上海實業醫藥科技(集團)有限公司

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

ANNUAL REPORT 2001

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

LEGAL NAME OF THE COMPANY

SIIC Medical Science and Technology (Group) Limited

PLACE OF INCORPORATION

Cayman Islands

DIRECTORS

Executive Directors

Lu Ming Fang *(Chairman)*
Feng Gen Sheng *(Vice Chairman)*
Li Wei Da *(Vice Chairman)*
Zhou Jie *(Managing Director)*
Chen Shu Zi *(Deputy Managing Director)*
Ge Wen Yao
Wu Jian Zhuang

Independent Non-Executive Directors

Kwok Chin Kung, Robert
Li Ka Cheung, Eric
Lee Ka Sze, Carmelo

PRINCIPAL BOARD COMMITTEES

Executive Committee

Lu Ming Fang *(Committee Chairman)*
Li Wei Da
Zhou Jie
Chen Shu Zi

Audit Committee

Li Ka Cheung, Eric *(Committee Chairman)*
Kwok Chin Kung, Robert
Lee Ka Sze, Carmelo

COMPANY SECRETARY

Wong Mei Ling, Marina
ACS, ACIS, MBA, BA (Hons) AC

COMPLIANCE OFFICER

Li Wei Da

QUALIFIED ACCOUNTANT

Chak Kwan, Byron
BA, ACCA, AHKSA

AUTHORISED REPRESENTATIVES

Li Wei Da
Wong Mei Ling, Marina

AUTHORISED PERSONS TO ACCEPT SERVICES OF PROCESS AND NOTICES

Li Wei Da
Wong Mei Ling, Marina

REGISTERED OFFICE

P.O. Box 309, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

PRINCIPAL OFFICES

Head Office

10th Floor, Shanghai Industrial Investment
Building, 48-62 Hennessy Road
Wanchai, Hong Kong

Shanghai Office

12A, Golden Bell Plaza
98 Huai Hai Road (M), Shanghai
People's Republic of China

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

As to Hong Kong Law
Woo, Kwan, Lee & Lo

As to PRC Law
Fangda Partners
Pu Dong Law Office

As to Cayman Islands Law
Maples and Calder Asia

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Office

Bank of Butterfield International (Cayman) Limited
P.O. Box 705, Butterfield House
Fort Street, George Town
Grand Cayman, Cayman Islands

Hong Kong Branch Office

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong)
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China *(Hangzhou Qingchun Branch)*
Construction Bank of China *(Shanghai Branch)*
Industrial and Commercial Bank of China *(Hangzhou Branch)*
Industrial and Commercial Bank of China *(Shanghai Branch)*

WEBSITE ADDRESSES

SIIC MedTech: http://www.siicmst.com
E-COM Technology: http://www.e-comtech.com
Guangdong Biolight: http://www.blt.com.cn
Hangzhou Huqingyutang: http://www.huqingyutang.com
Hangzhou Qingchunbao: http://www.cnqcb.com
Herborist: http://www.herborist.com
Shanghai Jahwa: http://www.jahwa.com.cn
Shanghai Pharmaceutical Network: http://www.e135.com
TCM Port: http://www.tcm-port.com.cn

GEM STOCK CODE

8018

PUBLIC AND INVESTOR RELATIONS

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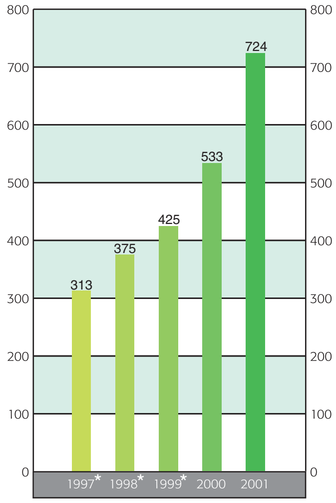
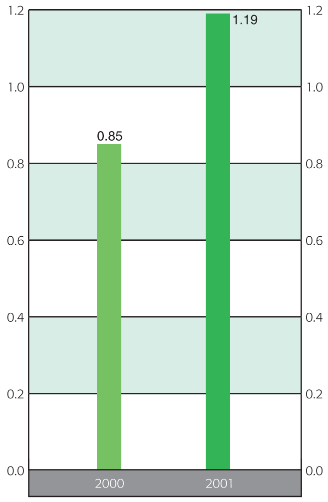
E-mail:	enquiry8018@siicmst.com
Address:	10th Floor, Shanghai Industrial Investment Building 48-62 Hennessy Road Wanchai, Hong Kong

