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

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT
2005

** For identification purposes only*

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This report, for which the Directors of CHINA MEDICAL SCIENCE LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to CHINA MEDICAL SCIENCE LIMITED. The Directors of CHINA MEDICAL SCIENCE LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

EXECUTIVE DIRECTORS

Wong Sai Wa *(Chairman)*
Kwan Kai Cheong
Wong Fei Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chow Wai Ming
Lai Chik Fan
Garry Alides Willinge

AUDIT COMMITTEE

Chow Wai Ming
Lai Chik Fan
Garry Alides Willinge

COMPLIANCE OFFICER

Kwan Kai Cheong

COMPANY SECRETARY

Yu Ling Ling, *ACIS, ACS*

QUALIFIED ACCOUNTANT

Hui Hok Sun, *ACCA, CPA (HKICPA)*

PRINCIPAL BANKERS

The Agricultural Bank of China, PRC
Bank of China (Hong Kong) Limited
Citic Industrial Bank, PRC

REGISTERED OFFICE

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

AUDITORS

PKF
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1703B, 17th Floor
Kai Tak Commercial Building
Nos. 317 & 319 Des Voeux Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Bufferfield Fund Services (Cayman) Limited

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

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$121,061,000 for the year ended 31 July 2005, representing a decrease of approximately 29.4% as compared to approximately HK$171,533,000 that was recorded in the preceding year. The competition from severe price volatility in infusion medicine market and also in packaging materials market was the key factor affecting the business performance of the Group for the year under review. The drop in turnover was also accelerated by the cease of operations of Chengdu Mt. Green Pharmaceutical Co., Ltd. ("Chengdu Mt. Green") and Sichuan Future Industrial Co., Ltd. ("Sichuan Future") since December 2004. The Group recorded a loss for the year ended 31 July 2005 of approximately HK$63,560,000 (2004: approximately HK$43,791,000) and a drop of net assets from HK$75,945,000 as at 31 July 2004 to HK$13,188,000 as at 31 July 2005. This was mainly due to the substantial loss on disposal of Chengdu Mt. Green and Sichuan Future ("Proposed Disposal"), and also impairment on assets in respect of the disposal of Sichuan Shule Pharmaceutical Joint Stock Co., Ltd. ("Sichuan Shule") ("Shule Disposal").

Chengdu Mt. Green has a 34% equity interest in Chengdu Mt. Green Li Kong. This equity interest in Chengdu Mt. Green Li Kong did not form part of the assets to be disposed of under the Proposed Disposal and would be transferred from Chengdu Mt. Green to a member of the Group. However, at the balance sheet date, the transfer of legal title in respect of Chengdu Mt. Green Li Kong was still in progress. In view of the restriction on the Group to exercise influence on the associate, an impairment on interest in the associate of approximately HK$10,839,000 was made during the year under review.

Following the disposal of the loss making businesses previously undertaken by Sichuan Future and Chengdu Mt. Green, the current liabilities of the Group recorded at HK$267,778,000 as at the end of July 2005, showing an improvement of 43.3% as compared to the level recorded in the preceding year.

Segment information

The Group presented its segment information based on nature of its operations and the products it provided.

Liquidity, financial resources and capital structure

The Group generally financed its operation through internally generated cashflows and banking facilities provided by its principal bankers in the PRC. As at 31 July 2005, the aggregate borrowings were approximately HK$131,606,000 (31 July 2004: approximately HK$212,066,000) of which approximately HK$88,051,000 (31 July 2004: approximately HK$112,843,000) were secured by pledged bank deposits and/or by assets of certain subsidiaries. The reduction of approximately 37.9% in aggregate borrowings for the year under review was the result of disposal of loss making businesses undertaken by Sichuan Future and Chengdu Mt. Green. As at 31 July 2005, the amount of banking facilities available and utilized was approximately HK$144,849,000 (31 July 2004: approximately HK$300,894,000). The Group's outstanding bank and other loans bear interest at the prevailing market rate.

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

Gearing ratio

The gearing ratio as at 31 July 2005 (total borrowing, including notes payable, less cash and cash equivalents and pledged bank deposits to total assets) was approximately 47.8% (31 July 2004: approximately 39.0%). The deterioration in gearing ratio is mainly attributable to the decrease in net assets position as a result of the loss arising from the disposal of Sichuan Future and Chengdu Mt. Green and the impairment on assets in respect of Shule Disposal and offset by the decrease in bank loans and facilities resulted from the disposal of Sichuan Future and Chengdu Mt. Green.

Foreign exchange and interest rate exposures

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

Charges on group asset

As at 31 July 2005, the Group's leasehold land and buildings situated in the PRC and plant and machinery with net book value of approximately HK$52,183,000 (31 July 2004: approximately HK$64,413,000), and HK$25,517,000 (31 July 2004: approximately HK$29,290,000) respectively and bank and time deposits of approximately HK$15,232,000 (31 July 2004: approximately HK$65,649,000) were pledged to secure general banking facilities granted to the Group.

Contingent liabilities

As at 31 July 2005, the Group did not have any significant contingent liabilities (31 July 2004: Nil).

Commitments

At 31 July 2005, the Group had outstanding capital commitment of approximately HK$14,027,000 (31 July 2004: approximately HK$14,804,000).

Future plan for investment

Except as disclosed in this report, as at 31 July 2005, the Group did not have future plan for material investment and capital assets.

Material acquisitions/disposals

Except for those set out in the paragraph of "Operation Review", the group had no other material acquisitions or disposals of subsidiaries and affiliated companies for the year under review.

Employee Information

As at 31 July 2005, the Group had 783 employees (31 July 2004: 1,008) in Hong Kong and PRC. The total remuneration to employees, including director's emoluments for the year under review amounted to approximately HK$10,443,000 (2004: approximately HK$8,312,000). The Group remunerates its employees based on their performance, qualification, experience 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.

OPERATION REVIEW

As stated earlier, the Group has decided to dispose of all its businesses of human drugs and packaging materials and thereafter focuses its operations on veterinary drugs and animal vaccines.

Continuing operation

– Veterinary drug and animal vaccines

During the year under review, the sale of Chengdu Yuan Heng amounted to approximately HK$27,052,000, representing an increase of approximately 16.6% as compared with that of 2004. The increase was mainly the result of increasing contribution from the original equipment manufacturer ("OEM") products.

In order to ensure more comprehensive sales network in the PRC, Chengdu Yuan Heng during the year under review has been commencing its strategic marketing program "Thousand County Project" to build up its market intelligence and products distribution system in the principal livestock producing counties. Consistent with its new marketing program, the company has enforced the regional sales management system across the principal counties to ensure effective planning and control over contractual dealers in various regions.

Discontinued/discontinuing operations

– Human drugs

Despite relentless efforts and resources allocated by the Group to improve the productivity and introduce more value-added products, the intense competition in the infusion medicine market continues to push the average unit price of the products downward. As a result, our human drugs segment has been operating under a tight cash-flow, which was aggravated by the substantial short term liabilities. In view of focusing the development in a more promising veterinary pharmaceutical market, the Group decided to dispose of the human drugs segment where Sichuan Shule and Chengdu Mt. Green operate.

– Packaging materials

With the intensified competition causing the decrease of the selling price of our products, the margin of our product was also adversely impacted by the rising cost of its raw material, plastic and aluminium. With respect to the declining performance and the intensified price competition for the packaging material, the Group arrived at the conclusion that it would be in the interest of the Group to dispose of this loss making segment.

Research and Development

To cope with the aim for developing of new veterinary drugs, Chengdu Yuan Heng, during the year under review, worked in conjunction with Sichuan Agriculture University and Southwestern Agriculture University for the development of new products.

For the veterinary drug, about 18 products had obtained pharmaceutical registrations during the year under review, namely Macleayae Injection, Compound Sulfamonomethoxine Sodium LongActing Injection, Compound Enrofloxacine Injection, Benzylpenicillin Potassium for Injection (1.0g), Gentamycin Sulfate Injection 5ml:0.2g, Enrofloxacin and Sulfamonomethoxine Injection, Compound Apramycin Sulfate Injection 5ml, Benzathine Benzylpenicillia for Injection (0.6 million), Benzathine Benzylpenicillia for

Injection (1.2 million), Digtoxacin Hydrochloride Injection 10ml, Compound Sulfadiazine Sodium Injection 10ml, Saratoxacm Hydrochloride Injection 10ml:0.1g, Saratoxacm Hydrochloride Injection 10ml, Cloxacillin Sodium for Injection (0.5g), Ceftiofur Sodium for Injection (0.25g), Ceftiofur Sodium for Injection (1.0g), Enrofloxacin and Sulfamonomethoxine Injection (1.0g) and Compound Ofloxacine Injection 10ml.

