

CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

SECOND QUARTERLY REPORT

2003

** For identification purposes only*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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This report, for which the directors of CHINA MEDICAL SCIENCE LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to CHINA MEDICAL SCIENCE LIMITED. The directors of CHINA MEDICAL SCIENCE LIMITED, having made all reasonable 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.

HIGHLIGHTS

- Turnover of the Group for the six months ended 31 January 2003 amounted to approximately HK\$62,609,000, representing a decrease of approximately 30.4% as compared with that of the corresponding period in 2002.
- Profit attributable to shareholders for the six months ended 31 January 2003 amounted to approximately HK\$4,742,000, compared with a profit of approximately HK\$9,775,000 recorded by the Group for the corresponding period in 2002.
- Basic earnings per share amounted to approximately 0.95 cents for the six months ended 31 January 2003.
- The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2003.

RESULTS

The board of directors (the “Board”) of China Medical Science Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 31 January 2003 together with the comparative unaudited figures for the corresponding period last year are as follows:

Consolidated Profit and Loss Account — Unaudited

		For the three months ended 31 January		For the six months ended 31 January	
		2003	2002	2003	2002
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)		(Restated)
Turnover	2	28,183	46,928	62,609	89,965
Cost of sales		(19,204)	(30,883)	(42,655)	(60,829)
Gross profit		8,979	16,045	19,954	29,136
Other revenue & gains		627	506	1,268	1,285
Selling and distribution costs		(1,374)	(2,136)	(1,887)	(4,853)
General and administrative expenses		(2,636)	(4,743)	(5,930)	(7,726)
Other operating expenses		(1,381)	(1,169)	(2,697)	(2,236)
PROFIT FROM OPERATING ACTIVITIES	4	4,215	8,503	10,708	15,606
Finance costs		(2,096)	(2,400)	(4,812)	(4,813)
Share of loss of an associate		(103)	—	(201)	—
PROFIT BEFORE TAX		2,016	6,103	5,695	10,793
Tax	5	(123)	—	(415)	—
PROFIT BEFORE MINORITY INTERESTS		1,893	6,103	5,280	10,793
Minority interests		(192)	(602)	(538)	(1,018)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		1,701	5,501	4,742	9,775
EARNINGS PER SHARE	6				
— Basic		0.34 cents	1.10 cents	0.95 cents	1.96 cents
— Diluted		0.34 cents	1.03 cents	0.93 cents	1.84 cents

Consolidated Balance Sheet

		As at 31 January 2003 HK\$'000 (Unaudited)	As at 31 July 2002 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	7	104,494	105,492
Intangible assets		11,414	13,343
Goodwill:			
Goodwill		6,687	6,880
Negative goodwill		(6,481)	(6,829)
Interest in an associate		9,426	9,627
Long term investments		1,196	1,196
		<u>126,736</u>	<u>129,709</u>
CURRENT ASSETS			
Trade receivables	8	131,891	122,989
Inventories		17,856	18,682
Prepayment and other receivables	8	63,297	62,150
Pledged bank deposits		54,545	51,187
Cash and cash equivalents		44,837	31,387
		<u>312,426</u>	<u>286,395</u>
CURRENT LIABILITIES			
Trade payables	9	44,579	36,899
Notes payable	9	79,202	69,265
Tax payable		1,263	848
Accruals and other payables	9	44,264	38,503
Due to a director		2,481	8,130
Interest-bearing bank and other borrowings		93,763	67,172
		<u>265,552</u>	<u>220,817</u>
NET CURRENT ASSETS		<u>46,874</u>	<u>65,578</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>173,610</u>	<u>195,287</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans		38,796	65,858
NET ASSETS BEFORE MINORITY INTERESTS		134,814	129,429
Minority interests		9,684	9,041
		<u>125,130</u>	<u>120,388</u>
CAPITAL AND RESERVES			
Issued capital	10	25,000	25,000
Reserves	11	100,130	95,388
		<u>125,130</u>	<u>120,388</u>

Condensed Consolidated Cash Flow Statement (Unaudited)