Turnover (HK$million)

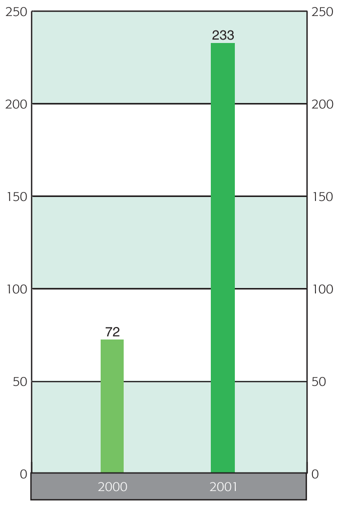


*pro forma combined

Net Assets per Share (HK$)



Profit for the year (HK$million)



RESULTS

	2001 HK$'000	2000 HK$'000	Change
Turnover	723,911	533,434	+35.7%
Profit from operations	157,576	125,483	+25.6%
Profit from ordinary activities before taxation	341,102	147,447	+131%
Profit for the year	232,685	72,318	+221%

FINANCIAL POSITION

	2001 HK$'000	2000 HK$'000	Change
Total Assets	1,070,274	801,820	+33.5%
Net Cash and Bank Balances	420,149	361,284	+16.3%
Shareholders' Funds	738,043	524,715	+40.7%
Earnings per Share – Basic	HK37.5 cents	HK11.7 cents	+221%
Net Assets per Share	HK$1.19	HK$0.85	+40.7%
Dividend per Share			
– Final	HK3 cents	HK3 cents	
– Special Final	HK1.5 cents	–	

FIRST QUARTERLY RESULTS

Announced on 7th May 2001

HALF-YEARLY RESULTS

Announced on 1st August 2001

THIRD QUARTERLY RESULTS

Announced on 7th November 2001

FULL-YEAR RESULTS

Announced on 18th March 2002

ANNUAL REPORT

Posted to Shareholders on 28th March 2002

REGISTER OF SHAREHOLDERS

To be closed from 2nd May 2002, Thursday to 6th May 2002, Monday, both days inclusive

ANNUAL GENERAL MEETING

To be held on 6th May 2002, Monday at 10:30 a.m.

DIVIDENDS PAYABLE DATE

Final Dividend and Special Final Dividend to be payable on 28th May 2002, Tuesday

LU MING FANG
Chairman

Chairman's Statement

In my new role as Chairman of the Group, I look forward to working closely with the Board of Directors to achieve new milestones for SIIC MedTech.

RESULTS

SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech" or "the Group") has maintained rapid growth rate since it listed in December 1999. Turnover for the year ended 31st December 2001 increased 35.7% to approximately HK$724 million. Profit after tax was HK$233 million, representing an increase of 2.2 times over the previous year.

In March 2001, Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") was listed on the Shanghai Stock Exchange A Shares Market, providing an exceptional income of HK$155 million to the Group. Shanghai Jahwa has since maintained its strong performance and substantial business development. The company's profit contribution to the Group rose by more than 20% compared to last year. This more than compensated for the reduction in profit contribution caused by a dilution in the Group's shareholding in the company from 40% to 28.15% as a result of the listing. It was the results of the Group's commitment to a strategy of focusing on industrial and asset operations in business development.

DIVIDENDS

At the Annual General Meeting of shareholders to be held on 6th May 2002, the Board of Directors will recommend a final dividend of HK3 cents per share to shareholders for the year ended 31st December 2001. In view of the exceptional income of HK$155 million gained by the Group from the listing of Shanghai Jahwa on the Shanghai Stock Exchange A Shares Market, the Board of Directors will also recommend a special final dividend of HK1.5 cents per share for the year ended 31st December 2001. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend and the special dividend totally HK4.5 cents per share will be payable on 28th May 2002 to shareholders whose names appear on the Register of Shareholders of the Company on 6th May 2002.

