

**CHINA MEDICAL SCIENCE LIMITED**

**中華藥業有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**ANNUAL 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 newspapers. 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.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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

**3-10**

Chairman's Statement

**11-17**

Profiles of Directors and Senior Management

**18**

Comparison of Business Objectives with  
Actual Business Progress

**19**

Use of Proceeds from the  
Placing of New Shares

**20-28**

Report of the Directors

**29**

Report of the Auditors

**30**

Consolidated Profit and Loss Account

**31-32**

Consolidated Balance Sheet

**33**

Consolidated Statement of Changes in Equity

**34-35**

Consolidated Cash Flow Statement

**36**

Balance Sheet

**37-76**

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

Tsim Tak Lung, Dominic  
Chow Wai Ming

## AUDIT COMMITTEE

Tsim Tak Lung, Dominic  
Chow Wai Ming

## 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  
The Agricultural Bank of China, PRC  
Industrial and Commercial Bank of China, PRC  
Citic Industrial Bank, PRC

## REGISTERED OFFICE

Ugland House  
P.O.Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## AUDITORS

Ernst & Young  
*Certified Public Accountants*

## 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  
G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai, Hong Kong

# Chairman's Statement

---

## FINANCIAL REVIEW

For the year ended 31 July 2003, the Group recorded a turnover of approximately HK\$128,046,000 and loss from ordinary activities attributable to shareholders of approximately HK\$652,000. This represented a drop of 29.2% in terms of turnover as compared with the preceding year. The decline was mainly due to the keen competition in the infusion medicine and packaging material market, with product prices declining. The outbreak of Severe Acute Respiratory Syndrome (“SARS”) virus in the PRC also adversely affected the operations and sales of the Group. Moreover, the Group adopted prudent measures that the provision for doubtful debts was charged by approximately HK\$2,159,000 for the year under review.

## SEGMENT INFORMATION

For the year under review, the Group was 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 generally finances its operation through internally generated cashflows and banking facilities provided by its principal banks in the PRC. 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 July 2003, the aggregate borrowings were approximately HK\$223,135,000 (2002: approximately HK\$133,030,000) of which approximately HK\$111,265,000 (2002: approximately HK\$64,276,000) were partially secured by pledged bank deposits or by assets of certain subsidiaries. As at 31 July 2003, the amount of banking facilities available and utilized was approximately HK\$290,122,000 (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 local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

## GEARING RATIO

As at 31 July 2003, the gearing ratio (total borrowing, including notes payables, less cash and cash equivalents and pledged bank deposits to total assets) was approximately 36.9% (2002: approximately 28.8%).

# Chairman's Statement

---

## 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 ASSETS

As at 31 July 2003, certain of the Group's leasehold land and buildings situated in the PRC, plant and machinery with net book values of approximately HK\$68,337,000 (2002: approximately HK\$55,842,000), and HK\$35,232,000 (2002: approximately HK\$17,327,000) respectively and bank and time deposits of approximately HK\$63,512,000 (2002: approximately HK\$51,187,000) were pledged to secure general banking facilities granted to the Group.

## CONTINGENT LIABILITIES

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

## CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENT

At 31 July 2003, the Group had outstanding capital commitment of approximately HK\$4,943,000 (2002: approximately HK\$15,953,000) and the Group did not have any significant investments.

## FUTURE PLAN FOR INVESTMENT

Except as disclosed in the financial statements, as at 31 July 2003, the Group had no future plan for material investment and capital assets.

## MATERIAL ACQUISITIONS/DISPOSALS

During the year ended 31 July 2003, Chengdu Mt. Green, a 91% owned subsidiary established in Chengdu, Sichuan, had acquired a 51.05% interest in Sichuan Shule for a consideration of approximately HK\$13.4 million in May 2003. Except that, the group had no other material acquisitions or disposals of subsidiaries and affiliated companies during the year under review.

# Chairman's Statement

---

## EMPLOYEE INFORMATION

As at 31 July 2003, the total remuneration to employees, including directors' emoluments amounted to approximately HK\$8,496,000 (2002: approximately HK\$9,911,000). Remuneration is determined by reference to the performance, qualification, experience of individual employee and the prevailing industry practice. 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 1,047 employees (2002: 839) in Hong Kong and the PRC.

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

During the year under review, the sale of Chengdu Mt. Green amounted to approximately HK\$55,056,000, representing a decrease of approximately 42.1% as compared with that of 2002. The decline was mainly due to the reform of medical system in the PRC further intensified; tendering systems were introduced in hospitals, prices of products under price control of the State kept decreasing, that caused the competition in the infusion medicine market become more intense. Also, the single series of product with low added-value was and is still one of the major risk factors for Chengdu Mt. Green's performance. During the year under review, Chengdu Mt. Green faced such risk to a much more material extent as most of the competitors have a diversified products portfolio.

In response to regulatory changes imposed by the PRC government, the company has steadfastly adjusted its overall sales and marketing strategies. Instead of selling the infusion medicines by the regional managers, the company now sells directly the products to sole distributors and hospitals so as to minimize credit risks. Meanwhile, with a view to maintaining the market presence and achieve further growth in the infusion medicine industry, the company has restructured its product mix by focusing its fund and research efforts in developing the new profitable products.

During the year under review, Chengdu Mt. Green successfully acquired a 51.05% interest in Sichuan Shule for a consideration of approximately HK\$13.4 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.

The turnover of approximately HK\$13,130,000, representing two month's sale of Sichuan Shule since the acquisition, was included as part of the turnover for the year ended 31 July 2003.

# Chairman's Statement

---

## **SICHUAN FUTURE INDUSTRIAL CO., LTD. (“SICHUAN FUTURE”)**

During the year under review, Sichuan Future recorded a turnover of approximately HK\$36,835,000, representing a decrease of approximately 29.7% as compared with that in the preceding year. The decrease was mainly due to adverse market conditions and the recent outbreak of SARS in the PRC. In response to these unfavourable market conditions, Sichuan Future, during the year under review, endeavoured its efforts to strengthen its internal management, thereby streamlining its operational procedure, enhancing product quality and controlling cost on expenditure. Reducing the staff cost and enhancing the company's inventory re-ordering system were the procedures adopted during the year.

During the year under review, Sichuan Future still continued its market-oriented sale strategy by primarily focusing on high end products, which are complemented by low-mid range products, enabling Sichuan Future to increase both the geographical reach and depth of the market penetration.

With the advantages from multi-coloured transparent aluminium plastic cap with new nano-technology on the aspect of technology, and quality, Sichuan Future, during the year, successfully developed the tamper-evidence aluminium plastic cap, which was a self-developed product.

During the year under review, the patent for ultrasonic heating system was obtained from the relevant authorities in the PRC. Together with this new patent, Sichuan Future, at present, has a total portfolio of five patents.

## **CHENGDU VIKING YUAN HENG PHARMACEUTICAL CO., LTD. (“CHENGDU YUAN HENG”)**

The sale of veterinary drugs amounted to approximately HK\$23,025,000 for the year under review, representing a decrease of approximately 31% as compared with the sale in the preceding year. The decrease was mainly due to the following factors: (1) Certain veterinary drugs were banned by the PRC government in 2002, 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 for the year. (2) Under the notice number 22 issued by the department of Agriculture of Sichuan in January 2003, labels and instructions used for veterinary drugs are now all subject to be reviewed by the relevant authorities at provincial level with effect from March 2003. In order to comply with the new labeling and packaging measures for veterinary drugs, the new series of labels and instructions for veterinary drugs were re-drafted and then submitted to the relevant authorities for review and approval; however, as a result of unexpected increase in volume of applications, the overall review and approval process for new labels and instruction had been prolonged by the relevant authorities at provincial level. These seriously caused 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.



# Chairman's Statement

---

## **CHENGDU VIKING YUAN HENG PHARMACEUTICAL CO., LTD. (“CHENGDU YUAN HENG”)**

*(continued)*

In view of such changes in the industry, Chengdu Yuan Heng reordered its priorities by focusing on the research and development of new products. In addition, the company has also initiated new measures to streamline the cost structure, integrate logistics processes and improve production techniques, so as to achieve cost savings and increase the profit margin for the company.

As a result of the outbreak of the 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 for the reassessment by the Ministry of Agriculture.

