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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8120

ANNUAL REPORT
2006

** 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.

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Corporate Information

EXECUTIVE DIRECTORS

Wong Sai Wa *(Chairman and Chief Executive Officer)*
Kwan Kai Cheong
Wong Fei Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chow Wai Ming
Lai Chik Fan
Garry Alides Willinge

AUDIT COMMITTEE

Chow Wai Ming *(Chairman)*
Lai Chik Fan
Garry Alides Willinge

REMUNERATION COMMITTEE

Lai Chik Fan *(Chairman)*
Garry Alides Willinge
Kwan Kai Cheong

COMPLIANCE OFFICER

Kwan Kai Cheong

COMPANY SECRETARY

Yu Ling Ling, *ACIS, ACS*

QUALIFIED ACCOUNTANT

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

PRINCIPAL BANKERS

China Construction Bank ,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
26/F Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$54,054,000 for the year ended 31 July 2006, representing a decrease of approximately 55.3% as compared to approximately HK$121,061,000 that was recorded in the preceding year whereas the turnover from sale of veterinary drugs declined by 39.7% to approximately HK$16,854,000 from approximately HK$27,941,000 in 2005. The decrease was mainly attributable to (a) exclusion of the post-disposal revenue generated by Sichuan Shule since late 2005 of which contributed approximately 73% of the Group's turnover in 2005; and (b) severe price competition from the non-GMP compliance manufacturers that affected the performance of the veterinary drugs business.

The Group recorded a loss attributable to the shareholders of the Company for the year ended 31 July 2006 of approximately HK$5,774,000 (2005: approximately HK$63,560,000). The significant loss in the preceding year was mainly caused by the substantial loss on disposal of Chengdu Mt. Green and Sichuan Future, and also provision for impairment on assets in respect of Sichuan Shule's Disposal.

Following the disposal of human drug business, the current liabilities of the Group recorded at HK$64,451,000 as at 31 July 2006 (2005: HK$267,778,000), represented an improvement of 75.9% as compared to the level recorded in the preceding year. This significantly reduced the gearing ratio from 47.8% as at 31 July 2005 to 26.8% as at 31 July 2006.

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Liquidity, financial resources and capital structure

The Group generally financed its operations through internally generated cashflows, bank and other borrowings. As at 31 July 2006, the aggregate borrowings were approximately HK$22,055,000 (2005: approximately HK$131,606,000). The reduction of approximately 83.2% in aggregate borrowings for the year under review was mainly the result of disposal of Sichuan Shule. As at 31 July 2006, the amount of banking facilities available and utilised was approximately HK$12,686,000 (2005: approximately $144,849,000). 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 2006 (total borrowing, including notes payable, less cash and cash equivalents and pledged bank deposits to the total assets) was approximately 26.8% (2005: approximately 47.8%). The improvement in gearing ratio is mainly attributable to the plunge of current liabilities after the disposal of Sichuan Shule.

Foreign exchange and interest rate exposure

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 2006, the following assets were pledged to secure borrowings granted to the Group:

	2006	2005
	HK$'000	HK$'000
Leasehold land (on net book value)	**2,869**	20,553
Plant and machinery (on net book value)	**1,344**	25,517
Construction in progress (on net book value)	**10,780**	–
Production licences (on net book value)	**4,878**	–
Deposits for acquisition of property, plant and equipment	**2,443**	–

Contingent liabilities

As at 31 July 2005 and 2006, the Group did not have any significant contingent liabilities.

Commitments

As at 31 July 2006, the Group had outstanding capital commitment of approximately HK$6,809,000 (2005: approximately HK$14,027,000).

Future plan for investment

Except as disclosed in the financial statements, as at 31 July 2006, the Group did not have future plan for material investment and capital assets.

Material acquisitions/disposals

Except for those set out in the paragraphs of "Operation Review" and "Outlook", 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 2006, the Group had approximately 198 employees (2005: 783) in Hong Kong and PRC. The total remuneration to employees, including directors' emoluments amounted to approximately HK$5,162,000 (2005: approximately HK$10,443,000). 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

Continuing operations

Veterinary drug and animal vaccines

During the year under review, the sale of veterinary drugs decreased from HK$27,052,000 in 2005 to HK$16,425,000 in 2006, representing a decrease of approximately 39.3%. The decrease was mainly the result of severe price competition from the non-GMP compliance manufacturers. In addition, the performance was also impacted by unstable contributions from the original equipment manufacturer business.

The Group has taken a number of steps to consolidate its performance including enhancing its market intelligence and products distribution system across the principal livestock producing counties in PRC via its strategic marketing program "Thousand County Project", continuously upgrading and enhancing the technical know-how of the sales force to serve the market, and also implementing stringent cost control measures.

Discontinued operations

The Group has completed the restructuring of its business during the year after the disposal of Sichuan Shule which operated human drug business.

Research and Development

In addition to a variety of veterinary drugs in the pipeline, the Group has obtained pharmaceutical registration for 9 products in 18 dimensions and continues to work in conjunction with Sichuan Agriculture University and Southwestern Agriculture University for the development of new products.

OUTLOOK

On 31 July 2006, the Company entered into an agreement with JBC Bio Technology Company Limited, (the "Vendor"), in relation to the acquisition of 70% of the issued share capital of JBC Bio Products Company Limited ("JBC Bio Products") for a consideration of 480 million new shares ("Consideration Shares") of the Company to be allotted and issued to the Vendor or its nominee at par credited as fully paid upon completion (the "Possible Acquisition"). JBC Bio Products through its subsidiary in Zhongshan, the PRC (together "JBC Group"), is principally engaged in the manufacture of the feed supplements (the "Feed Supplements").

The Feed Supplements are animal feed supplements developed principally from lactobacillus fermentum which is one of the most commonly used probiotics, or "friendly" bacteria. The Feed Supplements has been tested on piglets in experimental farms and distributed for trial use to various farms in Guangdong Province. Both have proven successful in improving the growth rate and health of piglets as well as enhancing the quality of pork, which is measured by, among other things, the level of amino acid. The test results have been certified by Guangdong Province Agricultural Technology Centre. In light of the encouraging results of the use of the Feed Supplements on pig farms, the Vendor plans to extend the application of the Feed Supplements to poultry and aquatic products such as chicken and shrimp.

The infusion and injection medicine produced by the Group are primarily used on poultry, and the Group's customers largely comprise poultry farms in the PRC. Given the Vendor intends to expand the application of the Feed Supplements to poultry such as chicken, the Directors believe that the Feed Supplements business of the JBC Group may capitalise on the sales and distribution network and customer base of the Group's veterinary business and there may be cross-selling opportunities between the customers of the Feed Supplements business of the JBC Group and of the veterinary drug business of the Group in the future. The Feed Supplements business is considered to be complementary to and will create a synergy with the Group's veterinary drug business in terms of market penetration.

Both the veterinary and the Feed Supplements business benefited from the policy of The Central People's Government of the PRC (the "Central Government") in rural reform. According to Report on the Work of the Government (2006) (2006年政府工作報告) issued in March by the Central Government, the Central Government will implement the policy of getting industry to support agriculture and cities to support countryside, strengthen support for agriculture, rural areas and farmers (i.e. 三農一農業, 農村, 農民), and continue to reform the rural systems and innovations in rural institutions. The Central Government has budgeted to expend RMB339.7 billion on agricultural industry, farming villages and farmers in 2006 to (i) increase the country's capacity for innovation in agricultural science and technology and ability to put scientific and technological advances to practical use, and step up efforts to disseminate agricultural technology and improve agriculture-related technical services; (ii) accelerate reform of veterinary medicine management system and development of animal disease prevention and control system; and (iii) continue to adjust the structure of agriculture by promoting development of livestock and poultry industry, promoting the industrialisation of agriculture, developing secondary and tertiary industries in rural areas, particularly for processing agricultural products. In addition, there are growing concerns on the quality of animal feeds and the ban of using antibiotics in animal feeds due to bacterial resistance and allergenic effects in humans. The market potential for the existing veterinary vaccine business and the Feed Supplements business in the PRC and other regions outside the PRC are encouraging.

The completion of the Possible Acquisition is subject to the fulfillment of a number of conditions precedent including but not limited to granting of the Whitewash Waiver by the Securities and Future Commission, the obtaining of the approval by the Listing Committee of the Stock Exchange of Hong Kong Limited for the listing of, and permission to deal in, the Consideration Shares on the GEM and the approval by the shareholders of the Company in a special general meeting. Details of which were disclosed in the announcement dated 6 September 2006.

The Group is preparing for the GMP recognition for the veterinary drug business as well as the development of animal vaccines business. In the unlikely event that the Possible Acquisition is not completed, the Group would carry on the existing business as well as looking for other business opportunities in order to bolster the Company's value.