OUTLOOK

The Group had entered into Equity Interest Transfer Agreements with independent third parties to dispose of its entire 91% equity interest in Sichuan Future and Chengdu Mt. Green as well as its 51.05% equity interest in Sichuan Shule. The completion of these said disposals is subject to the completion of certain procedures, which will be announced as soon as possible.

With the completion of the disposal of the businesses of the human drugs segment and packaging materials segment, the Group will complete its organizational restructuring and focus its resources exclusively in the more profitable business segment. The directors believe the disposals will assist the Group to streamline and consolidate its operations as well as to preserve resources for future expansion.

Though loss-making, the management believes that with the completion of the Group's restructuring, the most difficult times for the Group's financial situation and operations are over. The enormous potential of veterinary pharmaceutical business could ensure better growth for the Group, thus providing a fundamental improvement to operating results.

EXECUTIVE DIRECTORS

Mr. Wong Sai Wa, aged 62, 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 has also been a Director of Pacific Concord Holding Limited since 1987 and was appointed as a Joint Managing Director in 1999. He is a brother of Mr. Wong Sai Chung (the controlling shareholder of the Company) and the father of Mr. Wong Fei Fei.

Mr. Kwan Kai Cheong, aged 55, is responsible for general management and strategic alliance relationship of the Group. Mr. Kwan has also been a Director of Pacific Concord Holding Limited since 1993 and was appointed as a Joint Managing Director in 1999. 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. Wong Fei Fei, aged 31, 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 an executive Director in September 2000.

Mr. Wong has not held any directorship in any other listed companies in the last three years. As at the date of this report, Mr. Wong did not have any interests in the Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO"). According to the service agreement between Mr. Wong and the Company, Mr. Wong shall receive no fixed salary but Mr. Wong shall receive a year-end bonus of an amount to be determined by the Board and decided by the majority in number of the members of the Board. The service agreement provides for a fixed term of two years with effect from 10th April 2001 and continues thereafter until terminated by either party in accordance with the provisions of the service agreement.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chow Wai Ming, aged 51, 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 a 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.

Mr. Chow has not held any directorship in any other listed companies in the last three years. As at the date of this report, Mr. Chow did not have any interests in the Shares of the Company within the meaning of Part XV of the SFO. There is no service contract entered into between Mr. Chow and the Company. Mr. Chow is not appointed for specific terms and is subject to retirement by rotation and re-election pursuant to the articles of association of the Company. The amount of emoluments for Mr. Chow for the financial year ended 31 July 2005 is HK$120,000, which is determined by arm's length negotiation between the parties with reference to prevailing market conditions. For the financial year ended 31 July 2006, the emoluments of Mr. Chow will be determined by the Board with reference to the remuneration benchmark for independent non-executive directors.

Mr. Garry Alides Willinge, aged 55, is a fellow of the Australian Institute of Company Directors. He graduated with a Diploma of Finance and Investment from the Securities Institute of Australia in 1992. He has previously worked in a number of IBM Asia Pacific business unit leadership roles. This includes Director of Asia Pacific Business Development, responsible for forging alliances and joint ventures across Asia to grow IBM's services portfolio. He was also Director, Information Technology, Sydney Olympic Games 2000. He has extensive external experiences and commitments. He was assigned to the West Australian Premier in 1990, where he led the Office of Public Sector Management, focused on leading public sector reform and transforming CEO leadership in the public sector. In Hong Kong, he is appointed to the General Management Committee of the Hong Kong Management Association. Mr. Willinge was appointed as a director in September 2004.

Mr. Lai Chik Fan, aged 57, is a seasoned investment banker with over 25 years' experience in the industry. He is known for his years of experience in the area of equities sales and distribution. Mr. Lai is currently a partner of AR Evans Capital Limited. In the past, he had held senior positions with international investment banks and he was previously Managing Director of Merrill Lynch (Asia Pacific) Ltd, Smith Barney (Hong Kong) Ltd, and Chin Tung Securities Ltd. Mr. Lai was appointed as a director in October 2004.

SENIOR MANAGEMENT

Veterinary Drug Section

Mr. Xiong Nan, aged 59, 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.

Ms. Jiang Gui Bi, aged 48, is the deputy general manager of the Group's veterinary drug section and is responsible for the finance and marketing of Chengdu Yuan Heng. She graduated from Chongqing Telecommunication College (重慶郵電學院) as an accountant in 1992. Prior to joining the Group in May 2000, Ms. Jiang worked for Chengdu Yuan Heng Veterinary Drugs Company since its inception of business in June 1996. She has years of experience in financial management and business administration.

Mr. Dai Yong De, aged 38, 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.

Mr. Shi Mei Qi, aged 45, is the deputy general manager responsible for the general administration 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 10 years of experience in the management of veterinary drugs business.

Mr. Li Hua Liang, aged 41, is the financial controller of the Group's Veterinary Drug 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.

Mr. Liao Long Giang, aged 30, is the head of the sales department of the Group's veterinary drug section. Mr. Liao graduated from Chongqing Normal University, majored in Economics, with more than 8 years of experience in sales management of veterinary drugs.

Hong Kong

Ms. Hui Hok Sun, aged 38, is the qualified accountant of the Company. She is a member of both the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants with more than 10 years experience in the accounting field.

Ms. Yu Ling Ling, aged 40, 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.

Report of the Directors

The directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 July 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. During the year, the Group disposed of and discontinued its manufacturing of medical caps and a substantial portion of its infusion medicine, further details of which are included in note 6 to the financial statements. There were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS

The results of the Group for the year ended 31 July 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 72.

DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 July 2005.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the five financial years ended 31 July 2005 is set out below :

RESULTS

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**121,061**	171,533	128,046	180,925	184,045
(Loss)/profit from operating activities	**(33,953)**	(30,365)	9,152	33,361	39,226
Finance costs	**(10,325)**	(14,555)	(9,415)	(9,520)	(7,081)
Share of results of an associate	**1,256**	1,449	(1,202)	(272)	–
Impairment	**(25,247)**	–	–	–	–
(Loss)/profit before tax	**(68,269)**	(43,471)	(1,465)	23,569	32,145
Tax	**(665)**	(337)	(783)	(848)	–
(Loss)/profit before minority interests	**(68,934)**	(43,808)	(2,248)	22,721	32,145
Minority interests	**5,374**	17	1,596	(2,223)	(3,051)
(Loss)/profit attributable to shareholders	**(63,560)**	(43,791)	(652)	20,498	29,094

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 July				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**287,489**	584,140	590,169	416,104	316,602
TOTAL LIABILITIES	**(270,695)**	(497,159)	(454,399)	(286,675)	(203,572)
MINORITY INTERESTS	**(3,606)**	(11,036)	(16,034)	(9,041)	(13,140)
	13,188	75,945	119,736	120,388	99,890

FIXED ASSETS

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

SHARE OPTIONS

Details of the Company's share option schemes are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's by law 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 31 to the financial statements and in the consolidated statement of changes in equity on page 27 respectively.

DISTRIBUTABLE RESERVES

As at 31 July 2005, the Company's distributable reserves amounted to HK$7,689,000.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 54% of the total sales for the year and sales to the largest customer included therein amounted to 46%. Purchase from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchase from the largest supplier included therein amounted to 26%.

None of the directors of the Company or any their associates or any shareholders (which, to the best knowledge for the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were :

Executive directors:

Mr. Wong Sai Wa *(Chairman)*	(Appointed as Chairman on 7 April 2005)
Mr. Wong Sai Chung	(Resigned on 7 April 2005)
Mr. Kwan Kai Cheong	
Mr. Wong Fei Fei	
Dr. Tang Gang	(Resigned on 13 April 2005)

Independent non-executive directors:

Mr. Chow Wai Ming	
Mr. Garry Alides Willinge	(Appointed on 28 September 2004)
Mr. Lai Chik Fan	(Appointed on 21 October 2004)
Mr. Tsim Tak Lung, Dominic	(Resigned on 21 October 2004)

In accordance with article 116 of the Company's Articles of Association, Mr. Wong Fei Fei and Mr. Chow Wai Ming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of Mr. Wong Sai Wa, Mr. Kwan Kai Cheong and Mr. Wong Fei Fei has entered into a service contract with the Company. The remuneration for Mr. Wong Sai Wa is fixed at HK$360,000 per annum whereas no remuneration has been received by Mr. Kwan Kai Cheong and Mr. Wong Fei Fei. There is no service contract entered into between each of Mr. Chow Wai Ming, Mr. Garry Alides Willinge and Mr. Lai Chik Fan with the Company.

Save as disclosed under the section "Profiles of Directors and Senior Management", each of Mr. Wong Fei Fei and Mr. Chow Wai Ming does not have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. As at the date hereof, save as disclosed under the section headed "Directors' and Chief Executives' Interests in Securities of the Company", each of Mr. Wong Fei Fei and Mr. Chow Wai Ming did not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed herein, the Board is not aware of any other matters which need to be brought to the attention of the shareholders of the Company.