REVIEW

Since the Group's businesses are rooted on the mainland, we have been able to take advantage of China's sustained economic growth. However, we have also been challenged by a downturn in the global economy and competition from international medical enterprises entering the China market after the country's accession to the World Trade Organisation. During 2001, government-led reforms of the medical system and the distribution system for pharmaceutical products have put pressure on the medical industry. In response, the Group reengineered its product profile, controlled product quality and improved its management infrastructure to strengthen its market focus.

The tax holiday of our major subsidiary, Chia Tai Qingchunbao Pharmaceutical Co., Ltd ("Hangzhou Qingchunbao"), expired and it had to pay 24% rather than 12% profit tax. Even so, a concerted effort by staff at every level allowed the Group to achieve annual growth of 6.5% in profit after tax from its core businesses for 2001, excluding the exceptional income of HK$155 million.

Research and development is the key to a competitive edge in the medical industry. Our strategy is to focus on our core capabilities and grow strongly in the long term through product research and improved product quality. The Group has long aimed to modernise and globalise Chinese medicine. We have invested in modern technologies and methods to develop Chinese medicine in line with modern pharmaceutical practice and the requirements of domestic and international markets. The Modern Chinese Medicine Experts Committee strongly supports our moves to internationalise our products and is a driving force in transforming the Group into a leading medical enterprise. The efforts of its 13 domestic and overseas medical experts gives the Group unique advantages in research and development.

Ningxia barbary wolfberry is one of the products introduced by the Committee. Barbary wolfberry granules are cultivated, extracted, processed and intensively developed from natural herbal ingredients. All the processes are monitored and managed by the Group. We aim to develop the product with state-of-the-art technology and best current practice, thereby adding it to the list of modern Chinese medicines meeting domestic and international market requirements and quality standards. In August 2001, the Group successfully hosted the International Symposium on Barbary Wolfberry and Anti-ageing Chinese Agents, organised by the Government of the Ningxia Muslim Autonomous Region. Many notable mainland and overseas scientists attended the symposium and gave positive opinions about the medical effect of barbary wolfberry, so enhancing its status within the international medical industry.

In addition to new products, the Group has invested resources and energy to upgrade existing products and optimise the quality of classic traditional Chinese medicine. For example, we have co-operated with the University of Hong Kong to further develop and improve the quality of our principal product, Shen Mai Injection. We expect the co-operation to lead to the development of a new product with targeted medical effects, meeting international quality standards. The new product will be part of the solid foundation of technology and quality necessary to modernise and globalise traditional Chinese medicine.

In recent years, the PRC Government has launched a series of medical reforms, including the establishment of a new medical and healthcare system, the separation of medical and pharmaceutical services, the regulation of prescription medicine and the formulation of medicine categories for reimbursement. The reforms have led to strong growth in the medical retailing industry. At present, the mainland's medical industry is still at the start-up stage, but it shows remarkable potential and we expect it to quickly attract significant investment. In such a highly competitive market, quality brands need to be leveraged to deliver a unique competitive position for the enterprise. At the end of 2001, the Group purchased 24% of the shares of Hangzhou Huqingyutang Drugstore Co., Ltd. ("Huqingyutang Drugstore") as we were impressed by its brand profile and its 100-year history in the Chinese medicine market. The company is also licensed to operate medicine retail chains across China. The purchase marks a new stage — our Group's march into medicine retailing — and forms an important part of our strategic development.

Another way to boost the Group's competitive advantage is the widespread use of advanced information technology and web services in the medical industry - a clear trend for the development of the medical market. Telemedicine is a new business within this trend. The Group has purchased shares in Guang Dong Biolight Medical Technology Co., Ltd. ("Guangdong Biolight") and E-COM Technology Limited, ("E-COM Technology") which are engaged in the development and production of high technology medical equipment. We are optimistic about their development prospects and believe the purchases will strengthen our medical business, especially in its seamless integration with our pharmaceutical business into a consolidated component of our development strategy.