### **SALES AND MARKETING**

1. During the year under review, Chengdu Mt. Green endeavoured to restructure its overall sales system, while the company adjusted the receivables and undertook the overall assessment of customers to standardize the established sales network and strengthen customer relationship.
2. Sichuan Future, during the year 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. Furthermore, a more 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.
3. To further strengthen the after-sale service and technical support of the veterinary drugs, Chengdu Yuan Heng during the year under review established technical support department, thereby strengthen and develop the company's business more steadily in the long term. During the year, the technical conferences were held in Sichuan province, Hebei province, Henan province, Heilongjiang province, Guizhou province and Yunnan province to enhance the company's reputation in the market.

### **BUSINESS STRATEGIES**

To ensure a promising future in the bio-pharmaceutical industry, the Group will adopt the strategies as follows:

1. Apart from conducting R&D on new products through in-house professional R&D team, the Group will continue to maintain the strategic alliances with various reputable universities, institutes and companies, thereby combining the expertise and resources of various parties to help the Group in strengthening its R&D capability and to enhance its competitiveness.
2. Expanding sales and marketing activities throughout the PRC by increasing and broadening its sales team and marketing programme, thereby enhancing market presence of the Group.

# Chairman's Statement

---

## **BUSINESS STRATEGIES** *(continued)*

3. Continue to enhance the overall management by introducing innovative approach into internal management so as to improve management efficiency.
4. Continue to develop new competitive products that both suit for modern pharmaceutical consumption and meet local and international market demand, thereby creating economic benefits to the Group.
5. In addition to grasping the investment opportunity currently available, the Group will build strategic alliances through mergers and acquisitions with potential company, which are complementary to the Group so as to enhance corporate economic effectiveness.

## **RESEARCH AND DEVELOPMENT**

### *Infusion medicine:*

Currently, Chengdu Mt. Green has a variety of infusion medicines in the research and development pipeline. During the year under review, about 8 products were submitted to the State Drug Administration (“SDA”) for the application of product registration, namely 100ml Isosorbide Mononitrate and Glucose Injection, 100ml Fluorouracil and Sodium Chloride Injection, Acidum Para-aminomethy Lbenzoicdum and Glucose Injection, Levofloxacin Injection, 250ml Sodium Dzagrel and Sodium Chloride Injection, 500ml Xylitol Injection, Troxerutin and Sodium Chloride Injection and Gancicloviv. However, up to the date of this report, such approval has not been obtained and applications are still in progress.

### *Veterinary drug:*

During the year under review, about 19 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, Ivermectin Injection, Ciprofloxacin Lactatis Injection, Huang Qi Duo Tang Injection, Enrofloxacin Injection, Atropine Sulfate Injection, and Compound Lincomycin Hydrochloride Injection.

# Chairman's Statement

---

## RESEARCH AND DEVELOPMENT *(continued)*

### *Veterinary drug: (continued)*

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 testing. Also, Ru Yan Kang Injection, through the joint development with Sichuan Agriculture University, is a product of pure traditional Chinese medicine specialising in the treatment of cow mastitis. The drug was well received since its launch. Currently, another three veterinary drugs, through the co-operation with Sichuan Medical College for Animal Husbandry and Sichuan Agriculture University, have been submitted for registration.

To cope with the Group's rapid development of new veterinary drugs, Chengdu Yuan Heng, during the year under review, has entered into an agreement with ABC Lifescience Inc and Pacific Meridian Group to introduce Suvaxyn Respifend MH, an innovative veterinary drugs used for the pig.

## OUTLOOK

In view of the various regulations and reforms imposed by the PRC government, and the keen market competition, the operations of the Group become more and more difficult. In this regard, the subsidiaries of the Company, according to their own circumstances, will proactively adopt different strategies to improve their viability.

The strategies of Chengdu Mt. Green include adjusting product structures, developing new products, maintaining existing markets and developing new markets, for the coming year. In order to achieve these strategies, Chengdu Mt. Green is going to cooperate with international natural medicine trust funds and international scientific research institutions to develop high value added and technologically advanced medical products. Meanwhile, the company will complete the GMP certification in 2004 in order to prove the quality of products and the brand name of the company.

Research and development of more new medical products will still be the key task for Sichuan Shule in the future. The company will follow the market condition to adjust its product structure. It will consolidate the existing product range and expand into new products of high value added and advanced technology.

As the packaging of medicine is more and more important nowadays, Sichuan Future thought that those premier aluminium-plastic caps of high profit margin will be the major products in future market and it will provide a lot of opportunities to the industry. In respect of product mix strategies, Sichuan Future will still use low and middle class products to keep market share. High end products will be used to expand the company's market share. By joint venture or transfer of technology with drugs manufacturers, the company can share resources with the cooperative partners in order to achieve the win-win situations.

# Chairman's Statement

---

## **OUTLOOK** *(continued)*

It is expected that, upon the entering into WTO, the PRC government will strengthen its measures in governing and control of veterinary products. As Chengdu Yuan Heng has already obtained the GMP certification, the quality of its products has been guaranteed. In considering that there are only few manufactures have GMP certification in the industry, we believe that there will be a lot of opportunities for Chengdu Yuan Heng in the near future.

Although the performance of the Group for the year ended 31 July 2003 was quite disappointing as compared with the corresponding year in 2002, the management believe that, with the newly acquired Sichuan Shule and the opportunities in the market, the results of the Group would be promising in 2004.

# Profiles of Directors and Senior Management

---

## EXECUTIVE DIRECTORS

*Mr. Wong Sai Chung*, aged 53, 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 60, 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 53, 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 55, 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 29, 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

*Mr. Tsim Tak-Lung*, Dominic, aged 56, 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.

*Mr. Chow Wai Ming*, aged 49, graduated from University of Hong Kong. Mr. Chow has over 20 years of investment banking experience including 15 years at Schroders Asia Ltd., one of the largest investment banks and fund managers in Europe. In 1999, he was the Vice Chairman of the Hong Kong Capital Markets Association (the "Association") whose objective is to promote the local debt capital markets. The Association has over 100 active investment banks as its members. Mr. Chow was also the convenor of the Association's PRC sub-committee from 1995 to 2000. Mr. Chow was appointed as a director in July 2003.

Mr. Chow is also the financial advisor of the Tianjin Municipal government where he advises the Tianjin Municipal government in relation to the development of the Tianjin new coastal area.

## 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 40, 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 47, 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.

# Profiles of Directors and Senior Management

---

## **INTERNATIONAL ADVISORY COMMITTEE** *(continued)*

*Dr. Xiao Min (肖敏)*, aged 44, 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 43 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 60, 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 39, 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.

# Profiles of Directors and Senior Management

---

## SENIOR MANAGEMENT

### **Mt. Green Li Kong**

*Ms. Xu Shi Lan*, aged 49, is the general manager of Mt. Green Li Kong Co. Ltd. (青山利康藥業有限公司) and holds a position as an associate researcher. She holds a master degree in law of Sichuan University. Ms. Xu acted as officer and other key positions in a medical university and vice general manager in a pharmaceutical company. Ms Xu has 20 years of experience in corporate management.

*Mr. Li Yun Tian*, aged 39, is the financial controller of Mt. Green Li Kong Co. Ltd. (青山利康藥業有限公司) and holds a position as an accountant. He is graduated in professional accounting field. Mr. Li worked in the First Subsidiary Hospital of Wa Xi University (華西醫科大學) as a chief financial controller of the State Chinese Medicine Safety Assessment Centre. Mr. Li has profound experience in finance.

### **Medical Section**

*Mr. Zhang Yue*, aged 40, is the head of the Supply Department of the Group's medical section and the general manager of Sichuan Future. Prior to joining the Group, he 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 51, is the financial controller of the Group's medical section 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). 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.



# Profiles of Directors and Senior Management

---

## SENIOR MANAGEMENT *(continued)*

### Medical Section *(continued)*

*Mr. Wang Ya Jun*, aged 38, is the deputy general manager of the Group's medical section. Mr. Wang is a chief pharmaceutical engineer and holds a master degree in business administration of Sichuan University. He has nearly 20 years of experience in pharmaceutical enterprise technology and production management. Since 1985, he has been working in the corporate of Sichuan Shule (四川蜀樂). He was promoted deputy general manager (general affairs) of the company.

*Dr. Shao Jian Ben*, aged 61, is the deputy general manager of the Group's medical section. Dr. Shao manages the doctors. He holds a master degree in combined Speciality of organic medicine of Second Military Medical University. He has served in military hospital for years and is experienced in the R&D management of pharmaceutical enterprise.