EXECUTIVE DIRECTORS

Mr. Wong Sai Wa, aged 63, 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 56, 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 32, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chow Wai Ming, aged 52, graduated from the 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. Garry Alides Willinge, aged 56, 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 58, 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 60, 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 49, 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. Shi Mei Qi, aged 46, 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.

Hong Kong

Ms. Hui Hok Sun, aged 39, 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 41, 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.

The Company is committed to fulfilling its responsibilities to shareholders by ensuring a high standard of corporate governance practices. This report describes its corporate governance practices and explains the applications of the principles of the Code on Corporate Governance Practice (the "Code") set out in Appendix 15 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited, which became effective on 1st January 2005.

Throughout the year ended 31 July 2006, the Company has complied with the Code provisions set out in the Code except for Code Provisions A.2.1, A.4.1 and E.1.2. The Board will keep these matters under review on a periodical basis.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The code provisions A.2.1 require that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Wong Sai Wa is both the chairman and chief executive officer of the Company, who is responsible for managing the board of directors (the "Board") and the businesses of the Company and its subsidiaries (collectively the "Group"). The Group considers Mr. Wong Sai Wa has in-depth knowledge in the Group's business and can make appropriate decision efficiently.

Since the members of the Board meet regularly to discuss the issues affecting the operations of the Group, the Group considers the existing structure will not impair the balance of power and authority between the Board and the management. The Group also considers the existing structure, which has been working efficiently and effectively in the past, should be maintained in order to ensure consistent leadership for the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The code provisions A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election.

Apart from the executive directors, no other directors of the Company (the "Directors") are currently appointed with specific terms which are subject to retirement in accordance with the articles of association of the Company (the "Articles"). According to the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

COMMUNICATION WITH SHAREHOLDERS

The code provisions E.1.2 requires that the Chairman of the Board should attend the annual general meeting (the "AGM") and arrange for the chairman of the audit, and remuneration committees (or in the absence of the chairman of any such committee, another member of the committee) to be available to answer questions at the AGM.

Due to another business engagement, the chairman of the board was not able to attend the annual general meeting on 2 December 2005. Mr. Kwan Kai Cheong, an executive Director, and Mr. Chow Wai Ming, an independent non-executive Director and also chairman of the audit committee of the Company, attended the 2005 annual general meeting and were available to answer questions at the meeting.

BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and enhance long-term shareholder value.

Executive Directors

Mr. Wong Sai Wa	*Chairman and Chief Executive Officer*
Mr. Kwan Kai Cheong	*Executive Director*
Mr. Wong Fei Fei	*Executive Director*

Independent Non-Executive Directors

Mr. Chow Wai Ming	*Independent Non-Executive Director*
Mr. Garry Alides Willinge	*Independent Non-Executive Director*
Mr. Lai Chik Fan	*Independent Non-Executive Director*

The relationship among the members of the Board are disclosed under the "Directors' and Senior Management's Biographies" section in the Report of the Directors.

INDEPENDENCE

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent.

MEETINGS AND ATTENDANCE

The board regularly met in person or through other means of electronic communication at least four times every year. Apart from the regular board meetings of the year, the board will meet on other occasions when a board-level decision on a particular matter is required. Details of the participation of individual Directors at the Board meeting and Audit Committee meeting are set out as follows:

	Meetings Participated/Held	
Directors	**Board**	**Audit Committee**
Executive		
Mr. Wong Sai Wa	7/7	N/A
Mr. Wong Fei Fei	2/7	N/A
Mr. Kwan Kai Cheong	7/7	N/A
Independent non-executive		
Mr. Chow Wai Ming	5/7	2/4
Mr. Garry Alides Willinge	7/7	4/4
Mr. Lai Chik Fan	7/7	4/4

BOARD COMMITTEES

The Board has established Audit and Remuneration Committees in accordance with the Code Provisions and all or a majority of the members of the Committees are independent non-executive Directors.

The Audit Committee

The Company established 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 primary duties of 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. The audit committee are also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. Currently it consists of three independent non-executive Directors, Mr. Chow Wai Ming, Mr. Garry Alides Willinge and Mr. Lai Chik Fan while Mr. Chow Wai Ming is the chairman of the audit committee. During the year under review, the Audit Committee met with the external auditor once.

The Remuneration Committee

The Company established a Remuneration Committee on 13 July 2006 and adopted the terms of reference of the Remuneration Committee in alignment with the provisions set out in the Code. The Remunerations Committee now comprises two independent non-executive Directors, namely Mr. Garry Alides Willinge and Mr. Lai Chik Fan and an executive director, Mr. Kwan Kai Cheong. Mr. Lai Chik Fan is the chairman of the Remuneration Committee.

The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policy of the Directors and to make recommendations to the Board for the remuneration of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company.

The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standards set out in the GEM Listing Rules throughout the year ended 31 July 2006.

INTERNAL CONTROL

A high level review of certain key internal control factors has been conducted based on the "Internal Control – Integrated Framework" issued by The Committee of Sponsoring Organisation of the Treadway Commission* (the "COSO Report"), which has been recognised by executives, regulators and professional organisations as an appropriate comprehensive framework for internal control. The key control factors are: (i) control environment; (ii) risk assessment; (iii) control activities; and (iv) information and communication.

The result of the high level review conducted by the Chairman and the Compliance Officer of the Company indicated that the Company has in place controls over most of the business aspects, such as sufficient integrity and ethical values, support from the board of directors for implementing internal controls, adequate human resources for the compliance of rules and regulations, compiling financial information, sufficient communication between the operating level and management, existence of rules and procedures for operations.

Based on the results of the high level review, the Internal Control Department prioritised and conducts the areas of review by reference to the monetary value of the assets as well as the risk of misappropriation. The results of the reviews are to be submitted to the Board and the Audit Committee.

The Company convenes meeting to discuss financial, operational and risk management control and the audit committee also discusses the internal control process with management as and when considered necessary.

* *The Committee of Sponsoring Organisation of the Treadway Commission is a voluntary private sector organisation formed in 1985 in the United States of America dedicated to improving the quality of financial reporting through business ethics, effective internal controls and corporate governance.*

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's auditors, PKF, is analysed as follows:

	2006	2005
	HK$'000	HK$'000
Services rendered		
– Audit services	300	380
– Non-audit services	35	35
	335	415

Subsequent to the year end, the Company has appointed PKF as the reporting accountants for the major and connected transaction in relation to the acquisition of 70% equity interest in a biotechnology company (the "Possible Acquisition"). The fee for the professional services offered by PKF in connection with the Possible Acquisition is HK$180,000.

The directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 July 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements. During the year, the Group disposed of and discontinued its manufacturing of remaining portion of its human drugs businesses, further details of which are included in note 8 to the financial statements. On 31 July 2006, the Company entered into an agreement to acquire 70% equity interest of a feed supplements business for a consideration of 480 million new shares of the Company, further details of which are set out in the Outlook. Save as mentioned above, 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 80.

DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 July 2006.

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 2006 is set out below :

RESULTS

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**54,054**	121,061	171,533	128,046	180,925
(Loss)/profit from operating activities	**(3,035)**	(33,953)	(30,365)	9,152	33,361
Finance costs	**(4,743)**	(10,325)	(14,555)	(9,415)	(9,520)
Share of results of an associate	**–**	1,256	1,449	(1,202)	(272)
Assets impairment	**–**	(25,247)	–	–	–
(Loss)/profit before tax	**(7,778)**	(68,269)	(43,471)	(1,465)	23,569
Tax	**(193)**	(665)	(337)	(783)	(848)
(Loss)/profit for the year	**(7,971)**	(68,934)	(43,808)	(2,248)	22,721
(Loss)/profit attributable to					
Shareholders of the Company	**(5,774)**	(63,560)	(43,791)	(652)	20,498
Minority interests	**(2,197)**	(5,374)	(17)	(1,596)	2,223
	(7,971)	(68,934)	(43,808)	(2,248)	22,721

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**78,698**	287,489	584,140	590,169	416,104
TOTAL LIABILITIES	**(64,451)**	(270,695)	(497,159)	(454,399)	(286,675)
MINORITY INTERESTS	**(1,469)**	(3,606)	(11,036)	(16,034)	(9,041)
	12,778	13,188	75,945	119,736	120,388

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 32 to the financial statements.

SHARE OPTION SCHEME

Details of the Company's share option schemes are set out in this report from pages 20 to 21 and note 33 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 34 to the financial statements and in the consolidated statement of changes in equity on page 31 respectively.