Each of the executive directors has entered into a service agreement with the Company for an initial terms of two years commencing from 10 April 2001 and shall be continuing thereafter, which is subject to termination by either party in accordance with the provision of the service agreement.

All independent non-executive directors are not appointed for specific terms and are subject to retirement by rotation in accordance with the Company's Articles of Association.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' 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 7 to 9 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions as disclosed in note 37 to the financial statements, no other contracts of significance to which the Company or any of its holding companies or subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

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

As at 31 July 2005, the interests or short positions of the directors and chief executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.68 of the Rules Governing the listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:-

Long positions in ordinary shares and underlying shares of the Company

Name of Director	Capacity and nature of interest	Shares/ equity derivatives	Number of shares/equity derivatives held	Percentage of the Company's issued share capital	*Notes*
Mr. Wong Sai Wa	Directly beneficially owned	Share options	3,200,000 share options	0.64%	a
Mr. Kwan Kai Cheong	Directly beneficially owned	Share options	3,000,000 share options	0.60%	a

Note:

(a) Pursuant to the terms of the Company's Pre-IPO Share Option Scheme (the "Pre-IPO Plan") adopted by the Company on 23 March 2001, the Company has granted the above options to the directors to subscribe for shares in the Company at any time from 10 October 2001 up to and including 22 March 2011 at an exercise price of HK$0.55 per share. The exercise period of the Pre-IPO Plan is set out under the paragraph headed "Share Option Scheme" below. Details of the Pre-IPO Plan are set out in the Prospectus.

Save as disclosed herein, as at 31 July 2005, none of the directors or chief executives has short positions in the shares or underlying shares of equity derivatives of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executives' Interests in Securities of the Company" above, at no time during the year was the Company or any of its holding companies or subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 July 2005, the following persons (not being the directors and chief executives of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO as follows:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity and nature of interest	Shares/ equity derivatives	Number of shares/equity derivates held	Percentage of the Company's issued share capital	*Notes*
Concord Pharmaceutical Technology (Holdings) Limited ("CPT")	Corporation	Ordinary shares	400,000,000 shares	80%	a
Concord Business Management Limited ("CBM")	Through controlled corporation	Ordinary shares	400,000,000 shares	80%	a

Notes:

(a) CPT is a wholly-owned subsidiary of CBM. Accordingly, CBM is deemed to have an interest in the 400,000,000 shares of the Company held by CPT.

(b) The Shares held in the name of CPT are duplication of the Shares held by the former director, Mr. Wong Sai Chung.

(c) Convertible Note in the principal amount of HK$26,740,760 issued by the Company to CPT on 23 March 2001 has been repaid by the Company to CPT in full on 22 December 2004.

Save as disclosed above, as at 31 July 2005, the directors or chief executives of the Company were not aware of any other person (other than directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests in Securities of the Company" and "Substantial Shareholders' Interests" above, as at 31 July 2005, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions as detailed in note 37 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

None of the directors, the substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) had any interests in any business which competed with or might compete with the business of the Group.

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirms that it has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence pursuant to rule 5.09 of the GEM Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors to be independent.

COMPETING INTEREST

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

COMPLIANCE WITH BOARD PRACTICE AND PROCEDURES

During the year under review, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 July 2006.

AUDIT COMMITTEE

The Company set up an audit committee on 23 March 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28, 5.29 and 5.33 of the GEM Listing Rules. The audit committee has 3 members, namely Mr. Chow Wai Ming, Mr. Garry Alides Willinge and Mr. Lai Chik Fan. The work undertaken by the audit committee are to review the Company's annual report and financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. Four meetings were held during the year under review. The Group's audited financial statements for the year ended 31 July 2005 have been reviewed by the audit committee.

AUDITORS

A resolution to re-appoint the retiring auditors, Messrs. PKF, is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Wong Sai Wa
Chairman

Hong Kong, 27 October 2005

Report of the Auditors

AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA MEDICAL SCIENCE LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion 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 Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes 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. However, the evidence available to us was limited because the accounting records of two subsidiaries which were disposed of during the year have not been made available to the Company and to us for our audit. The Company has consolidated the two subsidiaries based on the unaudited financial statements for the period from 1 August 2004 to 31 December 2004 and the results thereof have been disclosed in note 6 to the financial statements. There were no other satisfactory audit procedures that we could adopt to ascertain whether there are any misstatements in the two subsidiaries' results and loss on disposal of subsidiaries included in the consolidated income statement. Similarly, we are unable to satisfy ourselves that the disclosures which have incorporated amounts in relation to the two subsidiaries as included in the consolidated cash flow statement and notes to the financial statements are fairly stated.

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.

QUALIFIED OPINION ARISING FROM LIMITATION OF SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the financial information of the two subsidiaries disposed of during the year, 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 2005 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.

In respect alone of the limitations on our work referred to above:

(i) We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

(ii) We were unable to determine whether proper books of accounts had been kept.

PKF
Certified Public Accountants

Hong Kong, 27 October 2005

Consolidated Income Statement

For the Year ended 31 July 2005

	Notes	**2005** **HK$'000**	2004 HK$'000
Turnover	*5*		
– Continuing operations		**27,941**	24,953
– Discontinued/discontinuing operations	*6*	**93,120**	146,580
		121,061	171,533
Cost of sales		**(88,799)**	(137,446)
Gross profit		**32,262**	34,087
Other revenue	*5*	**3,474**	3,192
Selling and distribution costs		**(15,523)**	(13,259)
General and administrative expenses		**(18,911)**	(17,186)
Other operating expenses		**(9,724)**	(18,636)
(Loss)/gain on disposal of subsidiaries		**(25,531)**	1,641
Provision for bad and doubtful debts		**–**	(20,204)
Loss from operating activities	*7*	**(33,953)**	(30,365)
Finance costs	*8*	**(10,325)**	(14,555)
Share of results of an associate		**1,256**	1,449
Impairment on			
– Fixed assets		**(3,678)**	–
– Goodwill		**(9,934)**	–
– Interest in an associate		**(10,839)**	–
– Long term investments		**(796)**	–
Loss before tax			
– Continuing operations		**(15,667)**	(5,293)
– Discontinued/discontinuing operations	*6*	**(52,602)**	(38,178)
		(68,269)	(43,471)
Tax	*11(a)*		
– Continuing operations		**(69)**	(354)
– Discontinued/discontinuing operations	*6*	**(596)**	17
		(665)	(337)
Loss before minority interests		**(68,934)**	(43,808)
Minority interests		**5,374**	17
Loss attributable to shareholders	*12*	**(63,560)**	(43,791)
Loss per share	*13*		
Basic		**(12.71 cents)**	(8.76 cents)
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 July 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Fixed assets	*14*	**106,044**	200,902
Intangible assets	*15*	**8,949**	12,428
Goodwill:	*16*		
Goodwill		**3,309**	20,088
Negative goodwill		**(4,746)**	(5,440)
Interest in an associate	*18*	**–**	9,583
Long term investments	*19*	**2,826**	4,420
Deferred tax asset	*11(b)*	**244**	257
		116,626	242,238
CURRENT ASSETS			
Inventories	*20*	**14,326**	21,470
Trade receivables	*21*	**98,397**	169,036
Deposits, prepayments and other receivables	*22*	**39,626**	42,178
Pledged deposits	*23*	**15,232**	65,649
Cash and cash equivalents	*23*	**3,282**	43,569
		170,863	341,902
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	*24*	**131,606**	191,417
Notes payable	*25*	**24,189**	124,937
Trade payables	*26*	**49,556**	82,090
Other payables and accruals		**57,141**	67,034
Deferred income	*27*	**991**	973
Amount due to a director	*28*	**3,158**	4,222
Tax payable		**1,137**	1,977
		267,778	472,650
NET CURRENT LIABILITIES		**(96,915)**	(130,748)
		19,711	111,490

Consolidated Balance Sheet *(continued)*

As at July 2005

	Notes	2005 HK$'000	2004 HK$'000
REPRESENTING:			
SHARE CAPITAL	*29*	**25,000**	25,000
RESERVES	*31*	**(11,812)**	50,945
SHAREHOLDERS' FUNDS		**13,188**	75,945
MINORITY INTERESTS		**3,606**	11,036
NON-CURRENT LIABILITIES			
Bank and other borrowings	*24*	**–**	20,649
Deferred income	*27*	**2,614**	3,540
Deferred tax liability	*11(b)*	**303**	320
		2,917	24,509
		19,711	111,490

