

**CHINA MEDICAL SCIENCE LTD :
THIS HAS THE MAKINGS OF A FIRST-CLASS COMPANY**

For a company, having been going for about 2 years, only, and, primarily, in the business of manufacturing and selling aluminium-plastic caps for use in the packaging of biotechnology and pharmaceutical products, as well as selling pharmaceutical products for human consumption, China Medical Science Ltd appears to be doing very nicely, at least in paper.

China Medical Science, to be designated, Code 8120, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd, released its Prospectus, last Wednesday, in the hope of picking up between \$HK55 million and \$HK65 million by the Placement of 100 million, 5-cent shares at a minimum price of 55 cents per share, rising to a maximum of 65 cents per share, dependent on the levels of acceptance.

The Company earned a Net Profit Attributable to Shareholders of \$HK636,676 for its first full Financial Year of operations (actually, it was a little more than a year – from June 25, 1999 to July 31, 2000), but, in the 2 months from August 1, 2000 to September 30, 2000, it logged in a Net Profit of about \$HK2.73 million.

The Profits were generated on a zero base, so to speak, due to the liberal tax laws of the People's Republic of China (PRC), which state that a PRC enterprise is entitled to an exemption from income tax for the first 2 years, starting from the first, profit-making year of operation, and, thereafter, such an enterprise is entitled to a 50-percent tax relief for the subsequent 3 years.

The following table is taken from the Company's Prospectus at Page 141:

TABLE A

	Period from June 25, 1999 to July 31, 2000	Period from August 1, 2000 to September 30, 2000
	All Figures are Denominated in Hongkong Dollars	
Turnover	25,089,284	22,920,004
Cost of Sales	(16,659,936)	(14,914,575)
Gross Profit	8,429,348	8,005,429
Other Revenue	62,768	17,620
Selling and Distribution Expenses	(1,561,225)	(1,912,331)
General and Administrative Expenses	(3,124,768)	(1,172,294)
Other Operating Expenses	(1,232,855)	(792,578)
Profit from Operating Activities	2,573,268	4,145,846
Financing Costs	(1,432,371)	(1,142,072)
Profit before Taxation	1,140,897	3,003,774
Taxation	Nil	Nil
Profit before Minority Interests	1,140,897	3,003,774
Minority Interests	(504,221)	(271,955)
Net Profit Attributable to Shareholders	636,676	2,731,819

All things considered, this is, clearly, a very creditable performance for this Company, which is headed by Mr Wong Sai Chung, who is, also, Chairman of Pacific Concord Holding Ltd and Concord Land Development Company Ltd, both companies, being listed on the Main Board of The Stock Exchange of Hongkong Ltd, Stock Codes 438 and 1121, respectively.

The net proceeds, raised in this exercise and amounting to about \$HK55 million, assuming a Placing Price of 65 cents per share, is earmarked for the following purposes:

1. \$HK5.70 million for research and development;
2. \$HK13 million for the construction of production facilities;
3. \$HK21.90 million for the purchase of equipment;
4. \$HK10.60 million for investments in 2 factories; and,
5. \$HK3.80 million to be tipped into the General Working Capital Account.

As at September 30, 2000, the Adjusted Net Tangible Assets of this Company were just \$HK79,417,000 and comprised:—

TABLE B

	Based on an Issue Price of 65 cents per share	Based on an Issue Price of 55 cents per share
	<i>All Figures are Denominated in \$HK'000</i>	
Combined Net Assets of the Group as at September 30, 2000	4,017	4,017
Less: Group's Share of Intangible Assets after Minority Interests	(18,579)	(18,579)
Net Liabilities of the Group as at September 30, 2000	(14,562)	(14,562)
Combined Profit from Ordinary Activities Attributable to Shareholders of the Group for the Period from October 1, 2000 to January 31, 2001, based on its Unaudited Management Accounts	8,725	8,725
Capitalisation of amounts due to a Shareholder on January 31, 2001	27,104	27,104
Surplus arising on Revaluation of the Group's Property Interests as at January 31, 2001, less Amount Attributable to Minority Interests	3,150	3,150
Estimated Net Proceeds of the Placing	55,000	45,400
Adjusted Net Tangible Assets	79,417	69,817

A close look at the above calculations, and marrying parts of those calculations with the information, contained in Table A, shows that, for the first 6 months of the Current Financial Year, to January 31, 2001, this Company logged in a Net Profit Attributable to Shareholders of about \$HK11.46 million.

Annualised, one might surmise that China Medical Science is looking at a Net Profit for this Financial Year, ending July 31 (assumed), of about \$HK23 million.

This TARGET calculation is not taking into account any interest income, which may be earned from the Placing funds, be they \$HK45 million or \$HK55 million.

Assets

China Medical Science owns nearly \$HK64-million worth of property in Chengdu, Sichuan Province, the PRC.

This property is currently being used as workshops, offices, and dormitories for workers.

As at January 31, 2001, the Company had outstanding bank debts of about \$HK75.70 million comprising:

TABLE C

	Figures in \$HK millions
On demand or within a period not exceeding one year	45.20

More than one year but not exceeding 2 years	Nil
More than 2 years but not exceeding 5 years	30.50
More than 5 years	Nil
TOTAL	75.70

As at September 30, 2000, China Medical Science had about \$HK8.70 million in the bank, in cash, with it having Trade Receivables, amounting to about \$HK27.88 million.

Still on the subject of this Company's debts, it is noted that Mr Wong Sai Chung had been in the habit of lending not inconsiderable sums of money to China Medical Science, and, as at September 30, 2000, he was owed about \$HK53.84 million by the Company.

This sum of money was lent unsecured, interest-free, and with no fixed terms ... [CLICK TO ORDER FULL ARTICLE](#)

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