DISTRIBUTABLE RESERVES

As at 31 July 2006, the Company did not have distributable reserves.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 40% of the total sales for the year and sales to the largest customer included therein amounted to 31%. Purchase from the Group's five largest suppliers accounted for 32% of the total purchases for the year and purchase from the largest supplier included therein amounted to 16%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in 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 and Chief Executive Officer)*
Mr. Kwan Kai Cheong
Mr. Wong Fei Fei

Independent non-executive directors:

Mr. Chow Wai Ming
Mr. Garry Alides Willinge
Mr. Lai Chik Fan

In accordance with article 116 of the Company's Articles of Association, Mr. Garry Alides Willinge and Mr. Lai Chik Fan 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.

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 40 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 2006, the interests or short positions of the directors and chief executives 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	*Note*
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 below. Details of the Pre-IPO Plan are set out in the Prospectus.

Save as disclosed herein, as at 31 July 2006, none of the directors or chief executives has short positions in the shares or underlying shares of equity derivatives of the Company and 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.

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

Name or category of participant	At 1.8.2005	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.7.2006	Date of grant of share options *(Note a)*	Exercise period of share options	Exercise price of share options *(Note b)* *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			

Note:

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

(b) 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 as at 31 July 2006, under the present capital structure of the Company, would result in the issue of 6,600,000 additional shares of HK$330,000 and share premium of HK$3,300,000 (before issue expenses). During the year ended 31 July 2006, none of the directors or employees of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

DIRECTORS' RIGHTS TO ACQUIRE SHARES 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 2006, 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/ amount of shares/equity derivatives held	Percentage of the Company's issued share capital	*Note*
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
Mr. Wong Sai Chung	Through controlled corporation	Ordinary shares	400,000,000 shares	80%	a

Notes:

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

Save as disclosed above, as at 31 July 2006, 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 members of the Group.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions as detailed in note 40 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.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintain high standards of corporate governance. Details are set out in the Corporate Governance Report on pages 10 to 14 of the annual report.

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, 26 October 2006

梁學濂會計師事務所

PKF

26th Floor, Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

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

We have audited the financial statements on pages 25 to 80 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 Hong Kong Standards on Auditing 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 2005 to 7 December 2005 and the results thereof have been disclosed in note 8 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 the gain on disposal of subsidiaries of approximately HK$1,335,000 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 2006 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.

Without qualifying our opinion,

(i) We draw attention to note 3(a)(ii) to the financial statements which indicates that the Group had net current liabilities of approximately HK$34,425,000 as at 31 July 2006. This condition, along with other matters as set forth in note 3(a)(ii) indicates the existence of an uncertainty which might affect the Group's ability to continue as a going concern; and

(ii) We draw to your attention that because we were unable to obtain sufficient evidence concerning the financial information of certain subsidiaries disposed of during the year ended 31 July 2005 (the "Disposed Subsidiaries"), we were unable to satisfy ourselves that the Disposed Subsidiaries' contribution to the Group's turnover and loss for the year of HK$5,233,000 and HK$10,466,000, respectively, and the loss arising on disposal of the Disposed Subsidiaries of HK$25,531,000, which were included in the consolidated income statement of the Group for the year ended 31 July 2005, were free from material misstatements. Similarly, we were unable to satisfy ourselves that the analysis of net assets of HK$19,422,000 of the Disposed Subsidiaries at the date of disposal, as disclosed in note 35 to the financial statements, is free from material misstatement.

PKF
Certified Public Accountants

Hong Kong
26 October 2006

Consolidated Income Statement

For the Year ended 31 July 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover			
– Continuing operations	7	**16,854**	27,941
– Discontinued operations	8	**37,200**	93,120
		54,054	121,061
Cost of sales		**(37,950)**	(88,799)
Gross profit		**16,104**	32,262
Other revenue	7	**416**	3,474
Written back of provisions for disposal of subsidiaries		**12,606**	–
Selling and distribution costs		**(9,214)**	(15,523)
General and administrative expenses		**(10,671)**	(18,911)
Other operating expenses		**(2,689)**	(9,724)
Gain/(loss) on disposal of subsidiaries		**1,335**	(25,531)
Provision for bad and doubtful debts		**(10,922)**	–
Loss from operating activities	9	**(3,035)**	(33,953)
Finance costs	10	**(4,743)**	(10,325)
Share of results of an associate		**–**	1,256
Impairment on			
– Property, plant and equipment		**–**	(3,678)
– Goodwill		**–**	(9,934)
– Interest in an associate		**–**	(10,839)
– Long term investments		**–**	(796)
Profit/(loss) before tax			
– Continuing operations		**(8,251)**	(15,667)
– Discontinued operations		**473**	(52,602)
		(7,778)	(68,269)
Tax	13(a)		
– Continuing operations		**(23)**	(69)
– Discontinued operations	8	**(170)**	(596)
		(193)	(665)
Profit/(loss) for the year			
– Continuing operations		**(8,274)**	(15,736)
– Discontinued operations	8	**303**	(53,198)
		(7,971)	(68,934)
Loss attributable to:			
Shareholders of the Company	14	**(5,774)**	(63,560)
Minority interests		**(2,197)**	(5,374)
		(7,971)	(68,934)
Earnings/(loss) per share attributable to Shareholders of the Company (in cents)	15		
Basic			
– Continuing operations		**(1.21)**	(3.06)
– Discontinued operations		**0.06**	(9.65)
		(1.15)	(12.71)
Diluted			
– Continuing operations		**N/A**	N/A
– Discontinued operations		**N/A**	N/A

Consolidated Balance Sheet

As at 31 July 2006

	Note	2006 HK$'000	2005 HK$'000 (As restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16(a)	**33,430**	82,481
Leasehold land	17	**2,945**	23,378
Intangible assets	18	**6,314**	8,949
Goodwill:	19		
Goodwill		**3,309**	3,309
Negative goodwill		**–**	(4,746)
Available-for-sale financial assets	21	**–**	–
Interest in an associate	22	**–**	–
Long term investments	23	**–**	2,826
Deposits for acquisition of property, plant and equipment		**2,443**	–
Deferred tax asset	13(b)	**231**	244
		48,672	116,441
CURRENT ASSETS			
Inventories	24	**5,488**	14,326
Trade receivables	25	**12,345**	98,397
Deposits, prepayments and other receivables	26	**11,257**	39,811
Pledged deposits	27	**–**	15,232
Cash and cash equivalents	27	**936**	3,282
		30,026	171,048
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	28	**22,055**	131,606
Notes payable		**–**	24,189
Trade payables	29	**5,107**	49,556
Other payables and accruals		**35,461**	57,141
Deferred income	30	**–**	991
Amounts due to directors	31	**889**	3,158
Income tax payable		**939**	1,137
		64,451	267,778
NET CURRENT LIABILITIES		**(34,425)**	(96,730)
		14,247	19,711

Consolidated Balance Sheet *(continued)*

As at 31 July 2006

	Note	2006 HK$'000	2005 HK$'000 (As restated)
REPRESENTING:			
CAPITAL AND RESERVES			
Share capital	32	**25,000**	25,000
Reserves	34(a)	**(12,222)**	(11,812)
Equity attributable to Shareholders of the Company		**12,778**	13,188
Minority interests		**1,469**	3,606
TOTAL EQUITY		**14,247**	16,794
NON-CURRENT LIABILITIES			
Deferred income	30	**–**	2,614
Deferred tax liability	13(b)	**–**	303
		–	2,917
		14,247	19,711

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 26 OCTOBER 2006

Wong Sai Wa
DIRECTOR

Kwan Kai Cheong
DIRECTOR

Balance Sheet

As at 31 July 2006

	Note	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16(b)	**1**	5
Interests in subsidiaries	20	**12,371**	28,833
		12,372	28,838
CURRENT ASSETS			
Deposits, prepayments and other receivables	26	**9,400**	9,493
Cash and cash equivalents	27	**4**	11
		9,404	9,504
DEDUCT:			
CURRENT LIABILITIES			
Other payables and accruals		**6,687**	5,653
NET CURRENT ASSETS		**2,717**	3,851
		15,089	32,689
REPRESENTING:			
CAPITAL AND RESERVES			
Share capital	32	**25,000**	25,000
Reserves	34(b)	**(9,911)**	7,689
TOTAL EQUITY		**15,089**	32,689

