevant companies.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, shall not exceed 10% of the entire issued share capital of the Company as at the end of the first day on which the dealings of the shares commence on GEM or to 30% of the entire issued share capital of the Company on the date of shareholders' approval for the refreshment as stated below (as the case may be). In determining the said 30% limit, the following shares shall be excluded: (1) shares issued pursuant to the Share Option Scheme and any other schemes; and (2) any pro-rata entitlements to further shares issued in respect of those shares mentioned in (1). The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by all the independent non-executive directors of the Company. In addition, any shares options granted to a connected person who is also a substantial shareholder or to any of its associates, in excess of 0.1% of the total shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

SHARE OPTION SCHEMES *(continued)*

The offer of a grant of share options may be accepted within 5 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The subscription price of a share in respect of any particular option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotation sheet on the date of grant of the options; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets on the five business days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

No option was granted by the Company under the Scheme since its adoption.

(b) The terms of the Company's Pre-IPO Share Option Scheme (the "Pre-IPO Plan") adopted by the Company on 23 March 2001, are substantially the same as those under the Scheme except that:

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

(ii) the subscription price is HK$0.55; and

(iii) save for the options which have been granted under the Pre-IPO Plan (see below), no further options will be offered or granted under the Pre-IPO Plan, as the right to do so will terminate upon the listing of the shares on the GEM.

The following share options were outstanding under the Pre-IPO Plan during the year:

	Number of share options						
Name or category of participant	**At 1 August 2001**	**Cancelled during the year**	**At 31 July 2002**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options**** *HK$*	**Price of Company's shares at grant date of options***** *HK$*
Directors							
Mr. Wong Sai Wa	3,200,000	—	3,200,000	23.3.2001	10.10.2001 to 9.4.2011	0.55	0.55
Mr. Kwan Kai Cheong	3,000,000	—	3,000,000	23.3.2001	10.10.2001 to 9.4.2011	0.55	0.55
	6,200,000	—	6,200,000				
Other employees							
Ms. Yip Yuk Lin	400,000	(400,000)	—	23.3.2001	10.10.2001 to 9.4.2011	0.55	0.55
Dr. Chan Ka Keung	400,000	—	400,000	23.3.2001	10.10.2001 to 9.4.2011	0.55	0.55
Ms. Yu Ling Ling	400,000	—	400,000	23.3.2001	10.10.2001 to 9.4.2011	0.55	0.55
	1,200,000	(400,000)	800,000				
	7,400,000	(400,000)	7,000,000				

SHARE OPTION SCHEMES *(continued)*

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

*** *The price of the Company's shares disclosed as at the date of the grant of the share options is the price at which shares are offered to the public in the IPO, excluding brokerage and stock exchange transaction levy.*

Summary details of the Company's share option schemes are also set out in note 28 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors, employees and others, because the value of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

SUBSTANTIAL SHAREHOLDERS

At 31 July 2002, the following interests of 10% or more in the share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's share capital
Concord Pharmaceutical Technology (Holdings) Limited *(notes 1 and 2)*	400,000,000	80
Concord Business Management Limited *(note 1)*	400,000,000	80
Mr. Wong Sai Chung *(note 1)*	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.*

SUBSTANTIAL SHAREHOLDERS *(continued)*

(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 27 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.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed in note 34 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.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the directors or the management 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, or has any other conflict of interest with the Group.

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.

At 31 July 2002, 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.

COMPLIANCE WITH RULES 5.28 AND 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practice and procedures as set out in Rules 5.28 and 5.39 of the GEM Listing Rules throughout the year ended 31 July 2002.

AUDIT COMMITTEE

The Company set up an audit committee on 23 March 2001 with written terms of reference in compliance with the requirements as set out in rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. However, in relation to the passing away of Professor Chiang Chiu Ping, Raymond ("Professor Chiang"), a former independent non-executive director and a former member of the audit committee of the Company in August 2002, as at the date of this Annual Report, the audit committee only comprise one independent non-executive director of the Company, namely Mr. Tsim Tak Lung.

Since the passing away of Professor Chiang, the Board has been in the process of prospective candidate selection for the replacement of an independent non-executive director of the Company. As such, three separate waivers for a one-month period each for the appointment of a replacement independent non-executive director of the Company were applied to The Stock Exchange of Hong Kong Limited on 15 August 2002, 10 September 2002 and 10 October 2002 respectively from the strict compliance of Rules 5.05 and 5.23 of the GEM Listing Rules and were granted by the same. As set out in the waiver application dated 10 October 2002, the Board will use its best endeavour to appoint an independent non-executive director and a member of the audit committee as soon as practicable so as to comply with Rules 5.05 and 5.23 of the GEM Listing Rules not later than 10 November 2002.