*Mr. Li Hua Liang*, aged 39, is the vice financial controller of the Group's medical section. Mr. Li is a registered accountant graduated from Anhui University of Finance and Trade (安徽財貿大學) and has profound experience in financial management of sizable integrated companies.

*Ms Yuan Cheng Gao*, aged 53, is the head of the R&D department of the Group's medical section and the head of the quality control department of Sichuan Shule (四川蜀樂). Ms Yuan is a pharmaceutical engineer with specialty qualification of the Pharmaceutical Faculty of Chengdu Chinese Medicine University. She has worked in hospitals before and has more than 20 years of experience in the examination, quality inspection, quality control, R&D of drugs in pharmaceutical enterprise, as well as work experience in the middle-ranks.

# Profiles of Directors and Senior Management

---

## SENIOR MANAGEMENT *(continued)*

### Veterinary Drug Section

*Mr. Xiong Nan*, aged 57, is the general manager of the Group's Veterinary drug section. 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. He has years of experience in management.

*Mr. Dai Yong De*, aged 36, is the deputy general manager of the Group's veterinary drug section. 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. He has years of experience in the research and development in veterinary drugs.

*Ms. Huang You Qin*, aged 55, is the financial controller of the Group's veterinary drug section. Ms. Huang graduated from the Accounting field of South West Finance University (西南財經大學) and is a senior accountant with full experience in financial management and accounting in large enterprises.

*Ms. Jiang Gui Bi*, aged 46, is the vice financial controller of the Group's veterinary drug section. Ms. Jiang is a registered accountant and graduated from Chongqing Telecommunication College (重慶郵電學院). She has years of experience in financial management and business administration.

*Mr. Shi Mei Qi*, aged 43, is the head of the sales department of the Group's veterinary drug section. Mr. Shi is an economist and holds a MBA degree of Economic and Management Institute in Sichuan Province (四川省經濟管理學院). He has worked in large military and industrial enterprises and has 8 years of experience in sale management of veterinary drugs.

# Profiles of Directors and Senior Management

---

## SENIOR MANAGEMENT *(continued)*

### Hong Kong

*Dr. Chan Ka Keung*, aged 36, 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 36, is the qualified accountant of the Company. 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 38, 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.

	<b>Business objective for the year ended 31 July 2003 as disclosed in the Prospectus</b>	<b>Actual business progress for the year ended 31 July 2003</b>
<b>Research and development</b>	Continue to develop and expand the Group's product lines	Consistent with the Prospectus
<b>Production</b>	Continue to enhance the productivity of the Group as well as efficiency of production	Consistent with the Prospectus
<b><i>Chengdu Yuan Heng</i></b>	Installation 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. The business licence of Sichuan Bio-pharmaceutical Factory is currently pending reassessment by the Ministry of Agriculture in Beijing.
	Obtain GMP approval for the new vaccine factory	Same as above.
<b>Sales and distribution</b>	Continue to expand marketing efforts and product promotion	Consistent with the Prospectus.
<b>Partnership and alliance activities</b>	Continue to seek investment in biotechnology or pharmaceutical related companies	During the year under review, Chengdu Mt. Green, 91% owned subsidiary successfully acquired a 51.05% interest in Sichuan Shule. Except that, no other potential agreement has been reached during the year under review.

## Use of Proceeds from the Placing of New Shares

---

From the date of listing on April 2001, the Group invested approximately HK\$4.3 million, HK\$20.4 million, and HK\$18 million on various projects in the financial years ended 2001, 2002, and 2003, respectively. The use of proceeds for the year ended 31 July 2003 were as follows:

- Approximately HK\$1.0 million was used to conduct research and development activities.
- Approximately HK\$2.3 million was used for purchase of production equipment.
- Approximately HK\$1.7 million was used for investment in Sichuan Veterinary Medicine Factory (name changed to Sichuan Bio-pharmaceutical Factory).
- Approximately HK\$13.0 million was used for investment in Sichuan Shule.
- Approximately HK\$1.5 million was placed as deposits in banks as at 31 July 2003.

# Report of the Directors

---

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 July 2003.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 July 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 76.

No interim dividend was paid during the year and the directors do not recommend the payment of a final dividend for the year.

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last four financial periods, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

## RESULTS

	<b>Year ended 31 July 2003 HK\$'000</b>	Year ended 31 July 2002 HK\$'000	Year ended 31 July 2001 HK\$'000	Period from 25 June 1999 to 31 July 2000 HK\$'000
Turnover	<b>128,046</b>	180,925	184,045	25,089
Cost of sales	<b>(92,102)</b>	(121,690)	(120,326)	(16,660)
Gross profit	<b>35,944</b>	59,235	63,719	8,429
Other revenue and gains	<b>2,268</b>	2,903	1,652	63
Selling and distribution costs	<b>(5,904)</b>	(9,191)	(11,052)	(1,561)
General and administrative expenses	<b>(12,196)</b>	(12,624)	(9,538)	(3,125)
Other operating expenses	<b>(10,960)</b>	(6,962)	(5,555)	(1,195)
Profit from operating activities	<b>9,152</b>	33,361	39,226	2,611
Finance costs	<b>(9,415)</b>	(9,520)	(7,081)	(1,432)
Share of loss of an associate	<b>(1,202)</b>	(272)	—	—
Profit/(loss) before tax	<b>(1,465)</b>	23,569	32,145	1,179
Tax	<b>(783)</b>	(848)	—	—
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>(2,248)</b>	22,721	32,145	1,179
Minority interests	<b>1,596</b>	(2,223)	(3,051)	(504)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>(652)</b>	20,498	29,094	675
ASSETS, LIABILITIES AND MINORITY INTERESTS				
TOTAL ASSETS	<b>589,802</b>	416,104	316,602	157,800
TOTAL LIABILITIES	<b>(454,032)</b>	(286,675)	(203,572)	(124,189)
MINORITY INTERESTS	<b>(16,034)</b>	(9,041)	(13,140)	(32,911)
	<b>119,736</b>	120,388	99,890	700

# Report of the Directors

---

*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.*

## **FIXED ASSETS**

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws 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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

## **DISTRIBUTABLE RESERVES**

Under the laws of the Cayman Islands, the Company may make a distribution to its members out of the share premium account under certain circumstances. At 31 July 2003, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 revision) of the Cayman Islands, amounted to HK\$52,967,000.

## **MAJOR CUSTOMERS AND SUPPLIERS**

Sales to the Group's five largest customers accounted for 78% of the total sales for the year and sales to the largest customers included therein amounted to 58%. Purchases from the Group's five largest suppliers accounted for 56% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.



# Report of the Directors

---

## MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

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 customers and 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 (passed away on 12 August 2002)

Mr. Tsim Tak Lung, Dominic

Mr. Lo Chun Wing, Albert (appointed on 11 November 2002 and resigned on 26 May 2003)

Mr. Yung Ka Tim (appointed on 13 January 2003 and resigned on 15 July 2003)

Mr. Chow Wai Ming (appointed on 11 July 2003)

In accordance with article 99 of the Company's articles of association, Mr. Chow Wai Ming will retire by rotation and, being eligible, will offer himself for re-election.

In accordance with article 116 of the Company's articles of association, Mr. Wong Sai Chung and Mr. Tsim Tak Lung, Dominic will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The 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.

## 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 11 to 17 of the annual report.

# Report of the Directors

---

## 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) and shall be continuing thereafter, which is subject to termination by either party giving not less than six calendar months' written notice.

The independent non-executive directors of the Company have not been appointed for specific terms but shall be subjected to retirement by rotation in accordance with the Articles of Association of the Company.

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 38 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 July 2003, the interests and short positions of the directors and their associates in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies Rules 5.40 of the GEM Listing Rules, were as follows:

Long Positions:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Wong Sai Chung ( <i>note</i> )	Through controlled corporations	<u>400,000,000</u>	<u>80</u>

*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.*

# Report of the Directors

---

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES** *(continued)*

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debenture of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies Rule 5.40 of the GEM Listing Rules.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARE 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 at 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 28 to the financial statements.

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 minor children, 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**

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 31 to the financial statements.

Concerning the share options granted during the year to the directors, employees, suppliers and others, as detailed in note 31, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the value of share options calculated using theoretical models is 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.