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 26 OCTOBER 2006

Wong Sai Wa
Director

Kwan Kai Cheong
Director

Consolidated Cash Flow Statement

For the Year ended 31 July 2006

	Note	2006 HK$'000	2005 HK$'000 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(7,778)**	(68,269)
Adjustments for:			
Interest expenses		**4,743**	10,325
Share of results of an associate		**–**	(1,256)
(Gain)/loss on disposal of subsidiaries		**(1,335)**	25,531
Interest income		**(28)**	(396)
Depreciation		**3,706**	11,401
Amortisation of deferred income		**(331)**	(973)
Loss on disposal of property, plant and equipment		**169**	136
Provision for bad and doubtful debts		**10,922**	–
Written back of provisions for disposal of subsidiaries		**(12,606)**	–
Amortisation of leasehold land		**185**	467
Amortisation of intangible assets		**2,785**	3,688
Amortisation of goodwill		**–**	736
Negative goodwill recognised		**–**	(694)
Impairment		**–**	25,247
Operating profit before working capital changes		**432**	5,943
Increase in inventories		**(8,971)**	(1,717)
Decrease/(increase) in trade receivables		**18,840**	(10,826)
(Increase)/decrease in deposits, prepayments and other receivables		**(16,152)**	19,172
Decrease in notes payable		**(24,217)**	(59,935)
Decrease in trade payables		**(2,750)**	(16,686)
Increase in other payables and accruals		**14,199**	10,501
Increase/(decrease) in amounts due to directors		**71**	(1,117)
Cash used in operations		**(18,548)**	(54,665)
Income tax paid		**(395)**	(532)
Interest received		**28**	396
Interest paid		**(3,025)**	(9,265)
NET CASH USED IN OPERATING ACTIVITIES		**(21,940)**	(64,066)

Consolidated Cash Flow Statement *(continued)*

For the Year ended 31 July 2006

	Note	**2006**	2005
		HK$'000	HK$'000
			(As restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(6,729)**	(9,302)
Acquisition of leasehold land		**–**	(2,877)
Increase in deposits for acquisition of property, plant and equipment		**(2,443)**	–
Proceeds from disposal of property, plant and equipment		**388**	1,993
Disposal of subsidiaries	35	**(2,039)**	(8,341)
Decrease in pledged deposits		**15,316**	25,956
NET CASH FROM INVESTING ACTIVITIES		**4,493**	7,429
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**10,790**	84,358
Repayment of bank loans		**(5,075)**	(72,063)
Other new loans		**9,369**	4,604
Repayment of other loans		**–**	(577)
NET CASH FROM FINANCING ACTIVITIES		**15,084**	16,322
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,363)**	(40,315)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**17**	28
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,282**	43,569
CASH AND CASH EQUIVALENTS AT END OF YEAR		**936**	3,282
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**936**	3,282

Consolidated Statement of Changes in Equity

For the Year ended 31 July 2006

	Attributable to Shareholders of the Company						
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Minority interests HK$'000	Total HK$'000
At 1 August 2004	25,000	17,992	27,104	25	5,824	11,036	86,981
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	803	–	91	894
Disposal of subsidiaries	–	–	–	–	–	(2,147)	(2,147)
Loss for the year	–	–	–	–	(63,560)	(5,374)	(68,934)
At 31 July 2005 and 1 August 2005, as previously reported	25,000	17,992	27,104	828	(57,736)	3,606	16,794
Effect of adopting new financial reporting standards (Note 2(b))	–	–	–	–	4,746	–	4,746
At 1 August 2005, as restated	25,000	17,992	27,104	828	(52,990)	3,606	21,540
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	618	–	60	678
Loss for the year	–	–	–	–	(5,774)	(2,197)	(7,971)
At 31 July 2006	**25,000**	**17,992**	**27,104**	**1,446**	**(58,764)**	**1,469**	**14,247**
Reserves retained by:							
Company and subsidiaries	25,000	17,992	27,104	828	(48,128)	3,606	26,402
An associate	–	–	–	–	(9,608)	–	(9,608)
At 31 July 2005	25,000	17,992	27,104	828	(57,736)	3,606	16,794
Company and subsidiaries and at 31 July 2006	**25,000**	**17,992**	**27,104**	**1,446**	**(58,764)**	**1,469**	**14,247**

1. CORPORATE INFORMATION

China Medical Science Limited (the "Company") and its subsidiaries (collectively the "Group") are involved in the development, production, sale and distribution of a range of biotechnological and pharmaceutical products for cattle and other domestic animals, such as pigs, sheep and poultry, in the People's Republic of China (the "PRC") as at 31 July 2006. Prior to 31 July 2006, the Group disposed of all its human drugs businesses and thereafter focused its operations on veterinary drugs and animal vaccines. Details concerning these discontinued operations are disclosed in note 8 to the financial statements.

The registered office of the Company is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal place of business of the Company is Room 1703B, 17th Floor, Kai Tak Commercial Building, Nos. 317 & 319 Des Voeux Road Central, Hong Kong.

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. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) In the current year, the Group has applied a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005.

The adoption of the new and revised HKFRSs that necessitates material changes in the accounting policies or presentation of the Group are summarised as follows:

(i) HKAS 1 "Presentation of Financial Statements"

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit or loss attributable to the shareholders of the Company.

With effect from 1 August 2005, in order to comply with HKAS 1, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the profit or loss for the year.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(a) *(continued)*

(ii) HKAS 17 "Leases"

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land which was previously carried at cost less aggregate depreciation and impairment as property, plant and equipment. In accordance with the provisions of HKAS 17, the leasehold lands are regarded as operating leases and the lease premium and other costs for acquiring the leasehold lands are amortised over the terms of the leases.

This change in accounting policy has no impact on the consolidated income statement and reserves. The comparatives on the consolidated balance sheet have been restated to reflect the reclassification of leasehold lands.

(iii) HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

In prior years, the Group classified its investments which were held for non-trading purposes as long-term investments and were stated at cost less impairment losses. Upon the adoption of HKAS 39, these investments held by the Group as at 1 August 2005 in the amount of HK$2,826,000 are designated as available-for-sale financial assets and are stated at cost less impairment losses as the fair value of these unlisted financial assets cannot be reliably measured.

The adoption of HKAS 39 has not resulted in any material change in the value of these available-for-sale financial assets.

(iv) HKAS 33 "Earnings per Share"

HKAS 33 prescribes principles to the determination and presentation of earnings per share. It requires separate disclosure of basic and diluted earnings per share from continuing operations on the face of the consolidated income statement. The adoption of HKAS 33 has resulted in changes in the presentation of the Group's earnings per share on the face of the consolidated income statement.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(a) *(continued)*

(v) HKFRS 2 "Share-based Payment"

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date when the instruments are granted.

The Group has adopted the transitional provision of HKFRS 2 under which the new measurement policies have not been applied to (i) option granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but had vested before 1 January 2005.

The outstanding share options of the Group as at 31 July 2005 and 2006 were granted to its employees before 7 November 2002. Accordingly, the adoption of HKFRS 2 has had no impact on the financial statements of current and prior years.

(vi) HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets"

In prior years, goodwill or negative goodwill arising on acquisitions prior to 1 January 2001 was taken to reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on a straight-line basis over its estimated useful life of not exceeding twenty years and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the consolidated balance sheet and was recognised in the consolidated income statement on a systematic basis over the weighted average useful life of the acquired depreciable/amortisable assets, except to the extent that it related to expectations of future losses and expenses and was identified as income in the consolidated income statement when the future losses and expenses were recognised.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(a) *(continued)*

(vi) HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets" (continued)

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment losses recognised for goodwill is not reversed in subsequent year.

Any excess of the Group's interests in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisitions of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 require the Group to eliminate as at 1 August 2005 the carrying amount of aggregate amortisation of goodwill with a corresponding entry to its cost and to derecognise the carrying amount of negative goodwill as at 1 August 2005 against accumulated losses.

(vii) HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets (or disposal groups) held for sales. The non-current assets (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets (or disposal groups) held for sale or for continuing use. The application of HKFRS 5 has no financial impact on the prior or current years financial statements other than a change in presentation of the results and cashflows of discontinued operation.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) Effect of changes in accounting policies

The effect of changes in accounting policies due to the adoption of the aforementioned HKFRSs is summarised below:

	HKAS 17	**HKASs 32 and 39**	**HKFRS 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 July 2006				
Decrease in property, plant and equipment	(3,004)	–	–	(3,004)
Increase in leasehold land	2,945	–	–	2,945
Decrease in negative goodwill	–	–	4,052	4,052
Increase in deposits, prepayments and other receivables	59	–	–	59
Decrease in accumulated losses	–	–	(4,746)	(4,746)
Decrease in negative goodwill recognised	–	–	694	694
	–	–	–	–
At 1 August 2005				
Decrease in negative goodwill	–	–	4,746	4,746
Increase in available-for-sale financial assets	–	2,826	–	2,826
Decrease in long-term investments	–	(2,826)	–	(2,826)
Decrease in accumulated losses	–	–	(4,746)	(4,746)
	–	–	–	–
At 31 July 2005				
Decrease in property, plant and equipment	(23,563)	–	–	(23,563)
Increase in leasehold land	23,378	–	–	23,378
Increase in deposits, prepayments and other receivables	185	–	–	185
	–	–	–	–

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) Recently issued accounting pronouncements

Up to the date of issue of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the current year and which have not been adopted in this report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

(i) These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") and by the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(ii) As at 31 July 2006, the Group had net current liabilities of approximately HK$34,425,000. The indebtedness of the Group mainly comprised the short-term bank and other borrowings of approximately HK$22,055,000 of which the bank borrowings of HK$12,686,000 were overdue as at 31 July 2006. 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 or extended after the balance sheet date.