Four audit committee meetings were held since 1 August 2001 to the date of this announcement. The work undertaken by the audit committee was to review, in draft form, the Company's annual and interim financial reports and to provide advice and comments thereon to the Board. The audit committee will also be responsible for reviewing and providing supervision over the financial reporting process and internal control of the Group.

CHANGE OF QUALIFIED ACCOUNTANT

On 17 August 2001, Ms. Yip Yuk Lin resigned and Mr. Cheng Kan Hei was appointed as qualified accountant of the Company. On 5 July 2002, Mr. Cheng Kan Hei resigned and Ms. Hui Hok Sun was appointed as qualified accountant of the Company.

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
25 October 2002

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
China Medical Science Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 32 to 74 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 2002 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
25 October 2002

Consolidated Profit and Loss Account

Year ended 31 July 2002

	Notes	**2002** **HK$'000**	2001 HK$'000 (Restated)
TURNOVER	*5*	**180,925**	184,045
Cost of sales		**(121,690)**	(120,326)
Gross profit		**59,235**	63,719
Other revenue and gains	*5*	**2,903**	1,652
Selling and distribution costs		**(9,191)**	(11,052)
General and administrative expenses		**(12,624)**	(9,538)
Other operating expenses		**(6,962)**	(5,555)
PROFIT FROM OPERATING ACTIVITIES	*6*	**33,361**	39,226
Finance costs	*7*	**(9,520)**	(7,081)
Share of loss of an associate		**(272)**	—
PROFIT BEFORE TAX		**23,569**	32,145
Tax	*10*	**(848)**	—
PROFIT BEFORE MINORITY INTERESTS		**22,721**	32,145
Minority interests		**(2,223)**	(3,051)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	*11*	**20,498**	29,094
EARNINGS PER SHARE	*12*		
— Basic		**4.10 cents**	6.73 cents
— Diluted		**3.86 cents**	6.55 cents

Other than the net profit for the year attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a statement of recognised gains and losses is not presented in the financial statements.

Consolidated Balance Sheet

31 July 2002

	Notes	**2002**	2001
		HK$'000	HK$'000
			(Restated)
NON-CURRENT ASSETS			
Fixed assets	*13*	**105,492**	102,933
Intangible assets	*14*	**13,343**	17,201
Goodwill:	*15*		
Goodwill		**6,880**	7,265
Negative goodwill		**(6,829)**	(7,523)
Interests in associates	*17*	**9,627**	4,005
Long term investments	*18*	**1,196**	—
		129,709	123,881
CURRENT ASSETS			
Trade receivables	*19*	**122,989**	101,440
Inventories	*20*	**18,682**	18,425
Prepayments and other receivables	*21*	**62,150**	16,902
Pledged bank deposits	*22*	**51,187**	26,277
Cash and cash equivalents	*22*	**31,387**	29,677
		286,395	192,721
CURRENT LIABILITIES			
Trade payables	*23*	**36,899**	37,794
Notes payable	*24*	**69,265**	16,014
Tax payable		**848**	—
Accruals and other payables		**38,503**	24,575
Due to a director	*25*	**8,130**	—
Interest-bearing bank and other borrowings	*26*	**67,172**	67,918
		220,817	146,301
NET CURRENT ASSETS		**65,578**	46,420
TOTAL ASSETS LESS CURRENT LIABILITIES		**195,287**	170,301
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	*27*	**65,858**	57,271
NET ASSETS BEFORE MINORITY INTERESTS		**129,429**	113,030
Minority interests		**9,041**	13,140
		120,388	99,890

Consolidated Balance Sheet *(continued)*

31 July 2002

	Notes	**2002**	2001
		HK$'000	HK$'000
			(Restated)
CAPITAL AND RESERVES			
Issued capital	*28*	**25,000**	25,000
Reserves	*29*	**95,388**	74,890
		120,388	99,890