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 27 OCTOBER 2005

Wong Sai Wa
Director

Kwan Kai Cheong
Director

Balance Sheet

As at 31 July 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**5**	6
Interests in subsidiaries	17	**28,833**	66,075
		28,838	66,081
CURRENT ASSETS			
Deposits, prepayments and other receivables	22	**9,493**	44
Cash and cash equivalents	23	**11**	41,386
		9,504	41,430
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	24	**–**	26,741
Other payables and accruals		**5,653**	5,660
Amount due to a director		**–**	642
		5,653	33,043
NET CURRENT ASSETS		**3,851**	8,387
		32,689	74,468
REPRESENTING:			
SHARE CAPITAL	29	**25,000**	25,000
RESERVES	31	**7,689**	49,468
SHAREHOLDERS' FUNDS		**32,689**	74,468

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 27 OCTOBER 2005

Wong Sai Wa	**Kwan Kai Cheong**
Director	*Director*

Consolidated Cash Flow Statement

For the Year ended 31 July 2005

	2005	2004
	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(68,269)**	(43,471)
Adjustments for:		
Finance costs	**10,325**	14,555
Share of results of an associate	**(1,256)**	(1,449)
Loss/(gain) on disposal of subsidiaries	**25,531**	(1,641)
Interest income	**(396)**	(1,197)
Depreciation	**11,868**	16,261
Amortisation of deferred income	**(973)**	(568)
Loss on disposal of fixed assets	**136**	18
Provision for bad and doubtful debts	**–**	20,204
Amortisation of intangible assets	**3,688**	3,981
Amortisation of goodwill	**736**	1,048
Negative goodwill recognised	**(694)**	(694)
Impairment	**25,247**	–
Operating profit before working capital changes	**5,943**	7,047
(Increase)/decrease in inventories	**(1,717)**	8,130
Increase in trade receivables	**(10,826)**	(11,083)
Decrease/(increase) in deposits, prepayments and other receivables	**19,172**	(12,136)
(Decrease)/increase in notes payable	**(59,935)**	21,242
(Decrease)/increase in trade payables	**(16,686)**	15,888
Increase in other payables and accruals	**10,501**	3,241
(Decrease)/increase in amount due to a director	**(1,117)**	2,636
Cash (used in)/generated from operations	**(54,665)**	34,965
Tax paid	**(532)**	–
Interest received	**396**	2,232
Interest paid on bank and other loans	**(9,265)**	(13,499)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	**(64,066)**	23,698

Consolidated Cash Flow Statement *(continued)*

For the Year ended 31 July 2005

	Notes	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**(12,179)**	(7,286)
Proceeds from disposal of fixed assets		**1,993**	181
Decrease in long term prepayments		**–**	5,405
Acquisition of a subsidiary	*32(a)*	**–**	(7,624)
Disposal of subsidiaries	*32(b)*	**(8,341)**	(9)
Decrease/(increase) in pledged deposits		**25,956**	(2,137)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**7,429**	(11,470)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**84,358**	136,610
Repayment of bank loans		**(72,063)**	(147,080)
New other loans		**4,604**	–
Repayment of other loans		**(577)**	(599)
Repayment of minority shareholders		**–**	(3,344)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**16,322**	(14,413)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(40,315)**	(2,185)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**28**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**43,569**	45,754
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,282**	43,569
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**3,282**	2,195
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	41,374
		3,282	43,569

Consolidated Statement of Changes in Equity

For the Year ended 31 July 2005

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 August 2003	25,000	17,992	27,104	25	49,615	119,736
Loss for the year	–	–	–	–	(43,791)	(43,791)
At 31 July 2004 and 1 August 2004	25,000	17,992	27,104	25	5,824	75,945
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	803	–	803
Loss for the year	–	–	–	–	(63,560)	(63,560)
At 31 July 2005	**25,000**	**17,992**	**27,104**	**828**	**(57,736)**	**13,188**
Reserves retained by:						
Company and subsidiaries	25,000	17,992	27,104	828	(48,128)	22,796
An associate	–	–	–	–	(9,608)	(9,608)
At 31 July 2005	**25,000**	**17,992**	**27,104**	**828**	**(57,736)**	**13,188**
Company and subsidiaries	25,000	17,992	27,104	25	5,849	75,970
An associate	–	–	–	–	(25)	(25)
At 31 July 2004	25,000	17,992	27,104	25	5,824	75,945

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 People's Republic of China (the "PRC"). During the year, the Group decided to dispose of all its human drugs and packaging materials businesses and thereafter to focus its operations on veterinary drugs and animal vaccines. Details concerning these discontinued and discontinuing operations are disclosed in note 6 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is Concord Business Management Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PRESENTATION

The principal accounting policies adopted in preparing the audited consolidated results conform with the Financial Reporting Standards, including the Statements of Standard Accounting Practice (the "SSAPs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted the new HKFRSs in the financial statements for the year ended 31 July 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with SSAPs issued by the HKICPA and are prepared under the historical cost convention.

As at 31 July 2005, the Group had net current liabilities of approximately HK$96,915,000, mainly comprising net current liabilities of approximately HK$77,139,000 and approximately HK$19,776,000 from discontinuing operation entities and continuing operating business respectively.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

The net current liabilities of the discontinuing operation entities in the amount of approximately HK$77,139,000 are attributable to Sichuan Shule Pharmaceutical Joint Stock Co., Ltd. ("Sichuan Shule") and its subsidiary. As announced by the Company on 25 October 2005 (the "Announcement"), the Company had entered into a conditional share transfer agreement with a third party to dispose of Sichuan Shule and its subsidiary ("Shule Disposal"). The completion of the Shule Disposal will be subject to the approval of the Company's shareholders and compliance with the GEM Listing Rules. As no shareholder is required to abstain from voting if the Company is to convene a general meeting for the approval of the Shule Disposal, Concord Pharmaceutical Technology (Holdings) Limited, which as at the date of the Announcement is interested in 80% of the issued share capital of the Company had on 20 May 2005 issued a certificate confirming that it will approve the Shule Disposal. Under this circumstance, the Shule Disposal would be completed shortly after the compliance with the GEM Listing Rules. The discontinuing business is currently financed by its operations, bank loans and facilities.

The indebtedness of the continuing operating business mainly comprised the short-term bank loans of approximately HK$17,456,000. The short-term bank loans have been renewed in the past upon maturities 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. As at 31 July 2005, the fixed assets of the continuing operating business, the net book value of which amounting to approximately HK$29,117,000 were not pledged against any bank loans, facilities and guarantee. Further, there will be a significant reduction in the Group's net current liabilities after the completion of the Shule Disposal. In view of the foregoing, the directors consider 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 2005.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2005. 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 inter-company 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Revenue recognition

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less aggregate depreciation and 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 the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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.

Other than construction in progress, depreciation is calculated to write off the cost of other assets over their estimated useful life using the straight line basis at the following annual rates:

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 of fixed assets representing the difference between the net sales proceeds and the carrying amounts of the relevant assets is recognised in the income statement.

Construction in progress 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Subsidiaries

A subsidiary is an enterprise over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses. Income from subsidiaries is recognised in the Company's financial statements on the basis of dividends declared by the subsidiaries.

(f) 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 income statement 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.

(g) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) 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 income statement 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 income statement 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 income statement 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 income statement and any relevant reserves as appropriate.

(i) Intangible assets

Purchased patents and licences are stated at cost less aggregate amortisation and any impairment losses, and are amortised on a straight line basis over the following years of estimated useful lives:

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Research and development costs

All research costs are charged to the income statement 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.

(k) 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 any identified impairment loss.

(l) 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.

(m) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that a future outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The associated finance cost is recognised in the income statement on an accrual basis while the associated costs of issue are charged immediately to the income statement when it is incurred.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the periods of the respective leases.

(q) Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement.

The consolidated financial statements are prepared by using the net investment method such that the balance sheets of the Company's overseas subsidiaries are translated in Hong Kong dollars at the market exchange rate ruling at the balance sheet date, while their income statements are translated at the average exchange rate for the year. Any exchange differences arising on such translation are dealt with in the exchange fluctuation reserve.

(r) Employee benefits

Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the PRC central pension scheme, are recognised as an expense in the income statement as incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Employee benefits *(continued)*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

When the Group grants employees options to acquire shares of the Company for nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(s) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) 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.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses.

(v) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4. 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 veterinary drugs segment comprises the production, sales and distribution of veterinary drugs;

(b) the corporate segment comprises corporate income and expense items;

(c) the human drugs segment comprises the production, sales and distribution of infusion and non-infusion medicine; and

(d) the packaging materials segment comprises the production, sales and distribution of packaging materials for infusion medicine.

During the year, the entire turnover and contribution to loss from operating activities of the Group were derived from the principal activities carried out in the PRC. Accordingly, a further analysis by geographical segment is not presented.