	For the six months ended 31 January 2003 HK\$'000	For the six months ended 31 January 2002 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22,650	19,913
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(4,387)	(2,922)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(4,700)</u>	<u>(8,451)</u>
NET CASH INFLOW BEFORE FINANCING	13,563	8,540
NET CASH OUTFLOW FROM FINANCING	<u>(113)</u>	<u>(13,714)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,450	(5,174)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>31,387</u>	<u>7,245</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>44,837</u></u>	<u><u>2,071</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u><u>44,837</u></u>	<u><u>2,071</u></u>

Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 January 2003

	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 August 2000						
As previously reported	25,000	—	8,968	25	637	34,630
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	25,000	—	—	25	675	25,700
Issue of shares	—	50,000	—	—	—	50,000
Capitalisation issue of shares	—	(20,000)	—	—	—	(20,000)
Share issue expense	—	(12,008)	—	—	—	(12,008)
Arising on capitalisation of loan	—	—	27,104	—	—	27,104
Net profit for the year (restated)	—	—	—	—	29,094	29,094
At 31 July 2001	<u>25,000</u>	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>29,769</u>	<u>99,890</u>
At 1 August 2001						
As previously reported	25,000	17,992	27,728	25	29,403	100,148
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	25,000	17,992	27,104	25	29,769	99,890
Net profit for the period	—	—	—	—	9,775	9,775
At 31 January 2002	<u>25,000</u>	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>39,544</u>	<u>109,665</u>
At 1 August 2002	25,000	17,992	27,104	25	50,267	120,388
Profit for the period	—	—	—	—	4,742	4,742
At 31 January 2003	<u>25,000</u>	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>55,009</u>	<u>125,130</u>

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 22 September 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the Group’s structure in preparation for the listing of the shares on GEM, the Company became the holding company of the companies now comprising the Group. The Company’s shares have been listed on the GEM since 10 April 2001.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with the Statements of Standard Accounting Practice (the “SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants, the disclosure requirements of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”).

The principal accounting policies adopted in preparing the unaudited consolidated results are consistent with those used in the annual financial statements for the year ended 31 July 2002 of the Group.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the unaudited consolidated financial statements.

2. Turnover, revenue and gains

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

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

	For the three months ended		For the six months ended	
	31 January		31 January	
	2003	2002	2003	2002
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Turnover				
Sale of human drugs —				
infusion medicine	14,816	23,820	29,634	47,514
Sale of veterinary drugs	6,405	9,065	13,883	14,401
Sale of packaging materials for				
infusion medicine	6,962	14,043	19,092	28,050
	<u>28,183</u>	<u>46,928</u>	<u>62,609</u>	<u>89,965</u>
Other revenue				
Interest income	449	331	913	934
Sundry income	4	1	8	4
	<u>453</u>	<u>332</u>	<u>921</u>	<u>938</u>
Gains				
Negative goodwill recognized	174	174	347	347
	<u>627</u>	<u>506</u>	<u>1,268</u>	<u>1,285</u>

3. Segmental information

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

	Human Drugs		Veterinary Drugs		Packaging Materials		Corporate and Other		Elimination		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	29,634	47,514	13,883	14,401	19,092	28,050	—	—	—	—	62,609	89,965
Intersegment sales	—	—	—	—	555	981	—	—	(555)	(981)	—	—
Other revenue	3	2	—	2	4	—	1,252	780	(904)	(433)	355	351
Total	29,637	47,516	13,883	14,403	19,651	29,031	1,252	780	(1,459)	(1,414)	62,964	90,316
Segment results	4,293	5,561	2,957	3,123	3,414	6,955	(869)	(967)	—	—	9,795	14,672
Interest Income											913	934
Profit from operating activities											10,708	15,606
Finance costs											(4,812)	(4,813)
Share of loss of an associate	(201)	—	—	—	—	—	—	—	—	—	(201)	—
Profit before tax											5,695	10,793
Tax	—	—	(415)	—	—	—	—	—	—	—	(415)	—
Profit before minority interests											5,280	10,793
Minority interests											(538)	(1,018)
Net profit from ordinary activities attributable to shareholders											4,742	9,775

4. Profit from ordinary activities before taxation

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

	For the three months ended 31 January		For the six months ended 31 January	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	19,204	30,883	42,655	60,829
Depreciation of fixed assets	1,611	1,967	3,774	3,904
Amortisation of intangible assets	965	965	1,930	1,929
Interest income	(449)	(331)	(913)	(934)

5. Tax

No provision for Hong Kong profits tax has been made, as the Group had no assessable profits arising in Hong Kong for the six months ended 31 January 2003 (2002: Nil).