# Report of the Directors

## INTERESTS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

At 31 July 2003, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Concord Pharmaceutical Technology (Holdings) Limited	<i>a&amp;b</i>	Directly beneficially owned	400,000,000	80
Concord Business Management Limited	<i>a</i>	Through a controlled corporation	400,000,000	80
Mr. Wong Sai Chung	<i>a</i>	Through controlled corporations	<u>400,000,000</u>	<u>80</u>

### Notes:

- (a) *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.*
- (b) *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 at 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 28 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 and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

# Report of the Directors

---

## CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed in note 38 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' INTERESTS IN A COMPETING BUSINESS

During the year and up to the acquisition date of Sichuan Shule Pharmaceutical Joint Stock Company Limited (“Sichuan Shule”) on 20 May 2003, the following directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, as set out below:

- Mr. Wong Sai Wa, Dr. Tang Gang and Ms. Yu Qiong Qiong (the wife of Dr. Tang Gang and the financial controller of Sichuan Future) are also directors of Sichuan Shule, which is also involved in the production and sale of infusion and non-infusion medicine.

As the board of directors of the Company is independent from the board of directors of Sichuan Shule and the above directors do not control the board of the Company, the Group is capable of carrying on its business independently of, and at arm’s length from, the business of Sichuan Shule.

## SPONSOR’S INTEREST

Yuanta Securities (Hong Kong) Company Limited (company 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.

As at 31 July 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. Following the expiry of the sponsorship agreement entered between CPY Capital and the Company, CPY Capital ceased to act as the Company’s continuing sponsor with effect from 1 August 2003.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company 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 2003.

# Report of the Directors

---

## AUDIT COMMITTEE

The Company has an audit committee which was established 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, due 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, the audit committee comprised only of one independent non-executive director of the Company, namely Mr. Tsim Tak Lung, Dominic until 11 November 2002.

Since the passing away of Professor Chiang, the Board has been in the process of selecting prospective candidates for 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, 10 September and 10 October 2002, respectively from the strict compliance of Rules 5.05 and 5.23 of the GEM Listing Rules and which were subsequently granted. As set out in the waiver application dated 10 October 2002, the Board gave its best endeavours to appoint an independent non-executive director and a member of the audit committee. To comply with Rules 5.05 and 5.23 of the GEM Listing Rules, Mr. Lo Chun Wing, Albert was appointed as an independent non-executive director of the Company on 11 November 2002 and he also became a member of the audit committee.

Four audit committee meetings were held during the year ended 31 July 2003. The work undertaken by the audit committee was to review the Company’s quarterly, interim and annual 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.

## 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

27 October 2003

# Report of the Auditors

---



To the members

**China Medical Science Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 30 to 76 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **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 2003 and of the loss 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

27 October 2003

# Consolidated Profit and Loss Account

Year ended 31 July 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
TURNOVER	6	<b>128,046</b>	180,925
Cost of sales		<u>(92,102)</u>	<u>(121,690)</u>
Gross profit		<b>35,944</b>	59,235
Other revenue and gains	6	<b>2,268</b>	2,903
Selling and distribution costs		<b>(5,904)</b>	(9,191)
General and administrative expenses		<b>(12,196)</b>	(12,624)
Other operating expenses		<u>(10,960)</u>	<u>(6,962)</u>
PROFIT FROM OPERATING ACTIVITIES	7	<b>9,152</b>	33,361
Finance costs	8	<b>(9,415)</b>	(9,520)
Share of loss of an associate		<u>(1,202)</u>	<u>(272)</u>
PROFIT/(LOSS) BEFORE TAX		<b>(1,465)</b>	23,569
Tax	11	<u>(783)</u>	<u>(848)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		<b>(2,248)</b>	22,721
Minority interests		<u>1,596</u>	<u>(2,223)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u><b>(652)</b></u>	<u>20,498</u>
EARNINGS/(LOSS) PER SHARE	13		
— Basic		<u><b>(0.13 cents)</b></u>	<u>4.10 cents</u>
— Diluted		<u><b>N/A</b></u>	<u>3.86 cents</u>



# Consolidated Balance Sheet

31 July 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<i>14</i>	<b>204,339</b>	105,492
Intangible assets	<i>15</i>	<b>9,485</b>	13,343
Goodwill:	<i>16</i>		
Goodwill		<b>17,364</b>	6,880
Negative goodwill		<b>(6,134)</b>	(6,829)
Interest in an associate	<i>19</i>	<b>8,134</b>	9,627
Long term investments	<i>20</i>	<b>4,420</b>	1,196
Long term prepayments		<b>5,405</b>	11,586
		<b>243,013</b>	141,295
<b>CURRENT ASSETS</b>			
Inventories	<i>21</i>	<b>28,535</b>	18,682
Trade receivables	<i>22</i>	<b>178,157</b>	122,989
Other receivables	<i>23</i>	<b>30,831</b>	50,564
Pledged deposits	<i>24</i>	<b>63,512</b>	51,187
Cash and cash equivalents	<i>24</i>	<b>45,754</b>	31,387
		<b>346,789</b>	274,809
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>25</i>	<b>66,202</b>	36,899
Notes payable	<i>26</i>	<b>103,695</b>	69,265
Tax payable		<b>1,631</b>	848
Other payables and accruals		<b>57,783</b>	38,503
Interest-bearing bank and other borrowings	<i>27</i>	<b>196,394</b>	67,172
Due to a director	<i>29</i>	<b>1,586</b>	8,130
		<b>427,291</b>	220,817
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>(80,502)</b>	53,992
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>162,511</b>	195,287
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	<i>28</i>	<b>26,741</b>	65,858
		<b>135,770</b>	129,429
<b>MINORITY INTERESTS</b>		<b>16,034</b>	9,041
		<b>119,736</b>	120,388

# Consolidated Balance Sheet *(continued)*

31 July 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (Restated)
CAPITAL AND RESERVES			
Issued capital	30	<b>25,000</b>	25,000
Reserves	32(a)	<b>94,736</b>	95,388
		<b>119,736</b>	120,388

**Wong Sai Wa**

*Director*

**Kwan Kai Cheong**

*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 July 2003

	Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 August 2001	25,000	17,992	27,104	25	29,769	99,890
Net profit for the year	—	—	—	—	20,498	20,498
At 31 July 2002 and 1 August 2002	25,000	17,992	27,104	25	50,267	120,388
Net loss for the year	—	—	—	—	(652)	(652)
At 31 July 2003	<b>25,000</b>	<b>17,992*</b>	<b>27,104*</b>	<b>25*</b>	<b>49,615*</b>	<b>119,736</b>
Reserves retained by:						
Company and subsidiaries	25,000	17,992	27,104	25	51,089	121,210
An associate	—	—	—	—	(1,474)	(1,474)
At 31 July 2003	<b>25,000</b>	<b>17,992</b>	<b>27,104</b>	<b>25</b>	<b>49,615</b>	<b>119,736</b>
Company and subsidiaries	25,000	17,992	27,104	25	50,539	120,660
An associate	—	—	—	—	(272)	(272)
At 31 July 2002	<b>25,000</b>	<b>17,992</b>	<b>27,104</b>	<b>25</b>	<b>50,267</b>	<b>120,388</b>

\* These reserve accounts comprise the consolidated reserves of HK\$94,736,000 (2002: HK\$95,388,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 July 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>(1,465)</b>	23,569
Adjustments for:			
Finance costs	8	<b>9,415</b>	9,520
Share of loss of an associate		<b>1,202</b>	272
Interest income	6	<b>(1,553)</b>	(1,606)
Depreciation	7	<b>9,007</b>	8,190
(Gain)/loss on disposal of fixed assets	7	<b>67</b>	(20)
Amortisation of intangible assets	7	<b>3,858</b>	3,858
Goodwill amortisation	7	<b>477</b>	385
Negative goodwill recognised as income	7	<b>(695)</b>	(694)
Operating profit before working capital changes		<b>20,313</b>	43,474
(Increase)/decrease in inventories		<b>6,182</b>	(257)
(Increase)/decrease in trade receivables		<b>9,196</b>	(21,549)
(Increase)/decrease in other receivables		<b>34,934</b>	(30,459)
Decrease in trade payables		<b>(9,929)</b>	(895)
Increase/(decrease) in notes payable		<b>(7,960)</b>	53,251
Increase/(decrease) in other payables and accruals		<b>(14,859)</b>	13,928
Increase/(decrease) in an amount due to a director		<b>(6,544)</b>	8,130
Cash generated from operations		<b>31,333</b>	65,623
Interest received		<b>758</b>	1,606
Interest paid on bank and other loans		<b>(8,579)</b>	(9,520)
Net cash inflow from operating activities		<b>23,512</b>	57,709
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	14	<b>(25,515)</b>	(10,749)
Proceeds from disposal of fixed assets		<b>3</b>	20
Proceeds from disposal of an associate		<b>—</b>	942
Purchases of long term investments		<b>—</b>	(1,196)
(Increase)/decrease in long term prepayments		<b>6,181</b>	(11,586)
Acquisition of subsidiaries	33(b)	<b>13,348</b>	—
Acquisition of an associate		<b>—</b>	(10,456)
Repayment from an associate		<b>291</b>	417
Decrease in non-pledged time deposits with maturity over three months		<b>—</b>	22,432
Increase in pledged bank and time deposits		<b>(12,325)</b>	(24,910)
Net cash outflow from investing activities		<b>(18,017)</b>	(35,086)
<b>NET CASH INFLOW BEFORE FINANCING ACTIVITIES</b>		<b>5,495</b>	22,623