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

4. **SEGMENT INFORMATION** *(continued)*

Business segments

The following tables present revenue, loss and certain assets, liabilities and expenditure information for the Group's business segments.

	Continuing operations				Discontinued/discontinuing operations							
	Veterinary drugs		Corporate		Human drugs		Packaging materials		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**27,941**	24,953	**–**	–	**89,929**	129,056	**3,191**	17,524	**–**	–	**121,061**	171,533
Inter-segment sales	**–**	–	**–**	–	**11,996**	13,416	**1,850**	667	**(13,846)**	(14,083)	**–**	–
Other revenue	**682**	73	**1,337**	1,826	**1,286**	1,223	**129**	3	**(356)**	(1,130)	**3,078**	1,995
Total revenue	**28,623**	25,026	**1,337**	1,826	**103,211**	143,695	**5,170**	18,194	**(14,202)**	(15,213)	**124,139**	173,528
Segment results	**59**	1,169	**(3,342)**	(4,055)	**(2,677)**	(15,472)	**(28,389)**	(13,204)	**–**	–	**(34,349)**	(31,562)
Interest income											**396**	1,197
Loss from operating activities											**(33,953)**	(30,365)
Finance costs											**(10,325)**	(14,555)
Share of results of an associate	**–**	–	**–**	–	**1,256**	1,449	**–**	–	**–**	–	**1,256**	1,449
Impairment on												
– Fixed assets	**–**	–	**–**	–	**(3,678)**	–	**–**	–	**–**	–	**(3,678)**	–
– Goodwill	**–**	–	**–**	–	**(9,934)**	–	**–**	–	**–**	–	**(9,934)**	–
– Interest in an associate	**(10,839)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(10,839)**	–
– Long term investment	**(398)**	–	**–**	–	**(398)**	–	**–**	–	**–**	–	**(796)**	–
Loss before tax											**(68,269)**	(43,471)
Tax	**(69)**	(354)	**–**	–	**(596)**	17	**–**	–	**–**	–	**(665)**	(337)
Loss before minority interests											**(68,934)**	(43,808)
Minority interests											**5,374**	17
Loss attributable to shareholders											**(63,560)**	(43,791)

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	Continuing operations				Discontinued/discontinuing operations							
	Veterinary drugs		Corporate		Human drugs		Packaging materials		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**69,530**	104,463	**75,128**	151,123	**212,270**	354,051	**–**	99,310	**(69,439)**	(134,390)	**287,489**	574,557
Interest in an associate	**–**	–	**–**	–	**–**	9,583	**–**	–	**–**	–	**–**	9,583
Total assets	**69,530**	104,463	**75,128**	151,123	**212,270**	363,634	**–**	99,310	**(69,439)**	(134,390)	**287,489**	584,140
Segment liabilities	**51,663**	71,676	**76,201**	91,906	**212,270**	377,271	**–**	90,696	**(69,439)**	(134,390)	**270,695**	497,159
Total liabilities	**51,663**	71,676	**76,201**	91,906	**212,270**	377,271	**–**	90,696	**(69,439)**	(134,390)	**270,695**	497,159
Other segment information:												
Depreciation and amortisation (excluding goodwill and negative goodwill)	**4,313**	3,096	**13**	18	**10,188**	14,189	**1,042**	2,939	**–**	–	**15,556**	20,242
Amortisation of goodwill	**–**	–	**736**	1,048	**–**	–	**–**	–	**–**	–	**736**	1,048
Recognition of negative goodwill	**–**	–	**(694)**	(694)	**–**	–	**–**	–	**–**	–	**(694)**	(694)
Amortisation of deferred income	**–**	–	**–**	–	**(973)**	(568)	**–**	–	**–**	–	**(973)**	(568)
Capital expenditure	**6,885**	3,051	**2**	–	**5,289**	9,133	**3**	183	**–**	–	**12,179**	12,367

5. TURNOVER AND REVENUE

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

An analysis of turnover and other revenue is as follows:

	2005 HK$'000	2004 HK$'000
Continuing operations		
Sale of veterinary drugs	**27,941**	24,953
Discontinued/discontinuing operations		
Sale of human drugs	**89,929**	129,056
Sale of packaging materials	**3,191**	17,524
	121,061	171,533
Other revenue		
Interest income	**396**	1,197
Sundry income	**1,408**	733
Exchange gain	**3**	–
Negative goodwill recognised	**694**	694
Amortisation of deferred income (note 27)	**973**	568
	3,474	3,192
Total revenue	**124,535**	174,725

6. DISCONTINUED/DISCONTINUING OPERATIONS

During the year, the Group decided to focus its operations on the development, production, sales and distribution of a range of biotechnology and pharmaceutical products, principally infusion and injection medicine for domestic animals consumption. Two agreements were entered into by the Group with two independent parties to dispose of the Group's interests in the subsidiaries, Chengdu Mt. Green Pharmaceutical Co., Ltd. ("Chengdu Mt. Green"), Sichuan Future Industrial Co., Ltd. ("Sichuan Future") and Sichuan Shule. Upon completion of the aforementioned disposals, the Group discontinues its development, production, sales and distribution of packaging materials for biotechnology and pharmaceutical products and human drugs businesses. The details of these disposals are disclosed in the following paragraphs.

(a) Discontinued operations – Disposal of Chengdu Mt. Green and Sichuan Future

On 24 December 2004, Seechain Investments Limited, an indirectly wholly-owned subsidiary of the Group, entered into an equity interest transfer agreement with an independent third party for the disposal of the 91% equity interest in each of Chengdu Mt. Green and Sichuan Future for a cash consideration of RMB1.00. Chengdu Mt. Green and Sichuan Future were engaged in the human drugs and packaging materials business segment respectively.

At the balance sheet date, although the disposal was not formally completed and the conditions precedent to the disposal have yet to be fulfilled, the Group's control in the two subsidiaries together with the risks and rewards of ownership were shifted over to the purchaser during the year ended 31 July 2005. Accordingly, the disposal was deemed to have been completed and the loss on disposal of approximately HK$25,531,000 was recognised during the year. There was no tax arising from the disposal.

6. DISCONTINUED/DISCONTINUING OPERATIONS *(continued)*

The turnover, expenses and results of Chengdu Mt. Green and Sichuan Future included in the consolidated income statement for the years ended 31 July 2005 and 31 July 2004 respectively were as follows:

	Sichuan Future		Chengdu Mt. Green		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**3,191**	17,524	**2,042**	25,130	**5,233**	42,654
Cost of sales	**(4,551)**	(16,558)	**(3,424)**	(22,709)	**(7,975)**	(39,267)
Gross (loss)/profit	**(1,360)**	966	**(1,382)**	2,421	**(2,742)**	3,387
Other revenue	**129**	341	**250**	368	**379**	709
Selling and distribution costs	**(312)**	(864)	**(811)**	(2,827)	**(1,123)**	(3,691)
General and administrative expenses	**(978)**	(1,909)	**(2,193)**	(2,448)	**(3,171)**	(4,357)
Other operating expenses	**(1,384)**	(4,985)	**(1,157)**	(7,438)	**(2,541)**	(12,423)
Provision for doubtful debts	**–**	(6,629)	**–**	(19,184)	**–**	(25,813)
Loss from operating activities	**(3,905)**	(13,080)	**(5,293)**	(29,108)	**(9,198)**	(42,188)
Finance costs	**(1,656)**	(3,074)	**(1,102)**	(2,863)	**(2,758)**	(5,937)
Share of results of an associate	**–**	–	**1,256**	1,449	**1,256**	1,449
Loss before tax	**(5,561)**	(16,154)	**(5,139)**	(30,522)	**(10,700)**	(46,676)
Tax	**–**	–	**–**	–	**–**	–
Loss before minority interests	**(5,561)**	(16,154)	**(5,139)**	(30,522)	**(10,700)**	(46,676)
Minority interests	**347**	1,434	**(113)**	2,851	**234**	4,285
Loss attributable to shareholders	**(5,214)**	(14,720)	**(5,252)**	(27,671)	**(10,466)**	(42,391)

6. DISCONTINUED/DISCONTINUING OPERATIONS *(continued)*

(b) Discontinuing operation – Disposal of Sichuan Shule

As per aforementioned, the Company had entered into a conditional share transfer agreement with a third party to dispose of Sichuan Shule and its subsidiary. Sichuan Shule and its subsidiary were engaged in the human drugs business segment.

An impairment of assets of approximately HK$14,010,000 was recognised relating to the Shule Disposal. There was no tax arising from the disposal.