The subsidiaries of the Group in the PRC have been granted corporate income tax exemption for the first two profitable years of operation and are entitled to a 50% relief from corporate income tax for the following three years. Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd, a 91% owned subsidiary established in Chengdu, Sichuan, was entitled to tax exemption up to 31 December 2001. As of 31 January 2003, Chengdu Viking Yuan Heng is subject to PRC corporate income tax at a concessionary rate of 15%.

The Group did not have any significant unprovided deferred tax liabilities for the six months ended 31 January 2003 (2002: Nil).

6. Earnings per share

The calculation of the basic earnings per share for the three months and six months ended 31 January 2003 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$1,701,000 and approximately HK\$4,742,000 respectively (three months and six months ended 31 January 2002: net profit of approximately HK\$5,501,000 and approximately HK\$9,775,000 respectively) and the weighted average number of 500,000,000 for the three months and six months ended 31 January 2003 (three months and six months ended 31 January 2002: 500,000,000) ordinary shares in issue.

The calculation of diluted earnings per share for the three months and six months ended 31 January 2003 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$1,871,000 and approximately HK\$5,081,000 respectively (three months and six months ended 31 January 2002: net profit of approximately HK\$5,671,000 and approximately HK\$10,115,000 respectively) after adjustment of interest saved upon deemed conversion of all convertible notes (the "Convertible Note") upon the listing, and the weighted average number of 500,000,000 (three months and six months ended 31 January 2002: 500,000,000) ordinary shares outstanding plus the respective weighted average number of 48,619,564 (three months and six months ended 31 January 2002: 48,619,564) ordinary shares deemed to be issued as if the Convertible Note had been converted upon the listing.

7. Fixed assets

During the period from 1 August 2002 to 31 January 2003, the Group had additions to buildings, plant and equipment and motor vehicles in the amount of approximately HK\$2,776,000.

8. Trade and other receivables

	31 January 2003	31 July 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	131,891	122,989
Prepayment and other receivables	63,297	62,150
	<u>195,188</u>	<u>185,139</u>

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

	31 January 2003	31 July 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 3 months	66,794	78,351
3 to 6 months	39,567	34,252
6 to 12 months	23,446	9,964
Over 1 year	2,084	422
	<u>131,891</u>	<u>122,989</u>

9. Trade payables, notes payable and accruals

	31 January 2003	31 July 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables	44,579	36,899
Notes payable	79,202	69,265
Accruals and other payables	44,264	38,503
	<u>168,045</u>	<u>144,667</u>

The ageing analysis of trade payables is as follows:

	31 January 2003	31 July 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 3 months	35,230	26,006
3 to 6 months	6,764	7,095
6 to 12 months	2,585	3,311
Over 1 year	—	487
	<u>44,579</u>	<u>36,899</u>

10. Share capital

	No. of shares		Nominal value	
	At 31 January	At 31 July	At 31 January	At 31 July
	2003	2002	2003	2002
	'000	'000	HK\$'000	HK\$'000
<i>Authorised:</i>				
Ordinary shares of				
HK\$0.05 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of				
HK\$0.05 each	<u>500,000</u>	<u>500,000</u>	<u>25,000</u>	<u>25,000</u>