One of the executive directors has confirmed that he will continue to provide the financial support to the Group as and when necessary up to the completion of the proposed acquisition of 70% of the issued share capital of JBC Bio Products Company Limited.

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 2006.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2006. 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.

(c) Property, plant and equipment

Property, plant and equipment, 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 property, plant and equipment 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 property, plant and equipment, 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 property, plant and equipment over their estimated useful lives on the straight line basis at the following annual rates:

Leasehold 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 assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal of property, plant and equipment, representing the difference between the net sales proceeds and the carrying amounts of the relevant assets, is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment *(continued)*

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 property, plant and equipment when completed and ready for use.

(d) Leasehold land

Leasehold land is stated at cost less aggregate amortisation and identified impairment losses. The leasehold land is amortised over the period of the lease on the straight-line basis over the lease term.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Investments

Investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investment, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

The Group's investments are classified as available-for-sale financial assets.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months from the balance sheet date and are stated at cost less impairment as the fair value of these unlisted financial assets cannot be reliably measured.

(h) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is carried at cost less identified impairment losses and is subject to annual impairment review or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Any impairment loss for goodwill is recognised directly in the income statement and is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Intangible assets

Purchased patents and licences are stated at cost less aggregate amortisation and identified 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

(j) 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.

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. The capitalisation rate for the year is based on the actual cost of the related borrowings.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) 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.

(n) 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(o) Payables

Payables including amounts due to related parties are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) 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.

(r) 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.

(s) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Overseas subsidiaries

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 into 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) 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.

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.

(u) 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

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.

(v) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties also include key management personnel of the Group and their close family members.

(w) 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.

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(x) 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. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual value involve management's estimation.

The Group assesses annually the residual value and the useful life of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation of the year.

(b) Impairment of property, plant and equipment, goodwill and other non-current assets

Determining whether property, plant and equipment, goodwill and other non-current assets are impaired requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment, goodwill and other non-current assets have been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

(c) Provision for impairment of trade and other receivables

The policy for impairment allowances on trade and other receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Income tax

As at 31 July 2006, no deferred tax asset has been recognised in respect of the unutilised tax losses of HK$10,536,000 (2005: HK$8,179,000) due to the unpredictability of future taxable profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such further recognition takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risks and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank and other borrowings. Details of the Group's bank and other borrowings are disclosed in note 28 to the financial statements. The management keeps monitoring interest rate exposure and considering appropriate measures to address the exposure.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 July 2006 is the carrying amount of trade receivables, deposits, prepayments and other receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. In addition, the Group has regular reviews on the recoverability of each individual debt, deposits and prepayments to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, credit exposure is well under control.

(c) Liquidity risk

The Group had net current liabilities of approximately HK$34,425,000. The directors are of the opinion that the probable renewal or extension of the Group's short-term bank and other loans after the balance sheet date and the financial support from an executive director enable the Group to meet its future liquidity requirement. Accordingly, the liquidity risk is considered limited.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Price risk

The Group has no significant exposure to price risk.

(e) Foreign exchange risk

The Group is not exposed to significant foreign currency risk as majority of its sales and purchases are denominated in currencies equivalent to the functional currency of the operations to which they relate.

(f) Fair value

The carrying amounts of the Group's financial assets and liabilities approximate their respective fair values due to the relatively short maturity terms.

6. 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.

6. **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 operations							
	Veterinary drugs		Corporate		Human drugs		Packaging materials		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**16,854**	27,941	**–**	–	**37,200**	89,929	**–**	3,191	**–**	–	**54,054**	121,061
Inter-segment sales	**–**	–	**–**	–	**–**	11,996	**–**	1,850	**–**	(13,846)	**–**	–
Other revenue	**423**	682	**12,606**	1,337	**352**	1,286	**–**	129	**(387)**	(356)	**12,994**	3,078
Total revenue	**17,277**	28,623	**12,606**	1,337	**37,552**	103,211	**–**	5,170	**(387)**	(14,202)	**67,048**	124,139
Segment results	**(16,762)**	59	**11,300**	(3,342)	**2,399**	(2,677)	**–**	(28,389)	**–**	–	**(3,063)**	(34,349)
Interest income											**28**	396
Loss from operating activities											**(3,035)**	(33,953)
Finance costs											**(4,743)**	(10,325)
Share of results of an associate	**–**	–	**–**	–	**–**	1,256	**–**	–	**–**	–	**–**	1,256
Impairment on												
– Property, plant and equipment	**–**	–	**–**	–	**–**	(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											**(7,778)**	(68,269)
Tax	**(23)**	(69)	**–**	–	**(170)**	(596)	**–**	–	**–**	–	**(193)**	(665)
Loss for the year											**(7,971)**	(68,934)

6. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	Continuing operations				Discontinued operations							
	Veterinary drugs		Corporate		Human drugs		Packaging materials		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**82,682**	69,530	**47,432**	75,128	**–**	212,270	**–**	–	**(51,416)**	(69,439)	**78,698**	287,489
Total assets	**82,682**	69,530	**47,432**	75,128	**–**	212,270	**–**	–	**(51,416)**	(69,439)	**78,698**	287,489
Segment liabilities	**61,657**	51,663	**54,210**	76,201	**–**	212,270	**–**	–	**(51,416)**	(69,439)	**64,451**	270,695
Total liabilities	**61,657**	51,663	**54,210**	76,201	**–**	212,270	**–**	–	**(51,416)**	(69,439)	**64,451**	270,695
Other segment information:												
Depreciation and amortisation (excluding goodwill and negative goodwill)	**4,326**	4,313	**24**	13	**2,326**	10,188	**–**	1,042	**–**	–	**6,676**	15,556
Amortisation of goodwill	**–**	–	**–**	736	**–**	–	**–**	–	**–**	–	**–**	736
Recognition of negative goodwill	**–**	–	**–**	(694)	**–**	–	**–**	–	**–**	–	**–**	(694)
Amortisation of deferred income	**–**	–	**–**	–	**(331)**	(973)	**–**	–	**–**	–	**(331)**	(973)
Capital expenditure	**8,391**	6,885	**–**	2	**68**	5,289	**–**	3	**–**	–	**8,459**	12,179

7. 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:

	2006	2005
	HK$'000	HK$'000
Continuing operations		
Sale of veterinary drugs	**16,854**	27,941
Discontinued operations		
Sale of human drugs	**37,200**	89,929
Sale of packaging materials	**–**	3,191
	54,054	121,061
Other revenue		
Interest income	**28**	396
Sundry income	**57**	1,408
Exchange gain	**–**	3
Negative goodwill recognised	**–**	694
Amortisation of deferred income (Note 30)	**331**	973
	416	3,474
Total revenue	**54,470**	124,535

8. DISCONTINUED OPERATIONS

In prior 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. The Group entered into two agreements with two independent parties to dispose of its interests in the subsidiaries, Sichuan Shule Pharmaceutical Joint Stock Co., Ltd. ("Sichuan Shule"), Chengdu Mt. Green Pharmaceutical Co., Ltd. ("Chengdu Mt. Green") and Sichuan Future Industrial Co., Ltd. ("Sichuan Future") respectively. After the completion of the aforementioned disposals, the Group discontinued 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) Disposal of Sichuan Shule

On 20 May 2005, Chengdu Viking Yuen Heng Pharmaceutical Co., Ltd., an indirectly 91% owned subsidiary of the Company, entered into an equity interest transfer agreement with an independent third party for the disposal of the 51.05% equity interest in Sichuan Shule for a consideration of RMB1. Sichuan Shule and its subsidiary were engaged in the human drugs business.

The transfer of the 51.05% equity interest to the purchaser was approved by 樂山產權交易中心 (Leshan Assets Transfer Centre) on 1 September 2005. The change of the legal representative of Sichuan Shule was completed on 7 December 2005 with the issue of the new business licence for Sichuan Shule by the State Administration for Industry and Commerce. Accordingly, the transfer was considered completed on 7 December 2005 and the Company had consolidated the results of Sichuan Shule and its subsidiary from 1 August 2005 to 7 December 2005 in the current year's financial statements.

(b) Disposal of Chengdu Mt. Green and Sichuan Future

On 24 December 2004, Seechain Investments Limited, an indirectly wholly-owned subsidiary of the Company, 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 consideration of RMB1. Chengdu Mt. Green and Sichuan Future were engaged in the human drugs and packaging materials business respectively.