PROSPECTS

Chinese medicine has an advantageous position on the mainland, as the PRC Government considers the development of Chinese medicine a very important issue. The 15-year Plan for the Chinese Medical Industry clearly states that the government will speed up the development of Chinese medicine and facilitate its modernisation. The Group believes the medical business will soon become one of the fastest-developing on the mainland. The Group will search out and seize market development opportunities in pursuit of high returns for our shareholders.

Looking ahead to 2002, the Group will maintain its strategy of exploiting synergies between its industrial and asset operations, and expanding access to international markets. As the PRC Government intends to reduce the surplus of imports of Chinese medicine over exports, we shall exploit opportunities to select and develop those products which meet the needs of the international market. The Group, in conjunction with a German herbal medicine manufacturer, has preliminarily agreed to co-operate to introduce barbary wolfberry products to the European market, and we shall further develop our business in this direction. The Group will always be highly responsive to the market changes caused by the gradual reform of the medical system and the entry of China to the World Trade Organisation. We are well prepared to react as the market evolves. We are also ready to seize every opportunity offered by the changes.

In 2002, the Group will make more efforts on acquisition projects of larger scale and will take advantage of the favourable sentiment currently in the capital market of China to acquire well-established medical companies and undertake other projects. We shall take advantage of opportunities in biomedicine to achieve for breakthrough in acquisition projects. Consequently, the Group is now in a position to rapidly leverage its economic strength to expand its business through mergers and acquisitions.

Finally, on behalf of the Board of Directors, I wish to thank our shareholders for their strong support and all the staff of the Company for their continued hard work. To address Group business development and to comply with the national policy of rotation of personnel, Mr. Zhuo Fu Min resigned as Chairman of the Group on 25th January 2002. Mr. Li Wei Da, previously Managing Director, was appointed Vice Chairman of the Group and Mr. Zhou Jie was appointed Managing Director of the Group on the same day. In my new role as Chairman of the Group, I look forward to working closely with the Board of Directors to achieve new milestones for SIIC MedTech.

Lu Ming Fang
Chairman

Hong Kong, 18th March 2002

Management Discussion and Analysis

SIIC MedTech's success is best represented by its continuous development. Turnover increased by 35.7%, equivalent to a compound growth rate of 30.5% per annum.

BUSINESS REVIEW

SIIC MedTech's success is best represented by its continuous development. Since the Group listed in December 1999, its business operations have grown rapidly. Turnover increased by 35.7% compared to that of last year, equivalent to a compound growth rate of 30.5% per annum. In 2001, the Group devoted itself to initiating new research and development projects while dynamically developing its existing businesses in order to create favourable conditions for future growth.

Market focus and improved product mix to maintain record sales

As China steadily reforms its medical system and distribution of pharmaceutical products, the medical industry is changing dramatically. However, while many pharmaceutical enterprises face dropping sales and losses, the Group achieved a growth rate of 35.7% in turnover. The major reasons for our success include actively searching for growth opportunities and promotion of our line of injection products, including our principal product, Shen Mai Injection. Sales of Dan Shen Injection and Herba Houttuyniae Injection increased by 29% and 110% respectively over the previous year.

The major distribution channels for medicines are still hospitals, clinics and drug wholesalers. Jiangshu, Zhejiang and Shanghai are still the major markets for healthcare products. With Zhejiang province as a base, our products are distributed from Hangzhou to neighbouring cities. In 2001, sales of Qingchunbao Anti-ageing Tablets increased 104% over previous year, to RMB256 million. The current sales ratio of pharmaceutical products to healthcare products is 64:36.

Shanghai Jahwa succeeds in the capital market and grows product sales

Shanghai Jahwa had a bumper harvest in 2001 with success in the capital market and new growth in product sales. In 2001, Shanghai Jahwa's profit contribution to the Group increased by more than 20%. During the year 2001, Shanghai Jahwa combined its marketing and sales departments into a single organisational structure that can respond effectively to market developments. The new department dramatically improved its market expansion and distribution channels. Sales of the Liushen brand increased by more than 20% over the previous year and it has maintained its primacy in the markets for Florida water and bath foam. The new Liushen mosquito repellent, based on Florida water, grew strongly in a very competitive market. Another of Shanghai Jahwa's flagship brands, Maxam, is being repositioned as a mainstream skincare brand. The move produced double-digit sales growth. In addition, Shanghai Jahwa took its first step toward internationalisation by opening two Herborist specialist stores in Causeway Bay and Mongkok, Hong Kong, in 2001. Distribution through chain drugstores in Hong Kong is under consideration.