11. Reserves

	Share	Capital	Exchange	Retained	Total
	premium	reserve	fluctuation	profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	<u>—</u>	<u>(8,968)</u>	<u>—</u>	<u>38</u>	<u>(8,930)</u>
As restated	—	—	25	675	700
Issue of shares	50,000	—	—	—	50,000
Capitalisation issue of shares	(20,000)	—	—	—	(20,000)
Share issue expense	(12,008)	—	—	—	(12,008)
Arising on capitalisation of loan	—	27,104	—	—	27,104
Net profit for the year (restated)	<u>—</u>	<u>—</u>	<u>—</u>	<u>29,094</u>	<u>29,094</u>
At 31 July 2001	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>29,769</u>	<u>74,890</u>
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	<u>—</u>	<u>(624)</u>	<u>—</u>	<u>366</u>	<u>(258)</u>
As restated	17,992	27,104	25	29,769	74,890
Net profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,775</u>	<u>9,775</u>
At 31 January 2002	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>39,544</u>	<u>84,665</u>
At 1 August 2002					
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,742</u>	<u>4,742</u>
At 31 January 2003	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>55,009</u>	<u>100,130</u>

DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 31 January 2003. (2002: Nil)

BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

For the six months ended 31 January 2003, the unaudited consolidated turnover of the Group amounted to approximately HK\$62,609,000, representing a decrease of approximately 30.4% as compared with the turnover of the corresponding period in 2002. The Group's profit from operations amounted to approximately HK\$10,708,000 (2002: approximately HK\$15,606,000) for the period under review. This drop was mainly due to keen competition in the infusion medicine and packaging material market, with product prices declining. This caused a decrease in sale of infusion medicines and packaging materials of approximately 37.6% and approximately 31.9% respectively as compared with the corresponding period in the previous year.

Segment information

For the period 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 nature of their operations and the products they provided.

Liquidity, financial resources and capital structure

The Group financed its operation primarily by its cash revenues derived from operating activities, supplier credit, and bank loans. As at 31 January 2003, the Group had net current assets of approximately HK\$46,874,000 (31 July 2002: 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 operation and investment in future.

As at 31 January 2003, the Group's borrowings comprised mainly short-term bank loans of approximately HK\$91,313,000 (31 July 2002: approximately HK\$64,723,000), long-term bank loans of approximately HK\$12,056,000 (31 July 2002: approximately HK\$39,117,000) and other loan of approximately HK\$29,190,000 (31 July 2002: approximately HK\$29,190,000). The aggregate borrowings were approximately HK\$132,559,000 (31 July 2002: approximately HK\$133,030,000) of which approximately HK\$59,095,000 (31 July 2002: approximately HK\$64,276,000) were partially secured by pledged bank deposits or by assets of certain subsidiaries. As at 31 January 2003, the amount of

banking facilities available and utilized was approximately HK\$182,571,000 (31 July 2002: approximately HK\$173,105,000). 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

As at 31 January 2003, the gearing ratio (total borrowings (including notes payable) after the deduction of bank balance as a percentage of total assets) was approximately 25.6% (31 July 2002: approximately 28.8%)

Foreign exchange exposure

During the six months ended 31 January 2003 and 2002, the Group mainly earned revenue and incurred 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

As at 31 January 2003, certain of the Group's leasehold land and buildings situated in the PRC, plant and machinery with net book values of approximately HK\$55,034,000 (31 July 2002: approximately HK\$55,842,000), and HK\$16,220,000 (31 July 2002: approximately HK\$17,327,000) respectively and time deposit of approximately HK\$5,000,000 (31 July 2002: approximately HK\$27,831,000) were pledged to secure general banking facilities granted to the Group.

Contingent liabilities

As at 31 January 2003, the Group did not have any significant contingent liabilities. (31 July 2002: nil)

Capital commitments and significant investment

At 31 January 2003, the Group had outstanding capital commitment of approximately HK\$7,523,000 (31 July 2002: approximately HK\$15,953,000) and the Group did not have any significant investments.

Material acquisitions/disposals

During the period ended 31 January 2003, the group had no material acquisitions or disposals of subsidiaries and affiliated companies.

Employee information

For the six months ended 31 January 2003, the total remuneration to employees, including director's emoluments amounted to approximately HK\$5,087,000 (31 January 2002: approximately HK\$4,777,000). 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. The Group had 658 employees (31 January 2002: 681) in Hong Kong and PRC.