Wong Sai Wa

Director

Kwan Kai Cheong

Director

Consolidated Cash Flow Statement

Year ended 31 July 2002

	Notes	2002 HK$'000	2001 HK$'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	*30(a)*	**54,037**	7,123
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**1,606**	555
Interest paid on bank and other loans		**(8,718)**	(6,793)
Interest paid on the Convertible Note		**(802)**	(288)
Net cash outflow from returns on investments and servicing of finance		**(7,914)**	(6,526)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(10,749)**	(12,454)
Proceeds from disposal of fixed assets		**20**	1
Proceeds from disposal of an associate		**942**	—
Acquisition of long term investments		**(1,196)**	—
Acquisition of additional equity interests in subsidiaries		**—**	(21,573)
Investments in associates		**(10,456)**	(3,297)
Decrease/(increase) in unpledged time deposits with maturity over three months		**22,432**	(22,432)
Increase in pledged bank deposits		**(9,561)**	(18,270)
Repayment from/(advances to) associates		**417**	(708)
Net cash outflow from investing activities		**(8,151)**	(78,733)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		**37,972**	(78,136)
FINANCING ACTIVITIES	*30(b)*		
Proceed from issue of shares		**—**	55,000
Share issue expenses		**—**	(12,008)
New bank loans		**73,310**	65,469
New other loan		**—**	2,449
Repayment of bank loans		**(65,469)**	(43,059)
Repayment of advances from minority shareholders of subsidiaries		**(6,322)**	(9,593)
Advances from a shareholder		**—**	26,741
Net cash inflow from financing activities		**1,519**	84,999

Consolidated Cash Flow Statement *(continued)*

Year ended 31 July 2002

	2002 HK$'000	2001 HK$'000 (Restated)
INCREASE IN CASH AND CASH EQUIVALENTS	**39,491**	6,863
Cash and cash equivalents at beginning of year	**15,252**	8,389
CASH AND CASH EQUIVALENTS AT END OF YEAR	**54,743**	15,252
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances		
— Pledged	**23,356**	8,007
— Unpledged	**11,979**	7,245
	35,335	15,252
Non-pledged time deposits with original maturity of less than three months when acquired	**19,408**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	**54,743**	15,252

Balance Sheet

31 July 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	*13*	**12**	14
Interests in subsidiaries	*16*	**66,859**	67,431
		66,871	67,445
CURRENT ASSETS			
Prepayments and other receivables	*21*	**11,870**	472
Pledged bank deposits	*22*	**27,831**	18,270
Cash and cash equivalents	*22*	**21,062**	26,848
		60,763	45,590
CURRENT LIABILITIES			
Accruals and other payables		**4,954**	2,544
Interest-bearing bank and other borrowings	*26*	**5,000**	—
		9,954	2,544
NET CURRENT ASSETS		**50,809**	43,046
TOTAL ASSETS LESS CURRENT LIABILITIES		**117,680**	110,491
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	*27*	**36,741**	26,741
		80,939	83,750
CAPITAL AND RESERVES			
Issued capital	*28*	**25,000**	25,000
Reserves	*29*	**55,939**	58,750
		80,939	83,750

Wong Sai Wa — *Director*

Kwan Kai Cheong — *Director*

1. 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.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. SSAP 9 (Revised) has had no major impact on these financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") *(continued)*

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. SSAP 18 (Revised) has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The principal impact of this SSAP on these financial statements is the requirement to discount the amounts of provisions to their present value at the balance sheet date, where the effect of discounting is material. SSAP 28 has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 15 to the financial statements. The required new additional disclosures are included in note 15 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") *(continued)*

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: "Accounting for investments in associates"
- SSAP 17: "Property, plant and equipment"
- SSAP 21: "Accounting for interests in joint ventures"

The revisions on SSAPs 10, 17 and 21 have no significant impact on the preparation of these financial statements.

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.

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The comparative 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, rather than from the date of their acquisition pursuant to the Reorganisation on 23 March 2001 (the " Reorganisation"). Accordingly, the consolidated results and cash flows of the Group for the year ended 31 July 2001 include the results and cash flows of the Company and its subsidiaries with effect from 1 August 2000 or since their respective dates of incorporation/establishment or acquisition by the Group, where this is a shorter period.

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

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, 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.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which is not eliminated directly to reserves, is included as part of the Group's interests in associate.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the goodwill previously eliminated against consolidated reserves for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, further details of which are included in notes 15 and 29 to the financial statements. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

Goodwill *(continued)*

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/ amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the negative goodwill previously credited to the capital reserve for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, details of which are included in notes 15 and 29 to the financial statements. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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.

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:

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

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

Fixed assets and depreciation *(continued)*

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 less any impairment losses, 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.

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

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis and are stated at cost less provision for impairment in value, other than those considered to be temporary in nature, which are considered necessary by the directors, on an individual basis.

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.

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

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.

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; and

(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.