Launch of processing plant for fresh barbary wolfberry fruit granules

In order to guarantee the stability and efficacy of medical materials, production must be standardised from the outset. Only by using high quality raw materials, adopting modern production methods and complying with international recognised quality standards can we produce

modern Chinese medicine with a competitive edge in international markets. By following this principle, the Group has successfully established a major commercial nursery for Ningxia barbary wolfberry.

Fresh barbary wolfberry granules are produced from natural herbal ingredients, documentation for which has been submitted to the Ministry of Health, PRC for approval. It is projected that the product will be officially launched in the second half of 2002. The processing plant is already under construction. Located in Ningxia Yinchuan, the plant is built on a construction area of 4,400 square metres and designed according to National Food GMP standards. When the project is completed, the HACCP (Hazard Analysis and Critical Control Point) management system will be introduced based on Food GMP standards to ensure product safety. The Group has submitted its application to the State Intellectual Property Office of PRC for invention and manufacturing patents concerning the production techniques used in the project.

More product research and better existing products to improve the Group's competitive edge

In 2001, the Group increased scientific research and development into the quality and technical elements of its existing products, while continuously launching new research and development projects. The new projects include:

- Qingchunbao Beauty Capsule

  Following examination and approval, the Qingchunbao Beauty Capsule is planned for launch in 2002. Based on traditional Chinese medical theories, Qingchunbao Beauty Capsule is a beauty-enhancing healthcare product developed by modern scientific research methods. Clinical results indicated that the product is very effective in relieving the incidence of freckles and reducing the affected area. In the meantime, it can prevent new freckles without causing allergic or abnormal reactions. The uniqueness of this product promises a bright future.

- Anntiflu Capsule

  The major function of the Anntiflu Capsule is to enhance immunity, prevent flu and shorten the length of flu treatment. It has already received production approval from the Ministry of Health, PRC. The Group has decided to start production in our GMP-certified factories. The launch is scheduled for 2002.

- Ipriflavone Tablet

  Ipriflavone Tablet has been approved for production by the State Drug Administration. The new Category II Ipriflavone Tablet is chiefly used to treat and prevent osteoporosis. Trial production is under way and we anticipate a market launch in 2002.

- Gelatin Suppository ("S-PPM")

  S-PPM opens up a new treatment of child asthma. Long-term toxicology tests begun in 2001 are now complete, and we are applying to commence clinical trials.

- Bone-strengthening Capsule ("S-COM")

  S-COM treats senile osteoporosis. Long-term toxicology tests are in progress and will be completed in the first half of 2002.

- Lebekon Film Tablet ("B-TLS")

  B-TLS has completed its efficacy tests and toxicology evaluation. Efficacy test results show that the product significantly decreases liver enzyme levels and protects the liver. It can decrease both glutamate pyruvate transaminase ("GPT") and glutamic oxalacetic transaminase ("GOT"), whereas other liver-protecting drugs do not necessarily have a beneficial impact on GOT. We are now carrying out stability testing. The product will be developed as a healthcare drug to reduce the time-to-market.

In research into upgrading existing products, the Group successfully developed the Qingchunbao Anti-ageing Sugar-free Coated Tablet in 2001. The product targets diabetics and the relevant applications for production and sale approval have been completed. This will strengthen the Group's product lines.

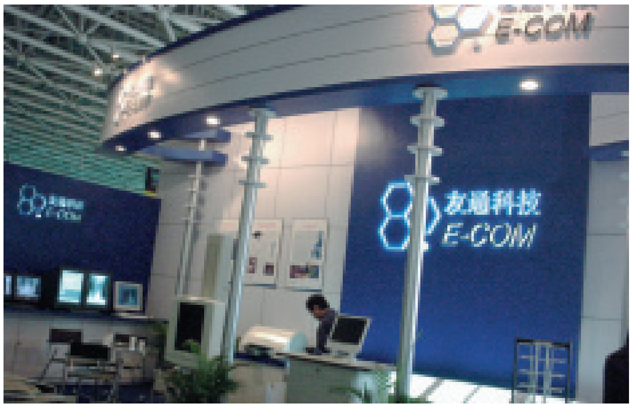
In December 2001, the Group, in conjunction with the University of Hong Kong, preliminarily agreed to co-operate for further development of our leading-brand product, Shen Mai Injection. We will work together to determine the major active biological elements of the product using modern scientific and technological methods, aiming to develop a new medicine.