As at 31 July 2005, the disposal was not formally completed and the conditions precedent to the disposal had yet to be fulfilled. However, the Group's control in the two subsidiaries together with the risks and rewards of ownership were shifted over to the purchaser by the end of December 2004. Accordingly, the disposal was deemed to have been completed and the Company had consolidated the results of the two companies from 1 August 2004 to 31 December 2004 in the financial statements for the year ended 31 July 2005.

8. DISCONTINUED OPERATIONS *(continued)*

(b) Disposal of Chengdu Mt. Green and Sichuan Future *(continued)*

The Company was advised by its legal advisors on PRC laws that the disposal has been completed as at 31 October 2005 and that the transfer of the equity interest of Sichuan Future and Chengdu Mt. Green to the purchaser was legal and valid.

The turnover, expenses and results of the discontinued operations included in the consolidated income statement for the years ended 31 July 2006 and 2005 respectively are as follows:

	2006 **HK$'000**	2005 HK$'000
Turnover	**37,200**	93,120
Cost of sales	**(26,001)**	(71,462)
Other revenue	**380**	1,845
Selling and distribution costs	**(4,816)**	(10,442)
General and administrative expenses	**(4,198)**	(12,339)
Other operating expenses	**(138)**	(5,826)
Finance costs	**(3,289)**	(9,213)
Share of results of an associate	**–**	1,256
Impairment on		
– Property, plant and equipment	**–**	(3,678)
– Long term investments	**–**	(398)
Loss before tax	**(862)**	(17,137)
Tax	**(170)**	(596)
Operating loss for the year	**(1,032)**	(17,733)
Gain/(loss) on disposal of subsidiaries	**1,335**	(25,531)
Impairment on goodwill	**–**	(9,934)
Profit/(loss) for the year	**303**	(53,198)
Profit/(loss) attributable to:		
Shareholders of the Company	**303**	(48,233)
Minority interests	**–**	(4,965)
	303	(53,198)

The results for the year ended 31 July 2006 included those of Sichuan Shule and its subsidiary and the results for the year ended 31 July 2005 included those of Chengdu Mt. Green, Sichuan Future and, Sichuan Shule and its subsidiary.

The discontinued operations contributed approximately HK$19,376,000 (2005: HK$28,398,000) to the Group's net operating outflow, contributed approximately HK$68,000 to the Group's net investing outflow (2005: contributed HK$15,000 to net investing inflow) and contributed approximately HK$10,660,000 (2005: HK$22,806,000) to the Group's net financing inflow.

The carrying amounts of assets and liabilities of the discontinued operations at the date of disposal are disclosed in note 35 to the financial statements.

9. LOSS FROM OPERATING ACTIVITIES

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

	2006	2005
	HK$'000	HK$'000
		(As restated)
Amortisation of goodwill	**–**	736
Amortisation of intangible assets	**2,785**	3,688
Amortisation of leasehold land	**185**	467
Audit fees	**300**	380
Depreciation	**3,706**	11,401
Guaranteed return (Note 30)	**864**	2,543
Sales proceeds	**(388)**	(1,993)
Less: Net book value	**557**	2,129
Loss on disposal of property, plant and equipment	**169**	136
Minimum operating lease payments for land and buildings	**271**	231
Research and development expenditure	**118**	375
Staff costs (including directors' emoluments in note 11):		
Salaries, wages and other allowances	**4,518**	9,554
Pension scheme contributions	**644**	889
	5,162	10,443

10. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**4,434**	9,819
Interest on other loans	**798**	506
Less: Amount capitalised	**(489)**	–
	4,743	10,325

Interest on other loans was capitalised to construction in progress at the average annual rate of 24% during the year.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Fees		Salaries, allowances and benefits-in-kinds		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Mr. Wong Sai Wa	**360**	360	**–**	–	**360**	360
Mr. Kwan Kai Cheong	**–**	–	**–**	–	**–**	–
Mr. Wong Fei Fei	**–**	–	**–**	–	**–**	–
	360	360	**–**	–	**360**	360
Independent non-executive directors						
Mr. Garry Alides Willinge	**120**	110	**–**	–	**120**	110
Mr. Lai Chik Fan	**120**	110	**–**	–	**120**	110
Mr. Chow Wai Ming	**120**	120	**–**	–	**120**	120
	360	340	**–**	–	**360**	340
	720	700	**–**	–	**720**	700

Apart from the directors' fees, there were no other emoluments payable to the independent non-executive directors.

No emoluments were paid by the Group to the directors, either as an inducement upon joining or to join the Group, or as compensation for loss of office.

During the year, there were no share options granted to the directors in respect of their services to the Group.

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

(b) Five highest paid employees

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 11(a) above. Details of the remuneration of the remaining one (2005: one) highest paid non-director employee are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and allowances	**372**	362
Pension scheme contributions	**12**	12
	384	374

12. 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 its eligible employees in Hong Kong. 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 PRC subsidiaries 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 approximately HK$644,000 (2005: HK$889,000).

13. TAX

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

	2006	2005
	HK$'000	HK$'000
Current tax:		
PRC	**180**	669
Deferred tax (Note 13(b)):		
Current year	**13**	(4)
Tax expense	**193**	665

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 charged on the estimated taxable profits of certain subsidiaries operating in the PRC and is calculated at the prevailing tax rate.

Tax expense for the year can be reconciled as follows:

	2006	2005
	HK$'000	HK$'000
Loss before tax	**(7,778)**	(68,269)
Tax effect at the PRC statutory income tax rate of 33%	**(2,567)**	(22,529)
Tax effect of non-deductible expenses	**1,355**	17,755
Tax effect of non-taxable revenue	**(4,601)**	(856)
Tax effect of unrecognised impairment on property, plant and equipment	**–**	1,214
Tax effect of unrecognised general provision for bad and doubtful debts	**1,929**	–
Tax effect of unrecognised tax losses	**4,077**	5,081
Tax expense	**193**	665

13. TAX *(continued)*

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

	Decelerated depreciation allowances	**Accelerated depreciation allowances**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 August 2004	(257)	320	63
Charge/(credit) for the year	13	(17)	(4)
At 31 July 2005 and 1 August 2005	(244)	303	59
Disposal of subsidiaries	–	(303)	(303)
Charge for the year	13	–	13
At 31 July 2006	**(231)**	**–**	**(231)**

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

	2006	2005
	HK$'000	HK$'000
Unutilised tax losses	**10,536**	8,179
General provision for bad and doubtful debts	**14,508**	22,127
Impairment on property, plant and equipment	**–**	3,678
	25,044	33,984

The net movement in unutilised tax losses was attributable to current year's losses of approximately HK$12,356,000 and the disposal of subsidiaries of approximately HK$9,999,000. The unutilised tax losses accumulated in the PRC subsidiaries would expire in five years from the respective years of loss.

The net movement in general provision for bad and doubtful debts was attributable to the current year's provision of approximately HK$5,846,000 and the disposal of subsidiaries of approximately HK$13,465,000 during the year.

13. TAX *(continued)*

(c) *(continued)*

The movement in impairment on property, plant and equipment was attributable to the disposal of subsidiaries during the year.

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.

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

14. LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Loss attributable to shareholders of the Company for the year includes a loss of HK$17,600,000 (2005: HK$41,779,000) which has been dealt with in the financial statements of the Company.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic loss per share attributable to shareholders of the Company from continuing operations is based on the loss attributable to the shareholders of the Company from continuing operations for the year of HK$6,077,000 (2005: approximately HK$15,327,000) and the weighted average number of 500,000,000 (2005: 500,000,000) ordinary shares in issue during the year.

The calculation of basic earnings/(loss) per share attributable to shareholders of the Company from discontinued operations is based on the profit attributable to the shareholders of the Company from discontinued operations for the year of approximately HK$303,000 (2005: loss of approximately HK$48,233,000) and the weighted average number of 500,000,000 (2005: 500,000,000) ordinary shares in issue during the year.

No diluted earnings/loss per share from continuing and discontinued operations is shown as there were no dilutive potential shares.

16. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Leasehold 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							
As previously reported	153,109	72,573	1,000	5,715	1,637	8,842	242,876
Adoption of HKAS 17	(44,794)	–	–	–	–	–	(44,794)
As restated	108,315	72,573	1,000	5,715	1,637	8,842	198,082
Exchange adjustments	1,089	874	19	57	9	86	2,134
Additions	1,392	365	216	144	260	6,925	9,302
Disposals	(1,749)	(345)	(3)	(977)	–	–	(3,074)
Reclassification	4,137	3,610	–	–	–	(7,747)	–
Disposals of subsidiaries	(58,734)	(33,559)	(1,175)	(3,593)	(499)	(4,110)	(101,670)
At 31 July 2005	54,450	43,518	57	1,346	1,407	3,996	104,774
Aggregate depreciation:							
At 1 August 2004							
As previously reported	14,070	22,814	758	3,509	823	–	41,974
Adoption of HKAS 17	(2,916)	–	–	–	–	–	(2,916)
As restated	11,154	22,814	758	3,509	823	–	39,058
Exchange adjustments	194	300	14	37	5	–	550
Charge for the year	3,061	7,131	229	823	157	–	11,401
Written back on disposals	(133)	(61)	(2)	(749)	–	–	(945)
Written back on disposal of subsidiaries	(10,303)	(16,832)	(952)	(2,977)	(385)	–	(31,449)
At 31 July 2005	3,973	13,352	47	643	600	–	18,615
Impairment:							
Charge for the year and at 31 July 2005	–	3,678	–	–	–	–	3,678
Net book value:							
At 31 July 2005	50,477	26,488	10	703	807	3,996	82,481

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) The Group *(continued)*

	Leasehold 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 2005							
As previously reported	78,975	43,518	57	1,346	1,407	3,996	129,299
Adoption of HKAS 17	(24,524)	–	–	–	–	–	(24,524)
As restated	54,451	43,518	57	1,346	1,407	3,996	104,775
Exchange adjustments	416	149	6	24	5	63	663
Additions	–	1,035	217	–	54	7,153	8,459
Disposals	–	(1,885)	–	–	–	–	(1,885)
Disposals of subsidiaries	(33,507)	(36,104)	–	(130)	(1,156)	(432)	(71,329)
At 31 July 2006	**21,360**	**6,713**	**280**	**1,240**	**310**	**10,780**	**40,683**
Aggregate depreciation:							
At 1 August 2005							
As previously reported	4,935	13,352	47	643	600	–	19,577
Adoption of HKAS 17	(961)	–	–	–	–	–	(961)
As restated	3,974	13,352	47	643	600	–	18,616
Exchange adjustments	62	69	4	17	3	–	155
Charge for the year	971	2,367	66	210	92	–	3,706
Written back on disposals	–	(1,328)	–	–	–	–	(1,328)
Written back on disposal of subsidiaries	(1,931)	(11,485)	–	–	(480)	–	(13,896)
At 31 July 2006	**3,076**	**2,975**	**117**	**870**	**215**	**–**	**7,253**
Impairment:							
At 1 August 2005	–	3,678	–	–	–	–	3,678
Written back on disposal of subsidiaries	–	(3,678)	–	–	–	–	(3,678)
At 31 July 2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net book value:							
At 31 July 2006	**18,284**	**3,738**	**163**	**370**	**95**	**10,780**	**33,430**

The Group's leasehold buildings are situated in the PRC.

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) The Group *(continued)*

As at 31 July 2006, certain of the Group's plant and machinery and construction in progress with net book value of approximately HK$1,344,000 (2005: HK$25,517,000) and HK$10,780,000 (2005: Nil) respectively were pledged to secure other borrowings granted to the Group (Note 28).

(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
Cost:	
At 1 August 2005 and 31 July 2006	**17**
Aggregate depreciation:	
At 1 August 2005	12
Charge for the year	4
At 31 July 2006	**16**
Net book value:	
At 31 July 2006	**1**

17. LEASEHOLD LAND

	2006 HK$'000	2005 HK$'000
Net book value at 1 August		
As previously reported	–	–
Effect of adopting HKAS 17	**23,563**	41,878
As restated	**23,563**	41,878
Exchange difference	**76**	369
Additions	–	2,877
Amortisation for the year	**(185)**	(467)
Disposals of subsidiaries	**(20,450)**	(21,094)
Net book value at 31 July	**3,004**	23,563
Current portion (included in deposits, prepayments and other receivables)	**(59)**	(185)
Non-current portion	**2,945**	23,378

The Group's leasehold land comprise:

	2006 HK$'000	2005 HK$'000
Land in the PRC under:		
Long-term lease	–	2,301
Medium-term lease	**3,004**	21,262
	3,004	23,563

As at 31 July 2006, certain of the Group's leasehold land with net book value of approximately HK$2,869,000 (2005: HK$20,553,000) were pledged to secure other borrowings granted to the Group (Note 28).

18. INTANGIBLE ASSETS

	Technical know-how HK$'000	Production licences HK$'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
Cost:			
At 1 August 2005	11,853	7,050	18,903
Exchange adjustments	208	123	331
At 31 July 2006	**12,061**	**7,173**	**19,234**
Aggregate amortisation:			
At 1 August 2005	8,748	1,206	9,954
Exchange adjustments	174	7	181
Charge for the year	1,703	1,082	2,785
At 31 July 2006	**10,625**	**2,295**	**12,920**
Net book value:			
At 31 July 2006	**1,436**	**4,878**	**6,314**

As at 31 July 2006, the Group's production licences were pledged to secure the Group's other borrowings (Note 28).

19. 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)
Cost:		
At 1 August 2005, as previously reported	14,731	(8,333)
Effect of adoption of HKFRS 3		
– Elimination of (aggregate amortisation)/recognition as income	(1,488)	3,587
– Adjustment to accumulated losses	–	4,746
At 1 August 2005, as restated	13,243	–
Disposal of subsidiaries	(9,934)	–
At 31 July 2006	**3,309**	**–**
Aggregate amortisation/(recognition as income):		
At 1 August 2005	1,488	(3,587)
Effect of adoption of HKFRS 3		
– Elimination of (aggregate amortisation)/recognition as income	(1,488)	3,587
At 31 July 2006	**–**	**–**
Impairment:		
At 1 August 2005	9,934	–
Written back on disposal of subsidiaries	(9,934)	–
At 31 July 2006	**–**	**–**
Net book value:		
At 31 July 2006	**3,309**	**–**

19. GOODWILL AND NEGATIVE GOODWILL *(continued)*

At the balance sheet date, the goodwill is identified to the cash-generating units ("CGU") of veterinary drugs business in the PRC. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated discount rate of 6.48%. The directors are of the opinion that, based on the projection, the recoverable amount of the goodwill exceeds its carrying amount in the consolidated balance sheet and no impairment is necessary.

20. INTERESTS IN SUBSIDIARIES

	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**42,876**	42,876
Amounts due from subsidiaries	**26,707**	26,714
Amount due to a subsidiary	**(3,212)**	(1,757)
	66,371	67,833
Impairment loss	**(54,000)**	(39,000)
	12,371	28,833

20. INTERESTS IN SUBSIDIARIES *(continued)*

(a) Particulars of the subsidiaries as at 31 July 2006 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$10,399,000	–	100.00	Manufacture and distribution 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

\# Wholly-foreign-owned enterprise
* Sino-foreign joint venture enterprise

(b) The amounts due from/to subsidiaries are unsecured and interest-free, and have no fixed terms of repayment. The directors consider the carrying amounts of amounts due from/to subsidiaries approximate their fair value.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–

The financial asset refers to the investment in Chengdu Mt. Green Li Kong Medical Technology Co. Limited, details of which are set out in note 22 to the financial statements.

22. INTEREST IN AN ASSOCIATE

	2006	2005
	HK$'000	HK$'000
Share of net assets	**–**	10,839
Impairment loss	**–**	(10,839)
	–	–

(a) Particulars of the associate at 31 July 2005 are as follows:

Name	**Business structure**	**Place of incorporation/ registration and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Chengdu Mt. Green Li Kong Medical Technology Co. Limited ("Chengdu Mt. Green Li Kong")	Corporate	PRC	34	Manufacture and sales of human drugs infusion medicine

22. INTEREST IN AN ASSOCIATE *(continued)*

(b) Chengdu Mt. Green has a 34% equity interest in Chengdu Mt. Green Li Kong. This equity interest did not form part of the assets to be disposed of under the disposal of Chengdu Mt. Green and Sichuan Future (the "Disposal") in prior year. It was a condition precedent of the Disposal that the equity interest in Chengdu Mt. Green Li Kong be transferred from Chengdu Mt. Green to a member of the Group. However, as Chengdu Mt. Green has not repaid its bank loan due to China Everbright Bank, the bank has obtained a court order to freeze the 34% equity interest in Chengdu Mt. Green Li Kong. As at 31 July 2006, the court order has yet to be released to enable the transfer of the 34% equity in Chengdu Mt. Green Li Kong back to the Group.

The Company, for the purpose of completing the Disposal, had waived the aforementioned condition precedent. However, the purchaser has undertaken to the Company that it would be responsible for repayment of the amount due to China Everbright Bank and would procure the transfer of the shares in Chengdu Mt. Green Li Kong back to the Group.