6. DISCONTINUED/DISCONTINUING OPERATIONS *(continued)*

The aggregate turnover, expenses and results of Sichuan Shule and its subsidiary included in the Group's audited consolidated income statement for the years ended 31 July 2005 and 31 July 2004 respectively were as follows:

	2005	2004
	HK$'000	HK$'000
Turnover	**87,887**	103,926
Cost of sales	**(63,487)**	(83,164)
Gross profit	**24,400**	20,762
Other revenue	**1,466**	1,173
Selling and distribution costs	**(9,319)**	(7,078)
General and administrative expenses	**(9,168)**	(5,549)
Other operating expenses	**(3,285)**	(2,523)
Gain on disposal of a subsidiary	**–**	1,641
Provision for bad and doubtful debts written back	**–**	6,844
Profit from operating activities	**4,094**	15,270
Finance costs	**(6,455)**	(6,772)
Impairment on		
– Fixed assets	**(3,678)**	–
– Long term investment	**(398)**	–
(Loss)/profit before tax	**(6,437)**	8,498
Tax	**(596)**	17
(Loss)/profit before minority interests	**(7,033)**	8,515
Minority interests	**4,731**	(4,320)
(Loss)/profit attributable to shareholders	**(2,302)**	4,195

6. DISCONTINUED/DISCONTINUING OPERATIONS *(continued)*

The carrying amounts of the total assets and liabilities relating to Sichuan Shule and its subsidiary included in the Group's audited consolidated balance sheets as at 31 July 2005 and 31 July 2004 respectively were as follows:

	2005	2004
	HK$'000	HK$'000
Total assets	**212,270**	219,091
Total liabilities	**(212,270)**	(210,011)
Net assets	**–**	9,080

The net cash flows attributable to Sichuan Shule and its subsidiary for the years ended 31 July 2005 and 31 July 2004 were as follows:

	2005	2004
	HK$'000	HK$'000
Operating activities	**(12,018)**	2,640
Investing activities	**(3,691)**	(5,716)
Financing activities	**15,534**	(2,012)
Net cash outflow	**(175)**	(5,088)

7. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000
Amortisation of goodwill	**736**	1,048
Amortisation of intangible assets	**3,688**	3,981
Auditors' remuneration	**380**	320
Cost of inventories sold	**88,799**	137,446
Depreciation	**11,868**	16,261
Guaranteed return (note 27)	**2,543**	1,483
Sales proceeds	**(1,993)**	(181)
Less: Net book value	**2,129**	199
Loss on disposal of fixed assets	**136**	18
Minimum operating lease payments for land and buildings	**231**	715
Research and development expenditure	**375**	1,516
Staff costs (including directors' emoluments in note 9):		
Salaries, wages and other allowances	**9,554**	7,969
Pension scheme contributions	**889**	343
	10,443	8,312

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans wholly repayable within five years	**9,819**	13,386
Interest on other loans	**506**	634
Interest on convertible note	**–**	535
	10,325	14,555

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

	Fees		Salaries, allowances and benefits-in-kinds		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Wong Sai Chung	**–**	–	**–**	–	**–**	–
Mr. Wong Sai Wa	**360**	360	**–**	–	**360**	360
Mr. Kwan Kai Cheong	**–**	–	**–**	–	**–**	–
Dr. Tang Gang	**–**	–	**–**	68	**–**	68
Mr. Wong Fei Fei	**–**	–	**–**	–	**–**	–
	360	360	**–**	68	**360**	428
Independent non-executive directors						
Mr. Tsim Tak Lung	**–**	120	**–**	–	**–**	120
Mr. Garry Alides Willinge	**110**	–	**–**	–	**110**	–
Mr. Lai Chik Fan	**110**	–	**–**	–	**110**	–
Mr. Chow Wai Ming	**120**	120	**–**	–	**120**	120
	340	240	**–**	–	**340**	240
	700	600	**–**	68	**700**	668

Notes:

(i) The emoluments for Dr. Tang Gang represented the amount for his services as executive director for the period from 1 August 2004 to 13 April 2005.

(ii) The emoluments for Mr. Garry Alides Willinge represented the amount for his services as independent non-executive director for the period from 28 September 2004 to 31 July 2005.

(iii) The emoluments for Mr. Lai Chik Fan represented the amount for his services as independent non-executive director for the period from 21 October 2004 to 31 July 2005.

(iv) There was no arrangement under which a director had waived or agreed to waive any emoluments during the year.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Five highest paid employees

The five highest paid employees during the year included four (2004: three) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining one (2004: two) highest paid non-director employee are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and allowances	**362**	518
Pension scheme contributions	**12**	12
	374	530

The emoluments of the highest paid non-director employees fell within the band of nil to HK$1,000,000.

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 (2004: Nil).

10. PENSION SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of 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 income statement 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 Company's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The central pension scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the pension payments on post-retirement benefits beyond the annual contributions.

During the year, the Group made pension contributions of HK$889,000 (2004: HK$343,000).

11. TAX

(a) Tax expense in the consolidated income statement represents:

	2005	2004
	HK$'000	HK$'000
Current tax:		
PRC	**669**	346
Deferred tax (note 11(b)):		
Current year	**(4)**	(9)
Tax expense	**665**	337

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong for both years. Current tax represents PRC enterprise income tax charge on the estimated taxable profits of certain subsidiaries operating in the PRC calculated at the prevailing tax rate.

Tax expense for the year can be reconciled as follows:

	2005	2004
	HK$'000	HK$'000
Loss before tax	**(68,269)**	(43,471)
Tax effect at the PRC statutory income tax rate of 33%	**(22,529)**	(14,345)
Tax effect of non-deductible expenses	**17,755**	2,185
Tax effect of tax exempt revenue	**(856)**	(1,754)
Tax effect of unrecognised impairment on fixed assets	**1,214**	–
Tax effect of unrecognised general provision for bad and doubtful debts	**–**	6,667
Tax effect of unrecognised tax losses	**5,081**	7,584
Tax expense	**665**	337

11. TAX *(continued)*

(b) Deferred tax (asset)/liability in the consolidated balance sheet represent:

	Decelerated depreciation allowances HK$'000	**Accelerated depreciation allowances** HK$'000	**Total** HK$'000
At 1 August 2003	–	367	367
Acquisition of a subsidiary (note 32(a))	(265)	–	(265)
Disposal of a subsidiary (note 32(b))	–	(30)	(30)
Charge/(credit) for the year	8	(17)	(9)
At 31 July 2004 and 1 August 2004	(257)	320	63
Charge/(credit) for the year	13	(17)	(4)
At 31 July 2005	**(244)**	**303**	**59**

(c) The components of unrecognised deductible temporary differences are as follows:

	2005 **HK$'000**	2004 HK$'000
Unutilised tax losses	**8,179**	26,343
General provision for bad and doubtful debts	**22,127**	39,376
Impairment on fixed assets	**3,678**	–
	33,984	65,719

The net movement in unutilised tax losses was attributable to current year's losses of HK$15,397,000 and the disposal of subsidiaries of HK$33,561,000. The unutilised tax losses accumulated in the PRC subsidiaries would expire in five years from the respective year of loss.

The movement in general provision for bad and doubtful debts of HK$17,249,000 was attributable to the disposal of subsidiaries.

Deductible temporary differences have not been recognised in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences.

11. TAX *(continued)*

(d) At the balance sheet date, the Company had no taxable or deductible temporary differences.

12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders includes a loss of HK$41,779,000 (2004: HK$3,499,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders for the year of HK$63,560,000 (2004: HK$43,791,000) and the weighted average number of 500,000,000 (2004: 500,000,000) ordinary shares in issue during the year.

No diluted loss per share is shown as there were no dilutive potential shares.

14. FIXED ASSETS

(a) The 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 1 August 2004	153,109	72,573	1,000	5,715	1,637	8,842	242,876
Exchange adjustments	1,475	874	19	57	9	86	2,520
Additions	4,269	365	216	144	260	6,925	12,179
Disposals	(1,749)	(345)	(3)	(977)	–	–	(3,074)
Reclassification	4,137	3,610	–	–	–	(7,747)	–
Disposals of subsidiaries	(82,266)	(33,559)	(1,175)	(3,593)	(499)	(4,110)	(125,202)
At 31 July 2005	**78,975**	**43,518**	**57**	**1,346**	**1,407**	**3,996**	**129,299**
Aggregate depreciation:							
At 1 August 2004	14,070	22,814	758	3,509	823	–	41,974
Exchange adjustments	211	300	14	37	5	–	567
Charge for the year	3,528	7,131	229	823	157	–	11,868
Written back on disposals	(133)	(61)	(2)	(749)	–	–	(945)
Written back on disposal of subsidiaries	(12,741)	(16,832)	(952)	(2,977)	(385)	–	(33,887)
At 31 July 2005	**4,935**	**13,352**	**47**	**643**	**600**	**–**	**19,577**
Impairment:							
Charge for the year and at 31 July 2005	**–**	**3,678**	**–**	**–**	**–**	**–**	**3,678**
Net book value:							
At 31 July 2005	**74,040**	**26,488**	**10**	**703**	**807**	**3,996**	**106,044**
At 31 July 2004	139,039	49,759	242	2,206	814	8,842	200,902

14. FIXED ASSETS *(continued)*

All the Group's leasehold land and buildings are situated in the PRC. As at 31 July 2005, the cost of leasehold land and buildings held under long term and medium term leases were approximately HK$2,479,000 (2004: HK$18,991,000) and HK$76,496,000 (2004: HK$134,118,000) respectively.