# Consolidated Cash Flow Statement *(continued)*

Year ended 31 July 2003

	2003 HK\$'000	2002 HK\$'000 (Restated)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	<u>5,495</u>	<u>22,623</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	84,309	73,310
Repayment of bank loans	(79,606)	(65,469)
Repayment of other loans	(199)	—
Advances/(repayment) to minority shareholders	3,968	(6,322)
Capital injection by minority interest	<u>400</u>	<u>—</u>
Net cash inflow from financing activities	<u>8,872</u>	<u>1,519</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,367	24,142
Cash and cash equivalents at beginning of year	<u>31,387</u>	<u>7,245</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><b>45,754</b></u>	<u><b>31,387</b></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Non-pledged cash and bank balances	9,449	11,979
Non-pledged time deposits with original maturity of less than three months when acquired	<u>36,305</u>	<u>19,408</u>
	<u><b>45,754</b></u>	<u><b>31,387</b></u>

# Balance Sheet

31 July 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<i>14</i>	<b>9</b>	12
Interests in subsidiaries	<i>17</i>	<b>66,145</b>	66,859
		<b>66,154</b>	66,871
<b>CURRENT ASSETS</b>			
Other receivables	<i>23</i>	<b>12,741</b>	11,870
Pledged deposits	<i>24</i>	<b>5,000</b>	27,831
Cash and cash equivalents	<i>24</i>	<b>36,650</b>	21,062
		<b>54,391</b>	60,763
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<b>5,837</b>	4,954
Interest-bearing bank and other borrowings	<i>27</i>	<b>10,000</b>	5,000
		<b>15,837</b>	9,954
<b>NET CURRENT ASSETS</b>		<b>38,554</b>	50,809
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>104,708</b>	117,680
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	<i>28</i>	<b>26,741</b>	36,741
		<b>77,967</b>	80,939
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>30</i>	<b>25,000</b>	25,000
Reserves	<i>32(b)</i>	<b>52,967</b>	55,939
		<b>77,967</b>	80,939

**Wong Sai Wa**

*Director*

**Kwan Kai Cheong**

*Director*

# Notes to Financial Statements

---

31 July 2003

## 1. CORPORATE INFORMATION

The registered office of China Medical Science Limited is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

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. BASIS OF PRESENTATION

As at 31 July 2003, the Group had net current liabilities of approximately HK\$80,502,000, and the majority of which, amounting to net current liabilities of HK\$70,000,000, arose from the acquisition during the year of a subsidiary, Sichuan Shule Pharmaceutical Joint Stock Co. Ltd which had short term bank loans of approximately HK\$75,000,000 as at 31 July 2003.

The short term bank loans of the aforesaid subsidiary have been renewed in the past by the banks on their maturity dates and it is the opinion of the directors that such short term bank loans will continue to be renewed upon maturity after the balance sheet date. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's net current liabilities position as at 31 July 2003.

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

# Notes to Financial Statements

---

31 July 2003

### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) *(continued)*

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, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 33 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled operation and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has had no material effect on the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 31 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.



# Notes to Financial Statements

---

31 July 2003

## 4. 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.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in results and net assets of the Company's subsidiaries.

### **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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Jointly-controlled operations**

A jointly-controlled operation is a joint operation, which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled operation.

A joint venture arrangement which involves the use of the assets and other reserves of the Group and other parties, without establishment of a separate entity, is referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

# Notes to Financial Statements

---

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Jointly-controlled operations** *(continued)*

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated balance sheet on an accrual basis and are classified according to the nature of the item. The Group's share of the income that it earns from jointly-controlled operations, together with the expenses that it incurs, are included in the Group's consolidated profit and loss account when it is probable that the economic benefits associated to the contractual arrangement.

### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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**

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.

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.

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.

# Notes to Financial Statements

---

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **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.

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.

### **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.

### **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.

# Notes to Financial Statements

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of assets** *(continued)*

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.

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.

### **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%

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.

# Notes to Financial Statements

---

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Fixed assets and depreciation** *(continued)*

Construction in progress represents a building under construction which, is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs 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**

#### *Patents and licences*

Purchases of patents and licences are recognised as assets 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.

Purchases of patents and licences are stated at cost less any impairment losses and amortised on the straight-line basis over their estimated useful lives. 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

#### *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.

### **Leased assets**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# Notes to Financial Statements

---

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **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.

### **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.

### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates 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 exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

# Notes to Financial Statements

---

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Foreign currencies** *(continued)*

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates, and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has no material effect on the amounts of the previously-reported cash flows of the prior year.

### **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.

# Notes to Financial Statements

---

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Advertising and marketing expenses**

Advertising and marketing expenses are charged to the profit and loss account in the period in which they are 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.

### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

### **Employee benefits**

#### ***Paid leave carried forward***

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has had no material effect on the prior year financial statements.



# Notes to Financial Statements

31 July 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Employee benefits** *(continued)*

#### ***Pension schemes and other retirement benefits***

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. 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 employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 22.5% of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

#### ***Share option scheme***

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme 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 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, or which lapse, are deleted from the register of outstanding options.

#### **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.

# Notes to Financial Statements

---

31 July 2003

## 5. SEGMENT INFORMATION

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 the other business segments. Summary details of the business segments are as follows:

- (a) the human drugs segment comprises the production, sale and distribution of infusion and non-infusion medicine;
- (b) the veterinary drugs segment comprises the production, sales and distribution of veterinary drugs;
- (c) the packaging materials segment comprises the production, sales and distribution of packaging materials for infusion medicine; and
- (d) the corporate segment comprises corporate income and expense items.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary segment reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the principal activities carried out in Mainland China. Accordingly, a further analysis by geographical segment 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.

# Notes to Financial Statements

31 July 2003

## 5. 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		Eliminations		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
Segment revenue:												
Sales to external customers	68,186	95,125	23,025	33,367	36,835	52,433	—	—	—	—	128,046	180,925
Intersegment sales	2,995	—	—	—	944	794	—	—	(3,939)	(794)	—	—
Other revenue	20	36	—	559	—	7	2,391	1,938	(1,696)	(1,243)	715	1,297
<b>Total</b>	<b>71,201</b>	<b>95,161</b>	<b>23,025</b>	<b>33,926</b>	<b>37,779</b>	<b>53,234</b>	<b>2,391</b>	<b>1,938</b>	<b>(5,635)</b>	<b>(2,037)</b>	<b>128,761</b>	<b>182,222</b>
Segment results	6,255	13,090	4,669	9,776	373	11,430	(3,698)	(2,541)	—	—	7,599	31,755
Interest income											1,553	1,606
Profit from operating activities											9,152	33,361
Finance costs											(9,415)	(9,520)
Share of loss of an associate	(1,202)	(272)	—	—	—	—	—	—	—	—	(1,202)	(272)

# Notes to Financial Statements

31 July 2003

## 5. SEGMENT INFORMATION (continued)

### Business segments (continued)

Group	Human drugs		Veterinary drugs		Packaging materials		Corporate		Eliminations		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
Profit/(loss) before tax	—	—	(556)	(848)	(227)	—	—	—	—	—	(1,465)	23,569
Tax	—	—	—	—	—	—	—	—	—	—	(783)	(848)
Profit/(loss) before minority interests											(2,248)	22,721
Minority interests											1,596	(2,223)
Net profit/(loss) from ordinary activities attributable to shareholders											(652)	20,498