Using modern technology to improve high quality traditional Chinese medicine products

With the increasing worldwide recognition of therapies that use Chinese medicine, natural medicine and traditional medicine, the application of modern technology to transform and improve its traditional Chinese medicine output is felt to be an important route for taking Chinese medicine to international markets. After technical improvements, the Group believes that high quality Chinese medicine products supported by effective promotion and packaging will ensure a competitive advantage at home, and create the right market conditions for the products overseas.

In early 2001, the Group signed a co-operation agreement with the China Academy of Chinese Medicine to redevelop classic traditional Chinese medicines. Five products selected from the "Catalogue of Medicines Covered by the State Basic Medical Insurance" will be offered in enhanced forms and have their production methods updated. Further research and development has begun.

Using this process, we have initiated a redevelopment plan for B-IHM, a product for the treatment of fevers, especially those caused by non-bacterial infections. Due

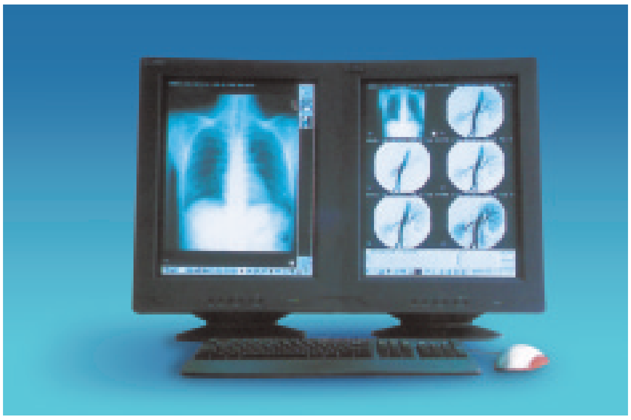


to the effectiveness of B-IHM, the Group is developing a corresponding oral substitute, which we believe has significant market potential.

Exploring ways to promote Chinese medicine overseas

In order to enter overseas markets, the Group and a German herbal medicine manufacturer in November 2001 reached a preliminary agreement to introduce barbary wolfberry fruit products into the European market. The Group plans to apply to the German authorities to introduce products made from fresh Ningxia barbary wolfberry fruit. At the same time, we will apply to the European Union and each of its member states. The fruit product will also be offered as effervescent tablets, fresh fruit tea, foodstuffs or confectionery additives, to explore how sales of Chinese medicine can be expanded in European markets.

The Group also negotiated with a Japanese sales company in 2001. The company asked us to develop a selection of healthcare teas suitable for the Japanese market, for which it will provide sales support. Specialists at Shanghai University of Traditional Chinese Medicine have developed a slimming tea for the Japanese market. The Japanese company has proposed enhancements and a marketing plan. The product is expected to launch in Japan in 2002.



Acquiring equity in Guangdong Biolight and E-COM Technology to support entry into the medicare sector

As the domestic market is unfamiliar with telemedicare services, the Group focused on market education in 2001. We held many telemedicare demonstrations and will further improve the system unit based on the feedback we received.

Advances in digital medicare technology and equipment have boosted the development of telemedicare and remote healthcare services. In addition, the sector is expanding its service functions and improving diagnostic accuracy. The acquisition of shares in Guangdong Biolight and E-COM Technology supported the Group's entry into the medicare sector.

In December 2000, the Group acquired 38% of the equity of Guangdong Biolight, which specialises in the manufacture of high-tech medicare equipment for a consideration of RMB18.76 million. Guangdong Biolight developed many products in 2001, including an electronic colposcope and a portable multi-parameter monitor. It has applied to the State Software Centre to patent the software used in these two products. Approval is expected in mid-2002.