As at 31 July 2005, certain of the Group's leasehold land and buildings and plant and machinery with net book values of approximately HK$52,183,000 (2004: HK$64,413,000) and HK$25,517,000 (2004: HK$29,290,000) respectively were pledged to secure general banking facilities granted to the Group (note 24).

(b) The Company

	Computer equipment HK$'000
Cost:	
At 1 August 2004	15
Additions	2
At 31 July 2005	**17**
Aggregate depreciation:	
At 1 August 2004	9
Charge for the year	3
At 31 July 2005	**12**
Net book value:	
At 31 July 2005	**5**
At 31 July 2004	6

15. INTANGIBLE ASSETS

	Technical know-how HK$'000	Production licenses HK$'000	Total HK$'000
Cost:			
At 1 August 2004	11,642	16,984	28,626
Exchange adjustments	211	126	337
Disposal of subsidiaries	–	(10,060)	(10,060)
At 31 July 2005	**11,853**	**7,050**	**18,903**
Aggregate amortisation:			
At 1 August 2004	6,929	9,269	16,198
Exchange adjustments	126	2	128
Charge for the year	1,693	1,995	3,688
Written back on disposal of subsidiaries	–	(10,060)	(10,060)
At 31 July 2005	**8,748**	**1,206**	**9,954**
Net book value:			
At 31 July 2005	**3,105**	**5,844**	**8,949**
At 31 July 2004	4,713	7,715	12,428

16. GOODWILL AND NEGATIVE GOODWILL

	Goodwill HK$'000	Negative goodwill HK$'000
Cost:		
At 1 August 2004	22,440	(8,333)
Disposal of subsidiaries	(7,709)	–
At 31 July 2005	**14,731**	**(8,333)**
Aggregate amortisation/(recognition as income):		
At 1 August 2004	2,352	(2,893)
Amortisation/(recognised as income) for the year	736	(694)
Written back on disposal of subsidiaries	(1,600)	–
At 31 July 2005	**1,488**	**(3,587)**
Impairment:		
Charge for the year and at 31 July 2005	**9,934**	**–**
Net book value:		
At 31 July 2005	**3,309**	**(4,746)**
At 31 July 2004	20,088	(5,440)

17. INTERESTS IN SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**42,876**	42,876
Amounts due from subsidiaries	**26,714**	26,751
Amount due to a subsidiary	**(1,757)**	(3,552)
	67,833	66,075
Impairment loss	**(39,000)**	–
	28,833	66,075

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

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 July 2005 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
			Directly	Indirectly	
China Biotechnology Limited	Cayman Islands	US$3	100.00	–	Investment holding
Glazier Limited	British Virgin Islands	US$2	–	100.00	Investment holding
Seechain Investments Limited	British Virgin Islands	US$1	–	100.00	Investment holding
Chengdu Concord Yuen Heng Industrial Co., Ltd.#	PRC	US$1,560,000	–	100.00	Research and development of veterinary drugs
Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd.*	PRC	RMB18,000,000	–	91.00	Manufacture and distribution of veterinary drugs
四川利亨生物藥業有限公司	PRC	RMB3,096,800	–	72.80	Manufacture and distribution of veterinary drugs
Sichuan Shule Pharmaceutical Joint Stock Co., Ltd.**	PRC	RMB18,000,000	–	51.05	Manufacture and sale of human drugs
樂山裕恆藥業有限公司*	PRC	RMB7,000,000	–	38.03	Manufacture and sale of human drugs

* *Sino-foreign joint venture enterprise*
** *Joint-stock enterprise*
\# *Wholly-foreign-owned enterprise established during the year*

18. INTEREST IN AN ASSOCIATE

	2005	2004
	HK$'000	HK$'000
Share of net assets	**10,839**	9,583
Impairment loss	**(10,839)**	–
	–	9,583

(a) 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**
			2005	2004	
Chengdu Mt. Green Li Kong Medical Technology Co. Limited* ("Chengdu Mt. Green Li Kong")	Corporate	PRC	**34.00**	30.94	Manufacture and sales of human drugs infusion medicine

* *Not audited by PKF*

(b) Chengdu Mt. Green has a 34% equity interest in Chengdu Mt. Green Li Kong. This equity interest in Chengdu Mt. Green Li Kong did not form part of the assets to be disposed of under the disposal of Chengdu Mt. Green and Sichuan Future and would be transferred from Chengdu Mt. Green to a member of the Group. However, at the balance sheet date, the transfer of legal title in respect of Chengdu Mt. Green Li Kong was still in progress. In view of the restriction on the Group to exercise influence on the associate, an impairment on interest in the associate of approximately HK$10,839,000 was made during the year.

19. LONG TERM INVESTMENTS

	2005	2004
	HK$'000	HK$'000
Unlisted equity investments, at cost	**3,622**	4,420
Impairment loss	**(796)**	–
	2,826	4,420

20. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**6,885**	14,468
Work in progress	**588**	152
Finished goods	**6,853**	6,850
	14,326	21,470

21. 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 and the management regularly reviews the overdue balances.

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:

	2005	2004
	HK$'000	HK$'000
Within 3 months	**62,984**	59,394
3 to 6 months	**27,848**	43,759
6 to 12 months	**6,533**	38,052
Over 1 year	**1,032**	27,831
	98,397	169,036

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**8,807**	9,629	**–**	44
Deposits and other debtors	**30,819**	32,549	**9,493**	–
	39,626	42,178	**9,493**	44

Included in the Company's deposits and other debtors was an amount of HK$9,476,000 (2004: Nil) due from a controlling shareholder. The amount is interest-free, unsecured and repayable on demand.

23. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**13,741**	67,844	**11**	11
Time deposits	**4,773**	41,374	**–**	41,375
	18,514	109,218	**11**	41,386
Analysed as:				
Deposits pledged for				
– Notes payable	**10,459**	65,649	**–**	–
– Bank loans	**4,773**	–	**–**	–
	15,232	65,649	**–**	–
Cash and cash equivalents	**3,282**	43,569	**11**	41,386
	18,514	109,218	**11**	41,386

As at 31 July 2005, no bank balances (2004: HK$3,000) or time deposits (2004: HK$41,374,000) were deposited with a related company of the Group, which is a bank.

24. BANK AND OTHER BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans				
Secured (note 24(a))	**88,051**	110,394	**–**	–
Unsecured	**32,609**	65,563	**–**	–
	120,660	175,957	**–**	–
Other loans				
Secured	**–**	2,449	**–**	–
Unsecured (note 24(b))	**10,946**	6,919	**–**	–
	10,946	9,368	**–**	–
Convertible note, unsecured	**–**	26,741	**–**	26,741
	131,606	212,066	**–**	26,741
Repayable:				
Within one year and shown under current liabilities				
Bank loans	**120,660**	155,308	**–**	–
Other loans	**10,946**	9,368	**–**	–
Convertible note	**–**	26,741	**–**	26,741
	131,606	191,417	**–**	26,741
In the second year and shown under non-current liabilities				
Bank loans	**–**	20,649	**–**	–
Convertible note	**–**	–	**–**	–
	–	20,649	**–**	–
	131,606	212,066	**–**	26,741

24. BANK AND OTHER BORROWINGS *(continued)*

(a) The bank loans are secured by:

(i) Mortgages over the Group's leasehold land and buildings which had an aggregate net book value at the balance sheet date of approximately HK$52,183,000 (2004: HK$64,413,000);

(ii) Mortgages over the Group's plant and machinery, which had an aggregate net book value at the balance sheet date of approximately HK$25,517,000 (2004: HK$29,290,000);

(iii) The Group's time deposits of HK$4,773,000 (2004: Nil); and

(iv) A guarantee put up by Chengdu Mt. Green.

(b) Other unsecured loans are interest-bearing at 2% to 3% (2004: Nil) per annum and repayable on demand.

25. NOTES PAYABLE

The notes payable is secured by the Group's bank deposit of approximately HK$10,459,000 (2004: HK$65,649,000) and a guarantee put up by a third party.

