

CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

THIRD 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”)

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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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 nine months ended 30 April 2003 amounted to approximately HK\$89,440,000, representing a decrease of approximately 32.5% as compared with that of the corresponding period in 2002.
- Profit attributable to shareholders for the nine months ended 30 April 2003 amounted to approximately HK\$3,740,000, compared with a profit of approximately HK\$14,419,000 recorded by the Group for the corresponding period in 2002.
- Basic earnings per share amounted to approximately 0.75 cents for the nine months ended 30 April 2003.
- The directors do not recommend the payment of a dividend for the nine months ended 30 April 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 nine months ended 30 April 2003 together with the comparative unaudited figures for the corresponding period last year are as follows:

		For the three months ended 30 April		For the nine months ended 30 April	
		2003	2002	2003	2002
	Note	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000 (Restated)
Turnover	2	26,831	42,520	89,440	132,485
Cost of sales		(20,401)	(28,462)	(63,056)	(89,291)
Gross profit		6,430	14,058	26,384	43,194
Other revenue & gains		477	905	1,745	2,190
Selling and distribution costs		(322)	(2,777)	(2,209)	(7,630)
General and administrative expenses		(3,025)	(2,652)	(8,955)	(10,378)
Other operating expenses		(1,093)	(1,658)	(3,790)	(3,894)
PROFIT FROM OPERATING ACTIVITIES		2,467	7,876	13,175	23,482
Finance costs		(2,670)	(2,731)	(7,482)	(7,545)
Share of loss of an associate		(791)	—	(992)	—
PROFIT/(LOSS) BEFORE TAX		(994)	5,145	4,701	15,937
Tax	3	(54)	—	(469)	—
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(1,048)	5,145	4,232	15,937
Minority interests		47	(500)	(492)	(1,518)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,001)	4,645	3,740	14,419
EARNINGS/(LOSS) PER SHARE	4				
— Basic		(0.20) cents	0.93 cents	0.75 cents	2.88 cents
— Diluted		N/A	0.88 cents	N/A	2.72 cents

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.

Certain items in the income statement were restated, which would result in a more appropriate presentation of events or transactions, to conform with the current period’s presentation.

2. Turnover

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 is as follows:

	For the three months ended 30 April		For the nine months ended 30 April	
	2003	2002	2003	2002
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sale of human drugs				
— infusion medicine	13,790	23,464	43,424	70,978
Sale of veterinary drugs	4,120	7,798	18,003	22,199
Sale of packaging materials for infusion medicine	8,921	11,258	28,013	39,308
	26,831	42,520	89,440	132,485

3. Tax

No provision for Hong Kong profits tax has been made, as the Group had no assessable profits arising in Hong Kong for the nine months ended 30 April 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 30 April 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 nine months ended 30 April 2003 (2002: Nil).

4. Earnings per share

The calculation of the basic (loss)/earnings per share for the three months and nine months ended 30 April 2003 is based on the unaudited consolidated (loss)/profit attributable to shareholders of approximately HK\$(1,001,000) and approximately HK\$3,740,000 respectively (three months and nine months ended 30 April 2002: net profit of approximately HK\$4,645,000 and approximately HK\$14,419,000 respectively) and the weighted average number of 500,000,000 for the three months and nine months ended 30 April 2003 (three months and nine months ended 30 April 2002: 500,000,000) ordinary shares in issue.

Diluted (loss)/earnings per share for the three months and nine months ended 30 April 2003 is not presented as the potential ordinary shares outstanding had an anti-dilutive effect on the basic (loss)/earnings per share for the three months and nine months ended 30 April 2003.

The calculation of diluted earnings per share for the three months and nine months ended 30 April 2002 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$4,809,000 and approximately HK\$14,923,000 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 ordinary shares outstanding plus the respective weighted average number of 48,619,564 ordinary shares deemed to be issued as if the Convertible Note had been converted upon the listing.