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

Chengdu Mt. Green recorded a turnover of approximately HK\$29,634,000 for the 6-months period, which represented a decrease of approximately 37.6% as compared with the turnover for the corresponding period in 2002. The decline was mainly due to keen competition in the infusion medicine market, with product prices declining. In response to this poor market conditions, Chengdu Mt. Green has accelerated the development of new products and enhanced its competitiveness through optimal allocation of its internal resources and the nurturing of its staff with sense of responsibilities and loyalties so as to improve market share and management efficiency.

To maintain sustainable development of the manufacturing operation, Chengdu Mt. Green adopted a market-oriented approach and placed more emphasis on the expansion of market share associated with new products. Chengdu Mt. Green has also strengthened its research and development capabilities by expediting its technical development and upgrading the standards of its manufacturing operations.

During the period under review, the production lines for medical infusion medicine in PVC bags have successfully passed the Good Manufacturing Practice (the "GMP") certification; production lines are expected to operate in the next quarter. With the addition of infusion medicine in PVC bags, the directors believe that the market reach of Chengdu Mt. Green will be significantly expanded.

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

During the period under review, the sale of packaging materials for infusion medicine amounted to approximately HK\$19,092,000, representing a decrease of approximately 31.9% as compared with the sale for the corresponding period in 2002. The reason for this decrease was mainly due to adverse market condition and competition in the packaging material market.

The series of measures in respect of “Good Manufacturing Practice” for the packaging material industry has not been introduced by the State, which lead to the irregular manufacturers flooding the market, resulting in the gradual decrease of price of aluminium plastic cap. The average selling price of aluminium plastic cap has decreased by approximately 20% to 30% for the period under review as compared with the corresponding period in 2002. In response to this unfavourable market conditions, Sichuan Future during the period under review endeavoured to continue its efforts to improve and control costs and expenditure, while increasing productivity by streamlining operational procedures and enhancing product quality, as well as extending its marketing effort to strengthen Sichuan Future’s position in the packaging material market.

Sichuan Future during the period under review continues its market-oriented sale strategy by primarily focusing on high end products, which are complemented by low-mid range products, enabling Sichuan Future effectively to expand its sale networks and built up a reputation for its products. Additionally, Sichuan Future has devoted more efforts to sale and promotion, by participating in technical conference, and visiting customers in the PRC, thereby effectively exploring new growth points in existing market.

The new multi-coloured transparent aluminium plastic cap with new nano-technology since its launch rendered the company greater advantages over its peers on the aspects of technology, quality and pricing. Sichuan Future believes that this new product will provide an additional source of income to the company in the future. In addition, another self-developed tamper-evidence aluminium plastic cap has been well recognized since its launch. Research and development of more new products with features and competitiveness will still be Sichuan Future’s focus, thereby enabling Sichuan Future to proactively respond to market changes caused by the reforms of medical system.

Sichuan Future’s portfolio of intellectual property continued to expand during the period under review. In February 2003, the patent for ultrasonic heating system has been granted by the relevant authorities in the PRC. With the addition of this patent, Sichuan Future now has a total portfolio of five patents.

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

The sale of veterinary drugs for the 6-months period amounted to approximately HK\$13,883,000, representing a slight decrease of approximately 4% as compared with the corresponding period in 2002. The State decreed to ban the use of certain veterinary drugs completely in force from May 2002, in which Chengdu Yuan Heng’s products, namely Tyclosone Injection and Xmelin-C Injection were included. These affected the turnover and profit margin of the veterinary drugs for the period. During the period under review, Chengdu

Yuan Heng strove for restructuring its product mix, strengthened its research and development, as well as made substantial efforts to create favourable conditions for future growth.