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

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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate adopted is 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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

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 "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

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

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the human drugs segment comprise production, sales and distribution of infusion medicine;

(b) the veterinary drugs segment comprise production, sales and distribution of veterinary drugs;

(c) the packaging materials segment comprise production, sales and distribution of packaging materials for infusion medicine; and

(d) the corporate and other segment comprises the Group's corporate income and expenses items.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group was derived from the principal activities carried out in the PRC. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(continued)*

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Human drugs		Veterinary drugs		Packaging materials		Corporate and Other		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue:												
Sales to external customers	**95,125**	91,817	**33,367**	33,433	**52,433**	58,795	**—**	—	**—**	—	**180,925**	184,045
Intersegment sales	**—**	—	**—**	—	**794**	798	**—**	—	**(794)**	(798)	**—**	—
Other revenue	**36**	51	**559**	4	**7**	348	**1,938**	854	**(1,243)**	(160)	**1,297**	1,097
Total	**95,161**	91,868	**33,926**	33,437	**53,234**	59,941	**1,938**	854	**(2,037)**	(958)	**182,222**	185,142
Segment results	**13,090**	11,351	**9,776**	11,406	**11,430**	17,876	**(2,541)**	(1,962)	**—**	—	**31,755**	38,671
Interest income											**1,606**	555
Profit from operating activities											**33,361**	39,226
Finance costs											**(9,520)**	(7,081)
Share of loss of an associate	**(272)**	—	**—**	—	**—**	—	**—**	—	**—**	—	**(272)**	—
Profit before tax											**23,569**	32,145
Tax	**—**	—	**(848)**	—	**—**	—	**—**	—	**—**	—	**(848)**	—
Profit before minority interests											**22,721**	32,145
Minority interests											**(2,223)**	(3,051)
Net profit from ordinary activities attributable to shareholders											**20,498**	29,094

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group	Human drugs		Veterinary drugs		Packaging materials		Corporate and Other		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment assets	**148,448**	134,869	**100,652**	52,722	**120,647**	85,565	**126,258**	112,904	**(89,528)**	(73,463)	**406,477**	312,597
Interests in associates	**9,627**	4,005	**—**	—	**—**	—	**—**	—	**—**	—	**9,627**	4,005
Total assets	**158,075**	138,874	**100,652**	52,722	**120,647**	85,565	**126,258**	112,904	**(89,528)**	(73,463)	**416,104**	316,602
Segment liabilities	**136,892**	115,313	**64,221**	29,106	**75,174**	48,033	**99,916**	84,583	**(89,528)**	(73,463)	**286,675**	203,572
Total liabilities	**136,892**	115,313	**64,221**	29,106	**75,174**	48,033	**99,916**	84,583	**(89,528)**	(73,463)	**286,675**	203,572
Other segment information:												
Depreciation and amortisation	**6,595**	6,030	**2,498**	2,320	**2,944**	2,563	**11**	1	**—**	—	**12,048**	10,914
Amortisation of positive goodwill	**—**	—	**—**	—	**—**	—	**385**	366	**—**	—	**385**	366
Amortisation of negative goodwill	**—**	—	**—**	—	**—**	—	**(694)**	**(694)**	**—**	—	**(694)**	(694)
Capital expenditure	**1,112**	7,970	**6,112**	2,039	**3,508**	2,400	**17**	45	**—**	—	**10,749**	12,454

5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold and net of value-added tax, after allowance for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Turnover		
Sale of human drugs – infusion medicine	**95,125**	91,817
Sale of veterinary drugs	**33,367**	33,433
Sale of packaging materials for infusion medicine	**52,433**	58,795
	180,925	184,045
Other revenue		
Interest income	**1,606**	555
Sundry income	**583**	403
	2,189	958
Gains		
Negative goodwill recognised	**694**	694
Gain on disposal of fixed assets	**20**	—
	2,903	1,652

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000 (Restated)
Cost of inventories sold	**121,690**	120,326
Depreciation	**8,190**	7,056
Amortisation of intangible assets	**3,858**	3,858
Goodwill amortisation*	**385**	366
Negative goodwill recognised as income during the year**	**(694)**	(694)
Auditors' remuneration		
— current year	**450**	500
— prior year overprovision	**(150)**	—
	300	500
Staff costs (including directors' emoluments in note 8)		
— Wages and salaries	**8,905**	8,118
— Staff retirement benefits***	**1,006**	643
	9,911	8,761
(Gain)/loss on disposal of fixed assets	**(20)**	19
Provision for doubtful debts	**306**	780
Research and development expenditure	**1,125**	1,127

* *The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the profit and loss account.*

** *The movements in negative goodwill recognised in the profit and loss account for the year are included in "Other revenue" on the face of the profit and loss account.*

*** *At 31 July 2002, there were no forfeited contributions available to the Group to reduce contributions of the staff retirement scheme in future years (2001: Nil).*

7. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**8,230**	6,609
Interest on other loan	**488**	184
Interest on Convertible Note	**802**	288
Total interest	**9,520**	7,081

8. 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:

	2002	2001
	HK$'000	HK$'000
Fees:		
Executive directors	**360**	120
Non-executive directors	**—**	—
Independent non-executive directors	**240**	200
	600	320
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**62**	33
Retirement scheme contributions	**—**	—
Discretionary bonuses	**—**	—
	62	33
	662	353

The remuneration paid by the Group to two (2001: two) executive directors of the Company for the year ended 31 July 2002 analysed on an individual basis was approximately HK$360,000 (2001: HK$120,000) and HK$62,000 (2001: HK$33,000), respectively. The remuneration paid by the Group to the two independent non-executive directors of the Company for the year ended 31 July 2002 was HK$120,000 each (2001: HK$100,000 each). The remaining three (2001: three) directors did not receive any remuneration during the year.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2001: three) directors, whose remuneration are set out in note 8 above. The details of the remuneration of the remaining two (2001: two) highest paid, non-director employees during the year are as follows:

	2002	2001
	HK$'000	HK$'000
Employees:		
Salaries and allowances	**708**	236
Retirement benefit costs	**12**	5
	720	241

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

	Number of employees	
	2002	2001
Nil - HK$1,000,000	**2**	2

10. TAX

	2002	2001
	HK$'000	HK$'000
Group: PRC	**848**	—

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2001: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group did not have any significant unprovided deferred tax liabilities in respect of the year (2001: Nil).

11. 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$20,498,000 (2001: HK$29,094,000), a net loss of HK$2,811,000 (2001: HK$2,118,000) has been dealt with in the financial statements of the Company for the year ended 31 July 2002.

12. EARNINGS PER SHARE

	2002	2001
	HK$	HK$
		(Restated)
Earnings:		
Net profit from ordinary activities attributable to shareholders	**20,498,000**	29,094,000
Adjustment for interest paid related to the Convertible Note	**674,000**	242,000
Earnings used in diluted earnings per share calculation	**21,172,000**	29,336,000
Shares:		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**500,000,000**	432,602,740
Weighted average number of ordinary shares: Assumed issued at no consideration on deemed exercise of the Convertible Note outstanding during the year	**48,619,564**	15,052,084
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**—**	419,260
Weighted average number of ordinary shares used in diluted earnings per share calculation	**548,619,564**	448,074,084

The weighted average number of ordinary shares in issue during the year used to calculate the prior year'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.

13. 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	67,868	31,845	461	3,762	895	7,198	112,029
Additions	4,652	1,909	77	516	290	3,305	10,749
Disposals	—	—	—	(207)	—	—	(207)
Reclassification	5,260	904	57	—	—	(6,221)	—
At 31 July 2002	**77,780**	**34,658**	**595**	**4,071**	**1,185**	**4,282**	**122,571**
Accumulated depreciation:							
At beginning of year	3,800	4,235	96	809	156	—	9,096
Provided during the year	3,283	3,749	114	832	212	—	8,190
Disposals	—	—	—	(207)	—	—	(207)
At 31 July 2002	**7,083**	**7,984**	**210**	**1,434**	**368**	**—**	**17,079**
Net book value:							
At 31 July 2002	**70,697**	**26,674**	**385**	**2,637**	**817**	**4,282**	**105,492**
At 31 July 2001	64,068	27,610	365	2,953	739	7,198	102,933

The cost of leasehold land and buildings comprises:

	Group	
	2002	2001
	HK$'000	HK$'000
PRC:		
Long term leases	**15,929**	6,858
Medium term leases	**61,851**	61,010
	77,780	67,868

13. 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$136,000 as at 31 July 2002 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 2002 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 2002, certain of the Group's leasehold land and buildings situated in the PRC and plant and machinery with net book values of approximately HK$55,842,000 (2001: HK$52,558,000) and HK$17,327,000 (2001: HK$20,833,000), respectively, were pledged to secure general banking facilities granted to the Group.

Company

	Computer equipment HK$'000
Cost:	
At beginning of year and at 31 July 2002	15
Accumulated depreciation:	
At beginning of year	1
Provided during the year	2
At 31 July 2002	**3**
Net book value:	
At 31 July 2002	**12**
At 31 July 2001	14

14. INTANGIBLE ASSETS

Group	Technical know-how HK$'000	Production licences HK$'000	Total HK$'000
Cost:			
At beginning of year and at 31 July 2002	11,642	10,060	21,702
Accumulated amortisation:			
At beginning of year	1,940	2,561	4,501
Provided during the year	1,663	2,195	3,858
At 31 July 2002	**3,603**	**4,756**	**8,359**
Net book value:			
At 31 July 2002	**8,039**	**5,304**	**13,343**
At 31 July 2001	9,702	7,499	17,201

15. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 3 to the financial statements. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill HK$'000	Negative goodwill HK$'000
Cost:		
At beginning of year and at 31 July 2002	7,709	(8,333)
Accumulated amortisation/(recognition as income):		
At beginning of year:		
As previously reported	—	—
Prior year adjustment	444	(810)
As restated	444	(810)
Amortisation provided/(recognised as income) during the year	385	(694)
At 31 July 2002	**829**	**(1,504)**
Net book value:		
At 31 July 2002	**6,880**	**(6,829)**
At 31 July 2001 (as restated)	7,265	(7,523)

15. GOODWILL AND NEGATIVE GOODWILL *(continued)*

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of previous acquisitions to be restated to the non-current assets section of the consolidated balance sheet, in accordance with the new accounting policy.

The prior year adjustment so arising has resulted in goodwill previously eliminated against consolidated reserves of HK$7,709,000 as at 1 August 2001, and negative goodwill previously credited to the capital reserve of HK$8,333,000 as at that date, being restated as the cost of the goodwill and negative goodwill above, as at 1 August 2001. The cumulative amount of goodwill that would have been amortised to the consolidated profit and loss account under the new accounting policy, of HK$444,000 as at 1 August 2001, has been restated as the balance of accumulated amortisation of goodwill as at 1 August 2001. The cumulative amount of negative goodwill that would have been recognised in the consolidated profit and loss account under the new accounting policy, of HK$810,000 as at 1 August 2001, has been restated as the balance of accumulated recognition as income as at that date.

The effect of this change in accounting policy on the consolidated profit and loss account for the current year was to increase the amortisation of goodwill by HK$385,000 and increase the negative goodwill recognised as income by HK$694,000.

The net amount of goodwill amortisation and negative goodwill recognised as income, of HK$328,000 as at 1 August 2001 and HK$38,000 as at 1 August 2000, has been credited to the balance of consolidated retained earnings as at those dates.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**42,876**	42,876
Due from subsidiaries	**26,746**	26,764
Due to a subsidiary	**(2,763)**	(2,209)
	66,859	67,431

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 2002 are set out in note 33 to the financial statements.

17. INTERESTS IN ASSOCIATES

	Group 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**—**	3,297
Share of net assets	**9,336**	—
Amounts due from associates	**291**	708
	9,627	4,005

In last year, no equity accounting was prepared for the associate as there were no material transactions during the period from 19 June 2001 (date of establishment) to 31 July 2001.

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

Particulars of the associates are as follows:

Name	**Business structure**	**Place of incorporation/ registration and operations**	**Percentage of ownership interest attributable to the Group** 2002	2001	**Principal activities**
Guizhou Concord Mt. Green Pharmaceutical Co. Limited	Corporate	People's Republic of China	—	31.85	Manufacture and sales of human drugs-infusion medicine
Chengdu Mt. Green Li Kong Medical Technology Co. Limited*	Corporate	People's Republic of China	30.94	—	Manufacture and sales of human drugs-infusion medicine

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The shareholdings in the associates are held through the PRC owned subsidiaries.

18. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	HK$'000
Unlisted equity investments, at cost	**1,196**	—

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, and net of provisions is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within 3 months	**78,351**	77,359
3 to 6 months	**34,252**	18,823
6 to 12 months	**9,964**	4,773
Over 1 year	**422**	485
	122,989	101,440

20. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**11,590**	8,524
Work in progress	**10**	6
Finished goods	**7,082**	9,895
	18,682	18,425

21. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**13,757**	4,348	**—**	—
Other receivables	**36,805**	12,554	**282**	472
Short term loans	**11,588**	—	**11,588**	—
	62,150	16,902	**11,870**	472

The short term loans are unsecured, bear interest at 7% to 8% per annum and are repayable within one year.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**35,335**	15,252	**1,654**	4,416
Time deposits	**47,239**	40,702	**47,239**	40,702
	82,574	55,954	**48,893**	45,118
Less: Pledged bank deposits				
Pledged for notes payable	**(23,356)**	(8,007)	**—**	—
Pledged for bank loans	**(27,831)**	(18,270)	**(27,831)**	(18,270)
	(51,187)	(26,277)	**(27,831)**	(18,270)
	31,387	29,677	**21,062**	26,848

Bank balances and time deposits of approximately HK$19,408,000 (2001: nil) and HK$22,831,000 (2001: HK$40,702,000), respectively, are deposited with a related company of the Group, which is a bank. In addition, bank balances of approximately HK$23,356,000 (2001: HK$8,007,000) and time deposits of HK$27,831,000 (2001: HK$18,270,000) are pledged as security for certain banking facilities.

23. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within 3 months	**26,006**	17,621
3 to 6 months	**7,095**	3,010
6 to 12 months	**3,311**	17,163
Over 1 year	**487**	—
	36,899	37,794

24. NOTES PAYABLE

At 31 July 2002, the Group's notes payable are secured by the Group's bank deposits of approximately HK$23,356,000 (2001: HK$8,007,000), and bank deposits of Mr. Wong Sai Wa amounted to approximately US$309,000 and RMB4,500,000 (2001: nil).

25. DUE TO A DIRECTOR

The amount due to a director, Mr. Wong Sai Wa, is unsecured, interest free and has no fixed term of repayment.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group		Company	
	Note	**2002**	2001	**2002**	2001
		HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:					
Secured		**17,710**	30,239	**—**	—
Unsecured		**42,013**	35,230	**—**	—
		59,723	65,469	**—**	—
Current portion of bank and other loans		**5,000**	—	**5,000**	—
Other loan – secured		**2,449**	2,449	**—**	—
	27	**67,172**	67,918	**5,000**	—

27. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:				
Secured	**61,827**	60,769	**15,000**	—
Unsecured	**42,013**	35,230	**—**	—
	103,840	95,999	**15,000**	—
Other loan, secured	**2,449**	2,449	**—**	—
Convertible Note, unsecured	**26,741**	26,741	**26,741**	26,741
	133,030	125,189	**41,741**	26,741
Bank loans repayable:				
Within one year or on demand	**64,723**	65,469	**5,000**	—
In the second year	**32,062**	1,413	**10,000**	—
In the third to fifth years, inclusive	**7,055**	29,117	**—**	—
	103,840	95,999	**15,000**	—
Other loan repayable:				
Within one year or on demand	**2,449**	2,449	**—**	—
Convertible Note repayable:				
In the second year	**26,741**	—	**26,741**	—
In the third to fifth years, inclusive	**—**	26,741	**—**	26,741
	133,030	125,189	**41,741**	26,741
Portion classified as current liabilities - *note 26*	**(67,172)**	(67,918)	**(5,000)**	—
Long term portion	**65,858**	57,271	**36,741**	26,741

The Group's bank and other loans bear interest at rates ranging from 4% to 9% (2001: 6% to 11%) and 10% (2001: 10%) per annum, respectively.

27. INTEREST-BEARING BANK AND OTHER LOANS *(continued)*

At 31 July 2002, the Group's secured loans of approximately HK$61,827,000 (2001: HK$60,769,000) and the other loan of HK$2,449,000 (2001: HK$2,449,000) were secured by certain of the Group's leasehold land and buildings and plant and machinery with net book values of approximately HK$55,842,000 (2001: HK$52,558,000) and HK$17,327,000 (2001: HK$20,833,000), and bank deposits of approximately HK$27,831,000 (2001: HK$18,270,000), respectively.

At 31 July 2001, the Group's unsecured loans amounted to HK$4,898,400 were guaranteed by Mr. Wong Sai Chung or his related companies.

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 pasu 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%.

28. SHARE CAPITAL

	2002	2001
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.05 each	**50,000**	50,000
Issued and fully paid:		
500,000,000 ordinary shares of HK$0.05 each	**25,000**	25,000

Share options

The Company operates a Pre-IPO Share Option Scheme (the " Pre-IPO Plan") and a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option schemes" in the Report of the Directors on page 26.

At the beginning of the year, there were 7,400,000 options outstanding under the Pre-IPO Plan, which entitled the holders to subscribe for shares of the Company at any time during period ranging from 10 October 2001 to 9 April 2011. The subscription price payable upon the exercise of these options was HK$0.55. During the year, 400,000 share options with an exercise price of HK$0.55 were cancelled.

At the balance sheet date, the Company had 7,000,000 share options outstanding under the Pre-IPO Plan, with exercise periods ranging from 10 October 2001 to 9 April 2011 and an exercise price of HK$0.55. 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 7,000,000 additional ordinary shares of HK$0.05 each for aggregate proceeds of HK$3,850,000 before the related share issue expenses.

No option was granted by the Company under the Scheme since its adoption.