5. Reserves

	Share premium <i>HK\$'000</i>	Exchange Capital fluctuation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 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>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	—	(624)	—	366	(258)
As restated	17,992	27,104	25	29,769	74,890
Net profit for the period	—	—	—	14,419	14,419
At 30 April 2002	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>44,188</u>	<u>89,309</u>
At 1 August 2002	17,992	27,104	25	50,267	95,388
Profit for the period	—	—	—	3,740	3,740
At 30 April 2003	<u>17,992</u>	<u>27,104</u>	<u>25</u>	<u>54,007</u>	<u>99,128</u>

DIVIDEND

The directors do not recommend the payment of any interim dividend for the nine months ended 30 April 2003. (2002: Nil)

BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

For the nine months ended 30 April 2003, the Group recorded a turnover of approximately HK\$89,440,000 and profit attributable to shareholders of approximately HK\$3,740,000. This represented a drop of 32.5% in terms of turnover as compared with the corresponding period in 2002. The decrease was mainly due to the keen competition within the infusion medicine and packaging material markets. In addition, the outbreak of Severe Acute Respiratory Syndrome (“SARS”) virus in the PRC adversely affected the operations and sales of the Group.

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

During the period under review, the sale of infusion medicine amounted to approximately HK\$43,424,000, representing a decrease of approximately 38.8% as compared with the sale for the corresponding period in 2002. The decrease was mainly due to the series of reforms in the infusion medicine industry enforced by the PRC government and the keen competition in the market in recent years. The Company suffered a substantial price cutting on infusion medicine products and reduction in the profit margin thereof.

In response to the changes imposed by the PRC government, the company has steadfastly adjusted its overall sales and marketing strategies by selling directly to hospitals so as to minimize credit risks, by increasing customer contact and customer bases and by maintaining a close relationship with customers. Meanwhile, with a view to maintaining the market share and further growth in the infusion medicine industry, the company has restructured the product mix by focusing its fund and research efforts on the existing profitable products. This restructuring, indeed, increased the profit margin and thus maintained the company’s competitive edge. The company also accelerated the development of new infusion medicine products which would have great potential commercial value, so as to expand the product range of the company.

During the period under review, the production lines for non-PVC bags branch factory commenced their trial run. It is expected that the lines will be in full operation in the next quarter.

Subsequent to the period ended 30 April 2003, Chengdu Mt. Green successfully acquired a 51.05% interest in Sichuan Shule Pharmaceutical Joint Stock Company Limited (“Sichuan Shule”) for a consideration of approximately HK\$13.3 million in May 2003. Sichuan Shule is a company established in China as a joint stock company, and is principally engaged in the production and sale of a wide range of infusion and non-infusion medicine. The directors believe that the acquisition of Sichuan Shule will further enhance the overall competitiveness of the Group and will better position the Group in various market sectors.

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

Sichuan Future recorded a turnover of approximately HK\$28,013,000 for the nine-month period, which represented a decline of approximately of 28.7% as compared with the turnover for the corresponding period in the preceding year. The decline was mainly due to adverse market conditions and the emergence of SARS in the PRC. Sale of the medical caps used for the normal infusion medicines has been affected. To overcome the difficult market conditions, Sichuan Future endeavoured to optimize and rationalize its production processes to reduce production cost, enhance product quality, and to reinforce marketing efforts in strengthening sale and distribution in China market.

Focusing on research and development continued to be the core management strategy of the company to maintain its leading position in the market. The company during the period under review devoted more efforts to sale and promotion, by participating in technical conference and trade fairs as well as conducting regular visits to customers in the PRC. Further, a detailed survey of main hospitals in Sichuan province was conducted to keep abreast of the market conditions, so as to adjust the marketing strategy on a timely basis.