The acquisition of Sichuan Veterinary Medicine Factory (named changed to Sichuan Bio-pharmaceutical Factory) (the “Sichuan Veterinary”) has basically been completed, and has also been reviewed by the relevant administrative bureau of industry and commerce at the provincial level. However, the application for the renewal of business licence for veterinary medicine manufacturing enterprise is subject to re-assessment by the Ministry of Agriculture in accordance with the then prevailing legal and regulatory requirements for the purposes of such renewal. The business licence is currently pending the reassessment by the Ministry of Agriculture and is expected to be obtained in the next quarter. The construction permit for new Sichuan Bio-pharmaceutical Factory has also been applied and is expected to be obtained in the next quarter.

During the period under review, the applications of production permit for three newly constructed workshops, namely orally-administrated medicine workshop, additive workshop and antiseptic workshop, were submitted to the relevant authorities. The permits are expected to be obtained in the next quarter. Additionally, the orally administrated liquid medicine workshop and powdered medicine workshop are currently phased in the trial run. The directors believe that the additions of new workshops to commence production activities in the next quarter will further strength its production capacities, increase the product mix, strengthen its sales activities and enjoy economies of scale.

Additionally, Chengdu Yuan Heng has devoted more efforts to sale and promotion of veterinary drugs by participating in technical conference and visiting customers in the PRC.

Research and Development

Infusion medicine:

Currently Chengdu Mt. Green has a variety of infusion medicines in the research and development pipeline. During the period under review, the research and development projects in co-operation with ABC Lifescience Inc are progressing well. Chengdu Mt. Green also work in conjunction with West China Centre of Medical Sciences to develop new infusion medicine in the PVC bags; the clinical testing of Sterile Water for Injection, Metronidazole Physiological Solution and Sodium Chloride Physiological Solution are scheduled to complete by the end of June. In addition, Aminomethylbenzoic Acid and Glucose Injection was submitted to the SDA for application of medicine certificate and production approval.

To leverage on its production facilities, technology in the infusion medicine industry and its innovative staffs, Chengdu Mt. Green will develop new series of therapeutic veterinary infusion medicines, thereby enabling it to move forward and be better positioned for future growth.

Veterinary drug:

Chengdu Yuan Heng continued to pay greater efforts in research and development in order to improve its existing products and explore new products. During the period under review, Chengdu Yuan Heng, worked in conjunction with Sichuan Agriculture University, Sichuan Medical College for Animal Husbandry and an independent research institute in Chengdu for the development of new products. Currently, five new products have been submitted to the relevant authorities for registration.

Also, about 8 products during the period under review has obtained pharmaceutical registrations, namely qingtian, jiaoyang, qingtianfenzhen, yuanhengshuangqin, binghuozhizun, gongli, tyclosone and toubaosaifu.

OUTLOOK

Following China's accession into the WTO, the State Drug Administration promoted the rationalization of the medical system where competition in the market has been intensified. Despite this, the directors are confident that the Group will strive to retain its market share through its strategic long and short terms efforts that seize every opportunity offered by the changes. The Group will also continue to strengthen its research and development capabilities that will provide a solid platform for continuous development in the industry of infusion medicine.

In addition, the Group believes that the optimisation and rationalization of the production process will further realize economy of scale, and also quicken its pace to develop a range of products in the packaging material market, thus providing a fundamental improvement to operating results.

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.

	Business objective for the six months ended 31 January 2003 as disclosed in the Prospectus	Actual business progress for the six months ended 31 January 2003
Research and Development	Continue to develop and expand the Group's product lines	Consistent with the Prospectus
Production	Continue to enhance the productivity of the Group as well as efficiency of production	Consistent with the Prospectus
Chengdu Yuan Heng	Commence planning for introduction of additional production lines to Chengdu Yuan Heng	Deferred due to the delay of an acquisition project. The acquisition of Sichuan Veterinary Medicine Factory (name changed to Sichuan Bio-pharmaceutical Factory) is basically completed. Currently, the company is in the process of obtaining the business licence.
	Applying for GMP approval for the new vaccine factory	Same as above
Sales and distribution	Continue to expand marketing efforts and product promotion	Consistent with the Prospectus
Partnership and alliance activities	Continue to seek investment in biotechnology or pharmaceutical related companies	The Group will continue to locate potential investment in biotechnology or pharmaceutical related companies; however, no agreement has been reached during the period under review.