29. RESERVES

	Share premium account HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Group					
At 1 August 2000					
As previously reported	—	8,968	25	637	9,630
Prior year adjustments:					
SSAP 30 – restatement to non-current assets section of consolidated balance sheet of goodwill and negative goodwill on acquisition of subsidiaries	—	(8,968)	—	38	(8,930)
As restated	—	—	25	675	700
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
Net profit for the year (as restated)	—	—	—	29,094	29,094
At 31 July 2001	17,992	27,104	25	29,769	74,890
At 1 August 2001					
As previously reported	17,992	27,728	25	29,403	75,148
Prior year adjustments:					
SSAP 30 – restatement to non-current assets section of consolidated balance sheet of goodwill and negative goodwill on acquisition of subsidiaries	—	(624)	—	366	(258)
As restated	17,992	27,104	25	29,769	74,890
Net profit for the year	—	—	—	20,498	20,498
At 31 July 2002	**17,992**	**27,104**	**25**	**50,267**	**95,388**

29. RESERVES *(continued)*

	Share premium account HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Reserves retained by:					
Company and subsidiaries	17,992	27,104	25	50,539	95,660
An associate	—	—	—	(272)	(272)
At 31 July 2002	**17,992**	**27,104**	**25**	**50,267**	**95,388**
Company and subsidiaries	17,992	27,104	25	29,769	74,890
At 31 July 2001	17,992	27,104	25	29,769	74,890

	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
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 and 1 August 2001	17,992	42,876	(2,118)	58,750
Loss for the year	—	—	(2,811)	(2,811)
At 31 July 2002	**17,992**	**42,876**	**(4,929)**	**55,939**

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.

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.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK$'000	2001 HK$'000 (Restated)
Profit from operating activities	**33,361**	39,226
Interest income	**(1,606)**	(555)
(Gain)/loss on disposal of fixed assets	**(20)**	19
Depreciation	**8,190**	7,056
Amortisation of intangible assets	**3,858**	3,858
Goodwill amortisation	**385**	366
Negative goodwill recognised as income	**(694)**	(694)
Increase in trade receivables	**(21,549)**	(86,051)
Increase in inventories	**(257)**	(11,156)
(Increase)/decrease in prepayments and other receivables	**(42,045)**	167
(Decrease)/increase in trade payables	**(895)**	25,740
Increase in notes payable	**53,251**	16,014
Increase in due to a director	**8,130**	—
Increase in accruals and other payables	**13,928**	13,133
Net cash inflow from operating activities	**54,037**	7,123

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued capital and share premium account HK$'000	**Bank, other loan and Convertible Note** HK$'000	**Due (from)/ to shareholders** HK$'000	**Minority interests** HK$'000
At 1 August 2001	—	73,589	27,104	32,911
Cash inflow/(outflow) from financing activities, net	—	24,859	26,741	(9,593)
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)	—
At 31 July 2001 and 1 August 2001	42,992	125,189	—	13,140
Cash inflow/(outflow) from financing activities, net	—	7,841	—	(6,322)
Share of profit for the year	—	—	—	2,223
At 31 July 2002	**42,992**	**133,030**	**—**	**9,041**

31. CONTINGENT LIABILITIES

	Company	
	2002	2001
	HK$'000	HK$'000
Guarantees of banking facilities granted to a subsidiary	**22,831**	18,270

The Group did not have any significant contingent liabilities at the balance sheet date (2001: Nil).

32. COMMITMENTS

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

(a) Capital commitments

	Group	
	2002	2001
	HK$'000	HK$'000
Authorised and contracted for	**15,953**	11,110

(b) Commitments under operating leases

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

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**150**	150

(c) Save as disclosed above, the Group and the Company had no material capital and financial commitments as at 31 July 2002.

33. 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 Direct	Indirect	Principal activities
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.	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.	People's Republic of China 26 May 2000	RMB4,000,000	—	91	Manufacture and distribution of veterinary drugs
Chengdu Mt. Green Pharmaceutical Co., Ltd.	People's Republic of China 29 May 2000	RMB18,000,000	—	91	Manufacture and distribution of infusion medicine

34. RELATED PARTY TRANSACTIONS

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

	Notes	**2002** **HK$'000**	2001 HK$'000
Interest income received from a related company	*(i)*	**1,211**	476
Commission paid to a related company	*(ii)*	**223**	179
Licence fee for office premises paid to Frank Union Limited	(iii)	**600**	400
Interest paid to Concord Pharmaceutical Technology (Holdings) Limited	*(iv)*	**802**	288
		2,836	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.

Notes:

(i) *The interest income was generated from the deposits held by a related company, which is a bank. The interest rates on the bank accounts are similar to those given to other customers of the bank.*

(ii) *The commission paid relates to a guarantee for a RMB10 million (2001: 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 a 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 (2001: 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 27 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.

In addition to the above related party transactions, during the year, Mr. Wong Sai Wa had provided bank deposits of approximately US$309,000 and RMB4,500,000 (2001: nil) to subsidiaries of the Company as security for banking facilities granted to these subsidiaries .

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financials statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 October 2002.