# Notes to Financial Statements

31 July 2003

## 5. SEGMENT INFORMATION (continued)

### Business segments (continued)

#### Group

	Human drugs		Veterinary drugs		Packaging materials		Corporate		Eliminations		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
Segment assets	<b>334,923</b>	148,448	<b>93,660</b>	100,652	<b>116,109</b>	120,647	<b>132,173</b>	126,258	<b>(95,197)</b>	(89,528)	<b>581,668</b>	406,477
Interest in an associate	<b>8,134</b>	9,627	—	—	—	—	—	—	—	—	<b>8,134</b>	9,627
Total assets	<b>343,057</b>	158,075	<b>93,660</b>	100,652	<b>116,109</b>	120,647	<b>132,173</b>	126,258	<b>(95,197)</b>	(89,528)	<b>589,802</b>	416,104
Segment liabilities	<b>326,607</b>	136,892	<b>50,566</b>	64,221	<b>70,913</b>	75,174	<b>101,143</b>	99,916	<b>(95,197)</b>	(89,528)	<b>454,032</b>	286,675
Total liabilities	<b>326,607</b>	136,892	<b>50,566</b>	64,221	<b>70,913</b>	75,174	<b>101,143</b>	99,916	<b>(95,197)</b>	(89,528)	<b>454,032</b>	286,675
Other segment information:												
Depreciation and amortisation (excluding goodwill and negative goodwill)	<b>7,504</b>	6,595	<b>2,775</b>	2,498	<b>2,571</b>	2,944	<b>15</b>	11	—	—	<b>12,865</b>	12,048
Amortisation of goodwill	—	—	—	—	—	—	<b>477</b>	385	—	—	<b>477</b>	385
Recognition of negative goodwill	—	—	—	—	—	—	<b>(695)</b>	(694)	—	—	<b>(695)</b>	(694)
Capital expenditure	<b>9,359</b>	1,112	<b>3,711</b>	6,112	<b>12,417</b>	3,508	<b>28</b>	17	—	—	<b>25,515</b>	10,749

# Notes to Financial Statements

31 July 2003

## 6. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>Turnover</b>			
Sale of human drugs		<b>68,186</b>	95,125
Sale of veterinary drugs		<b>23,025</b>	33,367
Sale of packaging materials		<b>36,835</b>	52,433
		<b>128,046</b>	180,925
<b>Other revenue and gains</b>			
Interest income		<b>1,553</b>	1,606
Sundry income		<b>20</b>	583
Gain on disposal of fixed assets		<b>—</b>	20
Negative goodwill recognised	<i>16</i>	<b>695</b>	694
		<b>2,268</b>	2,903

# Notes to Financial Statements

31 July 2003

## 7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Cost of inventories sold		<b>92,102</b>	121,690
Depreciation	<i>14</i>	<b>9,007</b>	8,190
Amortisation of intangible assets*	<i>15</i>	<b>3,858</b>	3,858
Research and development expenditure		<b>977</b>	1,125
Goodwill amortisation**	<i>16</i>	<b>477</b>	385
Negative goodwill recognised as income***	<i>16</i>	<b>(695)</b>	(694)
Auditors' remuneration:			
Current year		<b>450</b>	450
Prior year overprovision		<b>—</b>	(150)
		<b>450</b>	300
Staff costs (including directors' emoluments in note 9):			
Wages and salaries		<b>8,036</b>	8,905
Defined contribution pension scheme ****		<b>460</b>	1,006
		<b>8,496</b>	9,911
(Gain)/loss on disposal of fixed assets		<b>67</b>	(20)
Provision for bad and doubtful debts		<b>2,159</b>	306

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

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

\*\*\* *The negative goodwill recognised in the profit and loss account for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.*

\*\*\*\* *At 31 July 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).*

# Notes to Financial Statements

31 July 2003

## 8. FINANCE COSTS

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans wholly repayable within five years	7,838	8,230
Interest on other loans	775	488
Interest on the convertible note	802	802
	<u>9,415</u>	<u>9,520</u>

## 9. 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:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	360	360
Non-executive directors	—	—
Independent non-executive directors	270	240
	<u>630</u>	<u>600</u>
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	68	62
	<u>698</u>	<u>662</u>

The remuneration paid by the Group to two (2002: two) executive directors of the Company for the year ended 31 July 2003 analysed on an individual basis was approximately HK\$360,000 (2002: HK\$360,000) and HK\$68,000 (2002: HK\$62,000), respectively. The remuneration paid by the Group to the four (2002: two) independent non-executive directors of the Company for the year ended 31 July 2003 was HK\$10,000, HK\$70,000, HK\$70,000 and HK\$120,000, respectively (2002: HK\$120,000 each). The remaining four (2002: three) directors did not receive any remuneration during the year.



# Notes to Financial Statements

31 July 2003

## 9. DIRECTORS' REMUNERATION *(continued)*

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

During the year, no share options (2002: Nil) were granted to the directors in respect of their services to the Group.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2002: two) highest paid non-director employees are as follows:

	2003 HK\$'000	2002 HK\$'000
Employees:		
Salaries and allowances	420	708
Pension scheme contributions	12	12
	<u>432</u>	<u>720</u>

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

	Number of employees	
	2003	2002
Nil — HK\$1,000,000	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join the Group, or as compensation for loss of office (2002: Nil).

During the year, no share options (2002: Nil) were granted to the above highest paid non-director employees in respect of their services to the Group.

# Notes to Financial Statements

31 July 2003

## 11. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003 HK\$'000	2002 HK\$'000
Group:		
PRC	<u>783</u>	<u>848</u>

The Group did not have any significant unprovided deferred tax liabilities in respect of the year (2002: Nil).

## 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from operating activities attributable to shareholders for the year ended 31 July 2003 dealt with in the financial statements of the Company was HK\$2,972,000 (2002: HK\$2,811,000).

## 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$652,000 (2002: net profit of HK\$20,498,000), and the weighted average of 500,000,000 (2002: 500,000,000) ordinary shares in issue during the year.

The diluted loss per share amount for the year ended 31 July 2003 has not been disclosed, as the convertible note outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 July 2002 was based on the net profit attributable to shareholders of HK\$21,172,000. The weighted average number of ordinary shares used in the calculation was the 548,619,564 ordinary shares in issue during the year, as used in the basis earnings per share calculation, and the weighted average of 48,619,564 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all convertible note during that year.

# Notes to Financial Statements

31 July 2003

## 14. 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	77,780	34,658	595	4,071	1,185	4,282	122,571
Additions	18,946	2,265	71	534	272	3,427	25,515
Acquisition of subsidiaries	50,633	27,035	238	607	95	3,801	82,409
Disposals	—	(132)	—	(49)	—	—	(181)
Reclassification	3,209	—	—	—	—	(3,209)	—
<b>At 31 July 2003</b>	<b>150,568</b>	<b>63,826</b>	<b>904</b>	<b>5,163</b>	<b>1,552</b>	<b>8,301</b>	<b>230,314</b>
Accumulated depreciation:							
At beginning of year	7,083	7,984	210	1,434	368	—	17,079
Provided during the year	2,727	4,900	119	965	296	—	9,007
Disposals	—	(62)	—	(49)	—	—	(111)
<b>At 31 July 2003</b>	<b>9,810</b>	<b>12,822</b>	<b>329</b>	<b>2,350</b>	<b>664</b>	<b>—</b>	<b>25,975</b>
Net book value:							
<b>At 31 July 2003</b>	<b>140,758</b>	<b>51,004</b>	<b>575</b>	<b>2,813</b>	<b>888</b>	<b>8,301</b>	<b>204,339</b>
At 31 July 2002	70,697	26,674	385	2,637	817	4,282	105,492

The cost of the Group's leasehold land and buildings comprises:

	Group	
	2003 HK\$'000	2002 HK\$'000
PRC:		
Long term leases	18,991	15,929
Medium term leases	131,577	61,851
	<b>150,568</b>	<b>77,780</b>

# Notes to Financial Statements

31 July 2003

## 14. FIXED ASSETS (continued)

The relevant title certificate for a piece of land (the "Land") with a cost of approximately HK\$146,000 (2002: HK\$146,000) and a net book value of approximately HK\$131,000 (2002: HK\$136,000) as at 31 July 2003 is in the process of being transferred to one of the Company's subsidiaries.

At 31 July 2003, certain of the Group's leasehold land and buildings situated in the PRC and plant and machinery with net book values of approximately HK\$68,337,000 (2002: HK\$55,842,000) and HK\$35,232,000 (2002: HK\$17,327,000), respectively, were pledged to secure general banking facilities granted to the Group (Note 28).