In the period under review, the patent for ultrasonic heating system was 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 sales of veterinary drugs amounted to approximately HK\$18,003,000 for the nine-month period ended 30 April 2003, representing a decrease of approximately 18.9% as compared with the sale for the corresponding period in the preceding year. The decline was mainly due to three factors: (1) A series of measures in the veterinary drug industry were enforced by the PRC government. Among the measures introduced was the prohibition against the use of certain veterinary drugs, including two of Chengdu Yuan Heng’s principal products, namely Tyclosone Injection and Xmelin-C. The prohibition of the sale of these two products materially affected the turnover and profit margin of the company. (2) In January 2003, the PRC government decreed to standardize the labeling and packaging of veterinary drugs. With effective from March 2003, the labels and instructions for the use of veterinary drugs are all subject to be reviewed by the relevant authorities at provincial level. In order to comply with the new labeling and packaging measure for veterinary drugs, the new labels and instructions for veterinary drugs were re-drafted and then submitted to the relevant authorities for review and approval. These resulted in the overall production schedule of veterinary drugs falling behind the original plan. Moreover, the distributors had to return some veterinary drugs for repackaging. (3) The SARS virus had affected many parts of the PRC. The PRC government strictly enforced its quarantine rules with the result that even normal sale and marketing activities for the veterinary drugs were curtailed.

In view of such changes in the industry, Chengdu Yuan Heng reordered its priorities by focusing on the research and development of new products and by enhancing production technology levels of existing products. In addition, the company has initiated new measures to control operation costs, integrate logistics processes and improve production techniques, with a view to achieving cost savings and increasing the profit margin for the company.

As a result of the emergence of SARS in the PRC, Beijing became one of the most infected areas in the PRC that caused delay in the overall review process by the Ministry of Agriculture. The business licence for Sichuan Veterinary Medicine is currently pending reassessment by the Ministry of Agriculture.

Research and Development

Infusion medicine:

Chengdu Mt. Green continued to pay its efforts to research and development in order to improve its existing products and to explore new products. During the period under review, Chengdu Mt. Green, worked in conjunction with Tianjin Lanheng Medicine and Chemistry Institute, Beijing Bailai Medicine Technology Co. and Chengdu Xinjie Scientific Technology and Development Co., Ltd. for the development of new infusion medicines. The projects are currently progressing satisfactorily.

Veterinary drug:

During the period under review, about 14 products have obtained pharmaceutical registration, namely Compound Benzathine Benzylpenicilin for Injection (120M), An Qing Powder Injection, Compound Benzathine Benzylpenicilin for Injection (60M), Gentamycini-Micronomicini Sulfatis Injection, Compound Chai Hu Injection, Compound Cirofloxacin Hydrochloride Injection, Enroploxacin Injection Lasting Effect, Clindamycin Hydrochloride Injection, Compound Norfloxacin Injection, Compound Enrofloxacin Injection, Enrlfolxacin Powder Injection, Ru Yan Kang Injection, Pefloxacin Mesylatis Injection and Ivermectin Injection.

Of those new registrations, Compound Norfloxacin Injection, is an innovative product of modernized Chinese and western medicine compound, which was co-developed under the joint effort with Sichuan Medical College for Animal Husbandry. It demonstrated better curative effect in clinical testings. The trial production is expected to run in the next quarter. Through the joint development with Sichuan Agriculture University, Ru Yan Kang Injection, a product of pure traditional Chinese medicine, was also launched. The drug has achieved widespread consumer recognition since its launch. Currently the application for the registration of three other veterinary drugs, through the co-operation with Sichuan Medical College for Animal Husbandry and Sichuan Agriculture University, are underway.

OUTLOOK

The directors believe that severe competition in the infusion medicine and packaging material industries in the PRC will continue to affect adversely the profit margin of the Group. Facing these challenges, the Group will make every effort to improve the operation results of the Group and continue to strengthen its research and development capabilities to provide a solid platform for its continuous development.

The Group will also continue to explore the possibility of investment opportunities in various reputable pharmaceutical companies, by which to further enhance its competitiveness in the industry and to strengthen the profitability of the Group.