USE OF PROCEEDS FROM THE PLACING OF NEW SHARES

From the date of listing on 10 April 2001, the Group invested approximately HK\$4.3 million, HK\$20.4 million, and HK\$3.2 million on various projects in the financial years ended 2001, 2002, and six months ended 31 January 2003, respectively. The use of proceeds for the six months ended 31 January 2003 were as follows:

- Approximately HK\$0.3 million was used to conduct research and development activities.
- Approximately HK\$1.1 million was used for purchase of production equipment.
- Approximately HK\$1.8 million was used for investment in Sichuan Veterinary Medicine Factory (name changed to Sichuan Biopharmaceutical Factory).
- Approximately HK\$16.3 million was placed as deposits in banks as at 31 January 2003.

COMPETING INTEREST

None of the directors, the management shareholders or substantial shareholders (as defined in the GEM Listing Rules) of the Company or any of their respective associates 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.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 January 2003, the interests of the directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company pursuant to the minimum standards of dealings by the directors as referred to Rule 5.40 of the GEM Listing Rules were as follows:

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

Note:

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

The interests of the directors in the share options of the Company are separately disclosed in the section “Share option schemes” in this report.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the terms of the Company’s Pre-IPO Share Option Scheme (the “Pre-IPO Plan”) adopted by the Company on 23 March 2001, the Company has granted options to the following directors to subscribe for shares in the Company at any time from 10 October 2001 up to and including 9 April 2011 at an exercise price of HK\$ 0.55 per share. Summarized details of these options which remain outstanding as at 31 January 2003 are as follows:

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

The exercise period of the Pre-IPO Plan is set out under the paragraph headed “Share Option Schemes” below. Details of the Pre-IPO Plan are set out in the Prospectus.

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

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

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

The principal terms of the Convertible Note are set out in the Prospectus.

Save as disclosed above, as at 31 January 2003, 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).

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

SHARE OPTION SCHEMES

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

Pursuant to the Pre-IPO Plan, five employees of the Group (including two executive Directors) were conditionally granted options on 23 March 2001 to subscribe for an aggregate of 7,400,000 shares, which upon exercise in full will result in issue of 7,400,000 additional ordinary shares of HK\$0.05 each for aggregate proceeds of HK\$4,070,000 before the related shares issue expense. All of these options have a duration of 10 years from the date of grant of the options, each is exercisable in accordance with their terms of issue after 6 months from the date of listing of the shares on GEM, but each shall lapse if the relevant grantee ceases to be employed by the relevant companies. The option of 400,000 shares granted to Ms. Yip Yuk Lin, the former qualified accountant, was cancelled on 17 August 2001 due to her resignation from the Group. Therefore, as at 31 January 2003, the number of share options granted to the employees remains 7,000,000 shares. The aggregate amount of HK\$3,850,000 will be generated if all share options are fully exercised. As at 31 January 2003, none of the Directors or employees of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 January 2003, save for interests of Directors disclosed above, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following interests, being 10% or more in the Company's issued share capital:

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

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

SPONSOR'S INTEREST

Yuanta Securities (Hong Kong) Company Limited (name changed to Core Pacific-Yamaichi (Hong Kong) Company Limited) ("Yuanta Securities") had 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 in return for a fee.

As at 31 January 2003, 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.

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. During the period under review, Professor Chiang Chiu Ping Raymond, being one of the independent non-executive director and a member of the audit committee of the Company,

passed away. On 11 November 2002 and 13 January 2003 respectively, Mr. Lo Chun Wing Albert and Mr. Yung Ka Tim were appointed as independent non-executive directors and members of audit committee of the Company. Accordingly, as at the date of this report, the audit committee comprises three independent non-executive directors, namely Mr. Tsim Tak-Lung Dominic, Mr. Lo Chun Wing Albert and Mr. Yung Ka Tim.

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.

The Committee has reviewed the unaudited second quarter results for the six months ended 31 January 2003.

COMPLIANCE WITH BOARD PRACTICE AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the period under review.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 31 January 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Wong Sai Chung
Chairman

Hong Kong, 14 March 2003