### Company

	<b>Computer equipment HK\$'000</b>
Cost:	
At beginning of year and at 31 July 2003	15
Accumulated depreciation:	
At beginning of year	3
Provided during the year	3
<b>At 31 July 2003</b>	<b>6</b>
Net book value:	
<b>At 31 July 2003</b>	<b>9</b>
At 31 July 2002	12

# Notes to Financial Statements

31 July 2003

## 15. INTANGIBLE ASSETS

<b>Group</b>	<b>Technical know-how HK\$'000</b>	<b>Production licences HK\$'000</b>	<b>Total HK\$'000</b>
Cost:			
At beginning of year and at 31 July 2003	11,642	10,060	21,702
Accumulated amortisation:			
At beginning of year	3,603	4,756	8,359
Provided during the year	1,663	2,195	3,858
<b>At 31 July 2003</b>	<b>5,266</b>	<b>6,951</b>	<b>12,217</b>
Net book value:			
<b>At 31 July 2003</b>	<b>6,376</b>	<b>3,109</b>	<b>9,485</b>
At 31 July 2002	8,039	5,304	13,343

## 16. GOODWILL AND NEGATIVE GOODWILL

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:

	<b>Group</b>	
	<b>Goodwill HK\$'000</b>	<b>Negative goodwill HK\$'000</b>
Cost:		
At beginning of year	7,709	(8,333)
Acquisition of subsidiaries ( <i>note 33b</i> )	10,961	—
<b>At 31 July 2003</b>	<b>18,670</b>	<b>(8,333)</b>
Accumulated amortisation/(recognition as income):		
At beginning of year	829	(1,504)
Amortisation provided/(recognised as income) during the year	477	(695)
<b>At 31 July 2003</b>	<b>1,306</b>	<b>(2,199)</b>
Net book value:		
<b>At 31 July 2003</b>	<b>17,364</b>	<b>(6,134)</b>
At 31 July 2002	6,880	(6,829)

# Notes to Financial Statements

31 July 2003

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	42,876	42,876
Due from subsidiaries	26,806	26,746
Due to a subsidiary	(3,537)	(2,763)
	66,145	66,859

The amounts with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Biotechnology Limited	Cayman Islands 7 July 2000	US\$3	100.00	—	Investment holding
Glazier Limited	British Virgin Islands 25 June 1999	US\$2	—	100.00	Investment holding
Seechain Investments Limited	British Virgin Islands 12 August 1999	US\$1	—	100.00	Investment holding
Sichuan Future Industrial Co., Ltd.*	Mainland China 15 September 1999	RMB23,980,000	—	91.00	Manufacture and distribution of medical caps
Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd.*	Mainland China 26 May 2000	RMB18,000,000	—	91.00	Manufacture and distribution of veterinary drugs
Chengdu Mt. Green Pharmaceutical Co., Ltd.*	Mainland China 29 May 2000	RMB18,000,000	—	91.00	Manufacture and sale of infusion medicine

# Notes to Financial Statements

31 July 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sichuan Shule Pharmaceutical Joint Stock Co., Ltd.**/#	Mainland China 5 July 1993	RMB18,000,000	—	46.46	Manufacture and sale of human drugs
樂山裕恆藥業有限公司*/#	Mainland China 18 Mach 1996	RMB7,000,000	—	34.61	Manufacture and sale of human drugs
四川裕利來福製藥有限公司*/#	Mainland China 4 January 1993	RMB7,200,000	—	24.53	In liquidation

\* Sino-foreign joint venture enterprise

\*\* Joint-stock enterprise

# Acquired during the year

## 18. INTEREST IN A JOINTLY-CONTROLLED OPERATION

The Group has entered into a joint venture arrangement in the form of a jointly-controlled operation with 汕頭龍湖區欣源貿易公司 to manufacture, develop and distribute jointly a product line in the PRC. The Group has a 55% participating interest in this joint venture. At 31 July 2003, the operation of such product line has not yet started and the aggregate amounts of assets recognised in these financial statements in respect of this jointly-controlled operation were as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Assets	<u>1,634</u>	<u>—</u>

# Notes to Financial Statements

31 July 2003

## 19. INTEREST IN AN ASSOCIATE

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	8,134	9,336
Amount due from an associate	—	291
	8,134	9,627

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
Chengdu Mt. Green Li Kong Medical Technology Co. Limited*	Corporate	Mainland China	30.94	30.94	Manufacture and sales of human drugs infusion medicine

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

## 20. LONG TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK'000
Unlisted equity investments, at cost	4,420	1,196



# Notes to Financial Statements

31 July 2003

## 21. INVENTORIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK'000
Raw materials	17,416	11,590
Work in progress	—	10
Finished goods	11,119	7,082
	<u>28,535</u>	<u>18,682</u>

## 22. 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 three 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:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK'000
Within 3 months	112,334	78,351
3 to 6 months	29,933	34,252
6 to 12 months	32,259	9,964
Over 1 year	3,631	422
	<u>178,157</u>	<u>122,989</u>

# Notes to Financial Statements

31 July 2003

## 23. OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments	8,356	3,782	75	—
Deposits and other debtors	10,887	35,194	1,078	282
Short term loans	11,588	11,588	11,588	11,588
	<u>30,831</u>	<u>50,564</u>	<u>12,741</u>	<u>11,870</u>

The short term loans are unsecured and bear interest at rates ranging from 7% to 8% per annum. The loans were settled subsequent to the balance sheet date.

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances		67,961	35,335	345	1,654
Time deposits		41,305	47,239	41,305	47,239
		<u>109,266</u>	<u>82,574</u>	<u>41,650</u>	<u>48,893</u>
<i>Less: Pledged deposits:</i>					
Pledged for notes payable	26	(58,512)	(23,356)	—	—
Pledged for bank loans	28	(5,000)	(27,831)	(5,000)	(27,831)
		<u>(63,512)</u>	<u>(51,187)</u>	<u>(5,000)</u>	<u>(27,831)</u>
Cash and cash equivalents		<u>45,754</u>	<u>31,387</u>	<u>36,650</u>	<u>21,062</u>

Bank balances and time deposits of approximately HK\$136,000 (2002: HK\$19,408,000) and HK\$36,305,000 (2002: HK\$22,831,000), respectively, are deposited with a related company of the Group, which is a bank.

# Notes to Financial Statements

31 July 2003

## 25. TRADE PAYABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	32,655	26,006
3 to 6 months	15,138	7,095
6 to 12 months	8,328	3,311
Over 1 year	10,081	487
	66,202	36,899

## 26. NOTES PAYABLE

At 31 July 2003, the Group's notes payable were secured by the Group's bank deposit of approximately HK\$58,512,000 (2002: HK\$23,356,000). In the prior year, the notes were also secured by bank deposits of Mr. Wong Sai Wa, a director of the Company, amounting to US\$390,000 and RMB4,500,000.

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Note</i>	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans:					
Secured		72,798	17,710	—	—
Unsecured		74,512	42,013	—	—
		147,310	59,723	—	—
Current portion of bank loans		39,117	5,000	10,000	5,000
Other loans		9,967	2,449	—	—
	28	196,394	67,172	10,000	5,000

# Notes to Financial Statements

31 July 2003

## 28. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans:				
Secured	<b>108,816</b>	61,827	<b>10,000</b>	15,000
Unsecured	<b>77,611</b>	42,013	—	—
	<b>186,427</b>	103,840	<b>10,000</b>	15,000
Other loans:				
Secured	<b>2,449</b>	2,449	—	—
Unsecured	<b>7,518</b>	—	—	—
	<b>9,967</b>	2,449	—	—
Convertible note, unsecured	<b>26,741</b>	26,741	<b>26,741</b>	26,741
	<b>223,135</b>	133,030	<b>36,741</b>	41,741
Bank loans repayable:				
Within one year or on demand	<b>186,427</b>	64,723	<b>10,000*</b>	5,000
In the second year	—	39,117	—	10,000
	<b>186,427</b>	103,840	<b>10,000</b>	15,000
Other loans repayable:				
Within one year or on demand	<b>9,967</b>	2,449	—	—
Convertible note repayable:				
In the second year	<b>26,741</b>	26,741	<b>26,741</b>	26,741
	<b>223,135</b>	133,030	<b>36,741</b>	41,741
Portion classified as current liabilities ( <i>note 27</i> )	<b>(196,394)</b>	(67,172)	<b>(10,000)</b>	(5,000)
Long term portion	<b>26,741</b>	65,858	<b>26,741</b>	36,741

# Notes to Financial Statements

31 July 2003

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

\* *As at the balance sheet date and at the date of approval of the financial statements, the Group did not comply with the minimum requirement specified in the agreement of a loan facility granted to the Company in respect to the amount of the consolidated net current assets. At 31 July 2003, such bank loan balance amounted to HK\$10,000,000, which is secured by a time deposit of HK\$5,000,000. Subsequent to the balance sheet date, the Group repaid HK\$3,500,000, leaving an outstanding balance of HK\$6,500,000 at the date of approval of the financial statements.*

- (a) Certain of the Group's bank loans are secured by:
- (i) mortgages over the Group's leasehold land and buildings situated in the PRC, which had an aggregate net book value at the balance sheet date of approximately HK\$68,337,000 (2002: HK\$55,842,000);
  - (ii) mortgages over the Group's plant and machinery, which had an aggregate net book value at the balance sheet of approximately HK\$35,232,000 (2002: HK\$17,327,000); and
  - (iii) the pledge of certain of the Group's bank deposits amounting to HK\$5,000,000 (2002: HK\$27,831,000).