COMPETING INTEREST

During the period under review, the following directors and their respective associates (as defined under the GEM Listing Rules) were taken to be interested in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group as set out below:

Mr. Wong Sai Wa (“Mr. Wong”), Mr. Tang Gang (“Mr. Tang”) and Ms. Yu Qiong Qiong (“Ms. Yu”) (the wife of Mr. Tang and the financial controller of Sichuan Future) were at the same time directors of Sichuan Shule, which was also engaged in the production and sales of a wide range of infusion and non-infusion medicine.

Other than the directorships of Mr. Wong, Mr. Tang and Ms. Yu in Sichuan Shule, none of the directors, chief executives, management shareholders, controlling shareholders or substantial shareholders of the Company or their respective associates had any interest in, or was otherwise connected with, Sichuan Shule.

The relevant announcement for above disclosure was made on 12 May 2003. Subsequent to the period ended 30 April 2003, Chengdu Mt. Green successfully acquired a controlling stake in Sichuan Shule in May 2003.

Save as disclosed above, during the period under review, none of directors or the management shareholders of the Company or their respective associates had any interest in a business which competed or might compete with the business of the Group or had any other conflict of interest with the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY

As at 30 April 2003, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register required to be kept by the Company, pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Note: The interests in the shares of the Company attributable to Mr. Wong Sai Chung, an executive director, are 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.

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 the options which remain outstanding as at 30 April 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 under 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 interests in the shares of the Company attributable to Mr. Wong Sai Chung are 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.

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

The interests of the directors in share options granted by the Company are separately disclosed in the section "Share option schemes" in this report.

Save as disclosed above, as at 30 April 2003, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules.

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 a Share Option Scheme (the "Share Option Scheme"), the principal terms of both 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 the issue of 7,400,000 additional ordinary shares of HK\$0.05 each for aggregate proceeds of HK\$4,070,000 before the related shares issue expenses. All of these options have a duration of 10 years from the date of grant of the options, and each option is exercisable in accordance with the 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. Accordingly, as at 30 April 2003, the number of share options granted to the employees remained 7,000,000 shares. An aggregate amount of HK\$3,850,000 will be generated if all share options are fully exercised. As at 30 April 2003, none of the directors or employees of the Company had exercised any share option and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

On 23 March 2001, the Company adopted the Share Option Scheme under which the board of directors of the Company may, at its discretion, grant options to full time employees of the Group, including any executive directors of the Company and of 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 period under review.

Save as disclosed above, 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.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 April 2003, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group were as follows:

Name of shareholder	Company/ Name of Group member	Capacity	Number of shares held	% of shareholding
Concord Pharmaceutical Technology (Holdings) Limited <i>(Note)</i>	Company	Beneficial owner	400,000,000	80
Concord Business Management Limited <i>(Note)</i>	Company	Interest of a controlled corporation	400,000,000	80
Mr. Wong Sai Chung <i>(Note)</i>	Company	Interest of a controlled corporation	<u>400,000,000</u>	<u>80</u>

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 be interested in the 400,000,000 shares of the Company held by Concord Pharmaceutical Technology (Holdings) Limited.

As at 30 April 2003, Mr. Wong Sai Chung, Concord Business Management Limited and Concord Pharmaceutical Technology (Holdings) Limited were, or were taken to be, interested in the Convertible Note referred to in the section “Directors’ and Chief Executives’ interests in the Shares of the Company” in this report.

Save as disclosed above, as at 30 April 2003, the directors or chief executives of the Company were not aware of any other person (other than directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

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 30 April 2003, none of CPY Capital, its directors and employees or their respective associates had 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 independent non-executive directors and members of audit committee of the Company. Subsequent to the period under review, Mr. Lo Chun Wing Albert resigned as an independent non-executive director and a member of the audit committee of the Company with effect from 26 May 2003. Accordingly, as at the date of this announcement, the audit committee comprises two independent non-executive directors, namely Mr. Tsim Tak-Lung Dominic, 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 is also responsible for reviewing and providing supervision over the financial reporting process and internal control of the Group.

The audit committee has reviewed the unaudited third quarter results for the nine months ended 30 April 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 nine months ended 30 April 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, 13 June 2003.