26. TRADE PAYABLES

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

	2005	2004
	HK$'000	HK$'000
Within 3 months	**15,602**	26,831
3 to 6 months	**2,159**	27,979
6 to 12 months	**11,802**	10,683
Over 1 year	**19,993**	16,597
	49,556	82,090

27. DEFERRED INCOME

On 24 August 2002, the Group entered into a joint venture agreement in the form of a jointly-controlled operation with 汕頭龍湖區欣源貿易公司 ("欣源") to manufacture, develop and distribute jointly a product line in the PRC. The Group and 欣源 had 55% and 45% participating interest in this joint venture respectively.

On 23 December 2003, both parties entered into a supplemental agreement whereby 欣源 agreed to transfer its profit-sharing interest in the product line and related plant and machinery with cost of HK$5,081,000 to the Group for a guaranteed return of HK$13,282,200 (equivalent to RMB14,100,000) (the "Transfer"). It is payable by 12 half-yearly installments.

Details of the payment schedule is set out below:

Date	**Number of instalment and amount**	**Amount** HK$'000
July 2004 to January 2007	6 half-yearly instalments of HK$1,271,700 (equivalent to RMB1,350,000) each	7,630
July 2007 to January, 2010	6 half-yearly instalments of HK$942,000 (equivalent to RMB1,000,000) each	5,652
		13,282

Following the Transfer, the risks and rewards of ownership of the product line passed to the Group. The aforementioned plant and machinery of HK$5,081,000 were accounted for as the Group's fixed assets with the same amount credited as deferred income. The deferred income is recognised to the income statement over the terms of the guaranteed period.

28. AMOUNT DUE TO A DIRECTOR

The amount due to director Mr. Wong Sai Wa is interest-free, unsecured and repayable on demand.

29. SHARE CAPITAL

	2005	2004
	HK$'000	HK$'000
Shares		
Authorised:		
1,000,000,000 ordinary shares of HK$0.05 each	**50,000**	50,000
Issued and fully paid:		
500,000,000 shares of HK$0.05 each	**25,000**	25,000

Share options

The details of share option schemes operated by the Company are set out in note 30 to the financial statements.

30. SHARE OPTION SCHEMES

(a) Share Option 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 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 of directors 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.

30. SHARE OPTION SCHEMES *(continued)*

(a) Share Option Scheme *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount, upon their exercise, not exceeding 10% of the entire issued share capital of the Company as at the end of the first day on which the dealings of the Company's shares commenced on the GEM or 30% of the entire issued share capital of the Company on the day of shareholders' approval for the refreshment of the 10% limit stated above, as the case may be. In determining the said 30% limit, the following shares shall be excluded: (1) shares issued pursuant to the Scheme and any other share option schemes; (2) any pro-rata entitlements to subscribe for further shares issued in respect of those shares mentioned in (1) above. 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 under the Scheme 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, where share options are proposed to be granted to a connected person who is also a substantial shareholder of the Company, or any of its associates, and the proposed grant of share options, when aggregate with the options already granted to such connected person in the past 12 months, would entitle him/her to receive more than 0.1% of the total issued shares of the Company for the time being and the value of which is in excess of HK$5 million, then the proposed grant must be subject to shareholders' approval in general meeting.

The offer of a grant of share options may be accepted within five business days from the date of the offer and 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 of directors in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the Company's 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 price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the options; and (iii) the nominal value of the 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.

30. SHARE OPTION SCHEMES *(continued)*

(b) Pre-IPO Share Option Scheme

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 was terminated upon 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	At 1.8.2004	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.7.2005	*(Note 1)* Date of grant of share options	Exercise period of share options	*(Note 2)* Exercise price of share options HK$
Directors									
Mr. Wong Sai Wa	3,200,000	–	–	–	–	**3,200,000**	23.3.2001	10.10.2001 to 22.3.2011	0.55
Mr. Kwan Kai Cheong	3,000,000	–	–	–	–	**3,000,000**	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,200,000	–	–	–	–	**6,200,000**			
Other employees	400,000	–	–	–	–	**400,000**	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,600,000	–	–	–	–	**6,600,000**			

30. SHARE OPTION SCHEMES *(continued)*

(b) Pre-IPO Share Option Scheme

Notes:

(1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(2) 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 exercise of the above 6,600,000 outstanding share options at the balance sheet date would, under the present capital structure of the Company, result in the issue of 6,600,000 additional ordinary shares of the Company and additional share capital of HK$330,000 and share premium of HK$3,300,000 (before issue expenses).

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

31. RESERVES

(a) The Group

The capital reserve arising from 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.

(b) The Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 August 2003	17,992	42,876	(7,901)	52,967
Loss for the year	–	–	(3,499)	(3,499)
At 31 July 2004 and 1 August 2004	17,992	42,876	(11,400)	49,468
Loss for the year	–	–	(41,779)	(41,779)
At 31 July 2005	**17,992**	**42,876**	**(53,179)**	**7,689**

The contributed surplus represents the excess of the combined net asset value of the subsidiaries acquired pursuant to the reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM over the nominal value of the Company's shares issued in exchange.

The Company had distributable reserves of approximately HK$7,689,000 as at 31 July 2005. Under the Companies Law (Cap. 22 Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividends is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary:

	2005	2004
	HK$'000	HK$'000
Net assets acquired:		
Fixed assets	–	656
Intangible assets	–	6,924
Deferred tax asset	–	265
Inventories	–	1,065
Other receivables	–	246
Cash and cash equivalents	–	31
Other payables and accruals	–	(1,751)
Minority interests	–	(1,132)
	–	6,304
Goodwill arising on acquisition	–	3,593
	–	9,897
Satisfied by:		
Cash paid	–	7,655
Other payable	–	2,242
	–	9,897

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2005	2004
	HK$'000	HK$'000
Cash consideration	–	(7,655)
Cash and cash equivalents acquired	–	31
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	(7,624)

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

(b) Disposal of subsidiaries during the year:

	2005 **HK$'000**	2004 HK$'000
Net assets/(liabilities) disposed of:		
Fixed assets	**91,315**	–
Long term investment	**798**	–
Inventories	**9,076**	–
Trade receivables	**83,213**	–
Deposits, prepayment and other receivables	**45,692**	–
Pledged deposits	**24,962**	–
Cash and cash equivalents	**8,341**	9
Bank and other borrowings	**(98,498)**	–
Notes payable	**(41,919)**	–
Trade payables	**(16,966)**	–
Other payables and accruals	**(85,214)**	–
Tax payable	**(227)**	–
Deferred tax liability	**–**	(30)
Minority interests	**(1,151)**	(2,769)
	19,422	(2,790)
Unamortised goodwill written off	**6,109**	188
(Loss)/gain on disposal	**(25,531)**	1,641
	–	(961)
Satisfied by:		
Cash consideration of HK$1.00 (2004: Nil)	**–**	–
Other payable	**–**	(961)
	–	(961)

An analysis of the outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005 **HK$'000**	2004 HK$'000
Cash and cash equivalents disposed of	**8,341**	9

33. CONTINGENT LIABILITIES

The Company and the Group did not have any significant contingent liabilities at the balance sheet date.

34. PLEDGE OF ASSETS

The details of the Group's assets which were pledged to secure the banking facilities and other borrowings granted to the Group are set out in notes 14 and 23 to 25 to the financial statements respectively.

35. OPERATING LEASE ARRANGEMENTS

As at 31 July 2005, the Group and the Company had outstanding commitments under non-cancellable operating leases for the use of land and buildings which fall due as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	165	**–**	150

Operating lease rentals represent rental payable by the Group and the Company for office premises. Leases are negotiated for an average term of three months to one year with fixed monthly rentals.

36. COMMITMENTS

As at 31 July 2005, the Group had the following capital commitments:

	2005	2004
	HK$'000	HK$'000
(a) Capital commitments		
Authorised and contracted for:		
Acquisition of plant and machinery	**4,771**	–
(b) Other commitments		
Commitments under:		
Technology development	**–**	3,005
Guaranteed return (note 27)	**9,256**	11,799
	9,256	14,804

The Company did not have any commitments at the balance sheet date.

37. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in note 28 to the financial statements, the Group had the following material transactions with its related parties during the year:

	Notes	**2005** **HK$'000**	2004 HK$'000
Interest income received from a related company	*(i)*	**58**	149
Licence fee for office premises paid to Frank Union Limited	*(ii)*	**450**	600
Interest paid to Concord Pharmaceutical Technology (Holdings) Limited	*(iii)*	**–**	535
Amount due to Mr. Wong Sai Chung included in other payables and accruals	*(iv)*	**6,740**	–

Mr. Wong Sai Chung, a former director and controlling shareholder of the Company, is also a director and controlling 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 licence fee relates to the office premises used by the Group. The licence fee was charged at HK$50,000 per month (2004: HK$50,000 per month).

(iii) The interest paid relates to the convertible note and was charged at 3% per annum.

(iv) The amount is interest-free, unsecured and repayable on demand.

In the opinion of the directors, all the above transactions were conducted in the normal course of the Group's business.