In the prior year, Mr. Wong Sai Chung and his related companies guaranteed the Group's bank loans in the amount of HK\$4,898,000.

- (b) The Group's other loan is secured by the Group's certain leasehold land and buildings situated in the PRC, bears interest at 10% (2002: 10%) per annum and has no fixed terms of repayment.
- (c) 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 22 March 2004. The exercise in full of the conversion right would, under 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 passu* 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 attaching to the Convertible Note which may result in the public holding of the shares falling below 20%.

Subsequent to balance sheet date on 27 October 2003, the maturity date of the Convertible Note has been extended from 22 March 2004 to 22 March 2005 and is interest free for such extension period. According to this extension agreement, the Convertible Note has been reclassified to long term liabilities.

# Notes to Financial Statements

31 July 2003

## 29. DUE TO A DIRECTOR

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

## 30. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Shares		
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.05 each	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>		
500,000,000 ordinary shares of HK\$0.05 each	<u>25,000</u>	<u>25,000</u>

### 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 in note 31 to the financial statements.

## 31. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosures is also a requirement of the Listing Rules.

### (a) Share Option Scheme (the "Scheme")

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 ten 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.

# Notes to Financial Statements

---

31 July 2003

## 31. SHARE OPTION SCHEMES *(continued)*

### (a) Share Option Scheme (the “Scheme”) *(continued)*

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 the GEM or to 30% of the entire issued share capital of the Company on the day 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; (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 share options granted to a connected person who is also a substantial shareholder or to any of its associate, in excess of 0.1% of the total issued 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.

The offer of a grant of share options may be accepted within five 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 the 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 has been granted by the Company under the Scheme since its adoption.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

# Notes to Financial Statements

31 July 2003

## 31. SHARE OPTION SCHEMES (continued)

### (b) Pre-IPO Share Option Scheme (the “Pre-IPO Plan”)

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 subscription price is HK\$0.55 per share; and
- (ii) 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 terminated on the listing of the Company’s shares on the GEM on 10 April 2001.

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

Name or category of participant	Number of share options					At 31 July 2003	Date of grant of share options *	Exercise period of share options	Exercise price of share options **	Price of Company’s shares at grant date of options ***
	At 1 August 2002	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year					
<i>Directors</i>										
Mr. Wong Sai Wa	3,200,000	—	—	—	—	3,200,000	23.3.2001	10.10.2001 to 22.3.2011	0.55	0.55
Mr. Kwan Kai Cheong	3,000,000	—	—	—	—	3,000,000	23.3.2001	10.10.2001 to 22.3.2011	0.55	0.55
	<u>6,200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,200,000</u>				
<i>Other employees</i>										
Dr. Chan Ka Keung	400,000	—	—	—	—	400,000	23.3.2001	10.10.2001 to 22.3.2011	0.55	0.55
Ms. Yu Ling Ling	400,000	—	—	—	—	400,000	23.3.2001	10.10.2001 to 22.3.2011	0.55	0.55
	<u>800,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>800,000</u>				
	<u>7,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,000,000</u>				



# Notes to Financial Statements

31 July 2003

## 31. SHARE OPTION SCHEME *(continued)*

### (b) Pre-IPO Share Option Scheme (the “Pre-IPO Plan”) *(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 were offered to the public in the IPO, excluding brokerage and stock exchange transaction levy.*

At the balance sheet, the Company had 7,000,000 share options outstanding under the Pre-IPO Plan. 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 the Company and additional share capital of HK\$350,000 and share premium of HK\$3,500,000 (before issue expenses).

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

## 32. RESERVES

### (a) Group

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

The revised SSAP 11 was adopted during the year, as explained in note 3 and under the heading “Foreign currencies” in the note 4 to the financial statements. As a result, the profit and loss accounts of overseas subsidiaries and associate are now translated into Hong Kong dollars at the weighted average exchange rates for the year, rather than at the exchange rates ruling at the balance sheet date, as was previously the case. This change in accounting policy has had no material effect on the prior year financial statements.

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.

# Notes to Financial Statements

31 July 2003

## 32. RESERVES (continued)

### (b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 August 2001	17,992	42,876	(2,118)	58,750
Net loss for the year	—	—	(2,811)	(2,811)
At 31 July 2002 and 1 August 2002	17,992	42,876	(4,929)	55,939
Net loss for the year	—	—	(2,972)	(2,972)
<b>At 31 July 2003</b>	<b>17,992</b>	<b>42,876</b>	<b>(7,901)</b>	<b>52,967</b>

The Company's contributed surplus 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.

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities. The presentation of the 2002 comparative cash flow statement has been changed to accord with the new layout.

# Notes to Financial Statements

31 July 2003

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

(b) Acquisition of subsidiaries during the year:

	<i>Notes</i>	<b>2003 HK\$'000</b>
Net assets acquired:		
Fixed assets	14	82,409
Long term investments		3,224
Inventories		16,035
Trade receivables		64,364
Other receivables		14,406
Cash and cash equivalents		26,762
Trade payables		(39,232)
Notes payable		(42,390)
Other payables and accruals		(33,303)
Interest-bearing bank and other loans		(85,601)
Minority interests		(4,221)
		<u>2,453</u>
Goodwill arising on acquisition	16	<u>10,961</u>
		<u><b>13,414</b></u>
Satisfied by:		
Cash paid		<u><b>13,414</b></u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<b>2003 HK\$'000</b>
Cash consideration	(13,414)
Cash and cash equivalents acquired	<u>26,762</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><b>13,348</b></u>

Since their acquisition, the subsidiaries have contributed HK\$13,130,000 to the Group's turnover and loss of HK\$3,313,000 to the consolidated loss after tax and before minority interests for the year ended 31 July 2003.

# Notes to Financial Statements

31 July 2003

## 34. CONTINGENT LIABILITIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Guarantees of banking facilities granted to a subsidiary	—	22,831

The Group did not have any significant contingent liabilities at the balance sheet date (2002: Nil).

## 35. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group, are included in notes 14, 24, 26 and 28 to the financial statements.

## 36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from three months to one and a half years.

As 31 July 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	158	150	150	150

# Notes to Financial Statements

31 July 2003

## 37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

### (a) Capital commitments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Authorised and contracted for:		
Plant and machinery	39	735
Acquisition of subsidiaries	2,713	11,079
	<u>2,752</u>	<u>11,814</u>

### (b) Other commitments

Commitments under:		
Technology development	2,191	2,726
Loan granted	—	1,413
	<u>2,191</u>	<u>4,139</u>

## 38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		2003	2002
	<i>Notes</i>	HK\$'000	HK\$'000
Interest income received from a related company	<i>(i)</i>	429	1,211
Commission paid to a related company	<i>(ii)</i>	—	223
Licence fee for office premises paid to Frank Union Limited	<i>(iii)</i>	600	600
Interest paid to Concord Pharmaceutical Technology (Holdings) Limited	<i>(iv)</i>	<u>802</u>	<u>802</u>

# Notes to Financial Statements

31 July 2003

## 38. RELATED PARTY TRANSACTIONS *(continued)*

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 on a bank loan of RMB10 million 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 (2002: 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 28 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, in the prior year, Mr. Wong Sai Wa provided bank deposits of approximately US\$309,000 and RMB4,500,000 to subsidiaries of the Company as security for banking facilities granted to these subsidiaries.

## 39. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial 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 comparative amounts have been reclassified to conform with the current year's presentation.

## 40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 October 2003.