As the significant influence over the associate ceased, the Group discontinued using the equity method to account for its share of results in Chengdu Mt. Green Li Kong during the year. The investment in Chengdu Mt. Green Li Kong was reclassified as a financial asset in accordance with HKAS 39 and its carrying amount as at 1 August 2005 was regarded as its cost on initial measurement as a financial asset (Note 21).

23. LONG TERM INVESTMENTS

	2006	2005
	HK$'000	HK$'000
Unlisted equity investments, at cost	**–**	3,622
Impairment loss	**–**	(796)
	–	2,826

24. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials	**2,209**	6,885
Work in progress	**7**	588
Finished goods	**3,272**	6,853
	5,488	14,326

25. 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:

	2006	2005
	HK$'000	HK$'000
Within 3 months	**3,528**	62,984
3 to 6 months	**3,244**	27,848
6 to 12 months	**5,374**	6,533
Over 1 year	**199**	1,032
	12,345	98,397

26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**3,051**	8,807	**–**	–
Deposits and other receivables	**8,147**	30,819	**9,400**	9,493
Current portion of leasehold lands (Note 17)	**59**	185	**–**	–
	11,257	39,811	**9,400**	9,493

Included in the Company's deposits and other receivables was an amount of HK$9,382,000 (2005: HK$9,476,000) due from a beneficial shareholder, Mr. Wong Sai Chung.

27. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**936**	13,741	**4**	11
Time deposits	**–**	4,773	**–**	–
	936	18,514	**4**	11
Analysed as:				
Deposits pledged for				
– Notes payable	**–**	10,459	–	–
– Bank loans	**–**	4,773	–	–
	–	15,232	–	–
Cash and cash equivalents	**936**	3,282	**4**	11
	936	18,514	**4**	11

28. BANK AND OTHER BORROWINGS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Repayable within one year:				
Bank loans				
Secured	**–**	88,051	**–**	–
Unsecured	**12,686**	32,609	**–**	–
	12,686	120,660	**–**	–
Other loans				
Secured	**9,369**	–	**–**	–
Unsecured	**–**	10,946	**–**	–
	9,369	10,946	**–**	–
	22,055	131,606	**–**	–

28. BANK AND OTHER BORROWINGS *(continued)*

(a) The Group's borrowings are denominated in the functional currency of the group entities to which they relate.

(b) The Group's borrowings are fixed rate loans. The bank loans carry interest ranging from 8.97% to 9.43% per annum (2005: 5.31% to 8.97%) and the other loans carry interest at 12% to 24% per annum (2005: 2% to 3%).

(c) The other loans are secured by:

(i) The Group's leasehold land with net book value at the balance sheet date of approximately HK$2,869,000;

(ii) The Group's plant and machinery with aggregate net book value at the balance sheet date of approximately HK$1,344,000;

(iii) The Group's construction in progress with aggregate net book value at the balance sheet date of approximately HK$10,780,000;

(iv) The Group's production licences with net book value at the balance sheet date of approximately HK$4,878,000; and

(v) The Group's deposits for acquisition of property, plant and equipment at the balance sheet date of approximately HK$2,443,000.

(d) Included in other loans is a loan of approximately HK$586,000 (2005: Nil) due to a family member of a senior management personnel of the Group.

29. TRADE PAYABLES

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

	2006	2005
	HK$'000	HK$'000
Within 3 months	**984**	15,602
3 to 6 months	**1,179**	2,159
6 to 12 months	**1,195**	11,802
Over 1 year	**1,749**	19,993
	5,107	49,556

30. DEFERRED INCOME

On 24 August 2002, Sichuan Shule 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. Sichuan Shule and 欣源 have 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 Sichuan Shule for a guaranteed return of HK$13,282,200 (equivalent to RMB14,100,000) (the “Transfer”). The guarantee is payable by 12 half-yearly installments.

Following the Transfer, the risks and rewards of ownership of the product line passed to Sichuan Shule. The aforementioned plant and machinery of HK$5,081,000 were accounted for as the property, plant and equipment of Sichuan Shule with the same amount credited as deferred income. The deferred income is recognised to the income statement over the terms of guaranteed period of six years.

Following the disposal of Sichuan Shule during the year, no such deferred income would be recognised thereafter.

31. AMOUNTS DUE TO DIRECTORS

The amounts due to directors, Messrs. Wong Sai Wa and Kwan Kai Cheong respectively, are interest-free, unsecured and repayable on demand. The directors consider the carrying amounts of amounts due to directors approximate their fair values.

32. SHARE CAPITAL

	2006	2005
	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 33 to the financial statements.

33. 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.

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.

33. SHARE OPTION SCHEMES *(continued)*

(a) Share Option Scheme *(continued)*

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.

33. 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 1.8.2005	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.7.2006	*(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**			

Notes:

(1) The vesting period of the share options is from the date of 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.

33. SHARE OPTION SCHEMES *(continued)*

(b) Pre-IPO Share Option Scheme *(continued)*

The exercise of the above 6,600,000 outstanding share options at the balance sheet date, under the present capital structure of the Company, would 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.

34. RESERVES

(a) The Group

The capital reserve arising from capitalisation of a loan represents the difference between the amount due to a beneficial shareholder Mr. Wong Sai Chung capitalised and the nominal value of shares issued by China Biotechnology Limited.

(b) The Company

	Share premium HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 August 2004	17,992	42,876	(11,400)	49,468
Loss for the year	–	–	(41,779)	(41,779)
At 31 July 2005 and 1 August 2005	17,992	42,876	(53,179)	7,689
Loss for the year	–	–	(17,600)	(17,600)
At 31 July 2006	**17,992**	**42,876**	**(70,779)**	**(9,911)**

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 no distributable reserves as at 31 July 2006.

35. DISPOSAL OF SUBSIDIARIES

As explained in note 8 to the financial statements, the Group discontinued its human drugs and packaging materials businesses during the current and prior year. The net (liabilities)/assets of the disposed subsidiaries at the date of disposal were as follows:

	2006	2005
	HK$'000	HK$'000
		(As restated)
Net (liabilities)/assets disposed of:		
Property, plant and equipment	**53,755**	70,221
Leasehold land	**20,450**	21,094
Available-for-sale financial assets/Long term investments	**2,826**	798
Inventories	**17,926**	9,076
Trade receivable	**61,845**	83,213
Deposits, prepayment and other receivable	**39,805**	45,692
Pledged deposits	**–**	24,962
Cash and cash equivalents	**2,039**	8,341
Bank and other borrowings	**(124,941)**	(98,498)
Notes payable	**–**	(41,919)
Trade payables	**(41,803)**	(16,966)
Other payables and accruals	**(23,228)**	(84,218)
Deferred income	**(3,278)**	–
Amount due to a director	**(2,352)**	–
Income tax payable	**(4,076)**	(227)
Deferred tax liability	**(303)**	–
Minority interests	**–**	(2,147)
	(1,335)	19,422
Unamortised goodwill written off	**–**	6,109
Gain/(loss) on disposal	**1,335**	(25,531)
	–	–
Satisfied by:		
Cash consideration of HK$1.00 (2005: HK$1.00)	**–**	–

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

	2006	2005
	HK$'000	HK$'000
Cash and cash equivalents disposed of	**2,039**	8,341

36. CONTINGENT LIABILITIES

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

37. 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 note 28 to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

As at 31 July 2006, 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**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**39**	–	**39**	–

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

39. COMMITMENTS

As at 31 July 2006, the Group had the following capital commitments:

	2006	2005
(a) Capital commitments	**HK$'000**	HK$'000
Authorised and contracted for:		
Acquisition of plant and machinery	**6,809**	4,771

(b) Other commitments		
Commitments under:		
Guaranteed return (Note 30)	**–**	9,256

39. COMMITMENTS *(continued)*

In addition to the aforementioned commitments, on 31 July 2006, the Company entered into a sale and purchase agreement with JBC Bio Technology Company Limited (the "Vendor") whereby the Company agreed to acquire from the Vendor its interest in the 70% of the issued share capital of JBC Bio Products Company Limited. The consideration for the acquisition is 480,000,000 new ordinary shares of the Company to be issued and allotted to the Vendor. JBC Bio Products Company Limited and its subsidiaries are engaged in the sale and manufacturing of animal feed supplements. Further details of the acquisition are set out in the Company's announcement dated 6 September 2006.

40. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	**2006** **HK$'000**	2005 HK$'000
Interest income received from a related company	(i)	–	58
Licence fee for office premises paid to Frank Union Limited	(ii)	–	450
Amount due to Mr. Wong Sai Chung, a beneficial shareholder of the Company, included in other payables and accruals	(iii)	**5,256**	6,740

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 for the period from 1 August 2004 to 30 April 2005. The licence fee was charged at HK$50,000 per month.

(iii) 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.

41. COMPARATIVE FIGURES

Due to the adoption of the HKFRSs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised in order to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.