In July 2001, the Group acquired 11% of the equity of E-COM Technology, a developer and supplier of medical imaging systems and medical information systems for a consideration of US$1.5 million. The company's digital X-ray system and medical image storing and transmission technology are very competitive: its digital plate probe has sold well in China, and E-COM Technology has been selected as a key technology enterprise to receive support from Guangdong province and Zhuhai city. It has also won support funding for key scientific research projects from the Zhuhai Scientific Technology Commission.

Acquisition of 24% equity in Huqingyutang Drugstore

The Group reached agreement in December 2001 regarding the acquisition of a 24% interest in Huqingyutang Drugstore for a consideration of RMB12 million. The acquisition marks a new stage — our Group's move into the medical retailing industry — and forms an important part of our strategic development. Boasting a history of over 100 years, "Huqingyutang" is a well-known brand in the world of traditional Chinese medicine. The company has obtained licence approval by the National Drug Supervision and Management Bureau to open drugstore chain outlets across China. It is also one of the key medical retailers to benefit from extra support from the state.

FINANCIAL POSITION

Turnover

The Group was engaged in the manufacture and sale of Chinese medicine and health supplement products. More than 90% of the Group's turnover, contribution to operating profit and assets was attributed to this business segment and located in the PRC. The audited consolidated turnover of the Group for the year ended 31st December 2001 reached HK$724 million, a 35.7% increase over that of last year. The main contributor was strong growth in sales of healthcare products – Qingchunbao Anti-ageing Tablets set a sales record of RMB256 million, a 104% increase over the previous year. In addition to maintain the sales of our principal product, Shen Mai Injection, the Group promoted Dan Shen Injection and Herba Houttuyniae Injection. Sales of the two products increased by 29% and 110% respectively compared with the previous year, resulting in total sales of over RMB105 million.

Earnings

During the year 2001, the profit from operations was principally come from Hangzhou Qingchunbao. The audited profit attributable to shareholders for the year ended 31st December 2001 was HK$233 million, representing 2.2 times that in the previous year. This result is mainly due to the exceptional income of over HK$155 million from the listing of Shanghai Jahwa on the Shanghai Stock Exchange A Shares Market in March 2001. Although the Group's shareholding in Shanghai Jahwa was diluted from 40% to 28.15% by the listing, this was more than compensated for by the company's sales performance. The company's profit attributed to the Group in 2001 increased by more than 20% over the previous year. Although the tax incentives for Hangzhou Qingchunbao expired at the beginning of 2001 and its tax rate has been raised from 12% to 24%, the Group's profit after tax, generated by the principal business of the Group, still achieved growth of 6.5% compared with the previous year, excluding the exceptional income of HK$155 million.

Debt-equity structure

By the end of 2001, the Group had total bank balances and cash of HK$420 million. The Group does not have any bank debt and charges. Its net assets reached HK$738 million, a 40.7% increase over the previous year. The strong and stable debt-equity position has greatly supported development of the Group's business. However, the Group will optimise its capital structure in order to meet business development requirements and to lower overall capital costs.

Financial liquidity, resources and capital structure

The Group's main source of funds in 2001 was cash generated by its business operations. The currencies in which cash and cash equivalents held by the Group are mainly Renminbi, US dollars and Hong Kong dollars. As at 31st December 2001, the shareholder's fund of the Group amounted to HK$738 million. Total assets reached HK$1.07 billion, of which HK$622 million was current assets. The ratio of current assets to current liabilities is more than 3. Net cash inflow from operating activities amounted to HK$167 million. Bank balances and cash reached HK$420 million, a 16% increase from previous year, mainly due to the increase in cash inflow from the Group's operating activities. In 2001, there is no change in the Company's share capital. The financial position of the Group is sound.

Return on Capital Employed

The average Return on Capital Employed of the Group for the year increased to 36.9% from 14.5%, mainly due to the gain on deemed disposal of interests in Shanghai Jahwa diluted from 40% to 28.15% after the listing of Shanghai Jahwa's shares on the Shanghai Stock Exchange A Shares Market.

Foreign exchange policy

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. In 2001, the Group did not conclude any forward foreign currency agreements aimed at limiting our exposure to adverse fluctuations in foreign currency exchange rates. The Group will constantly review the situation and if appropriate, to carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

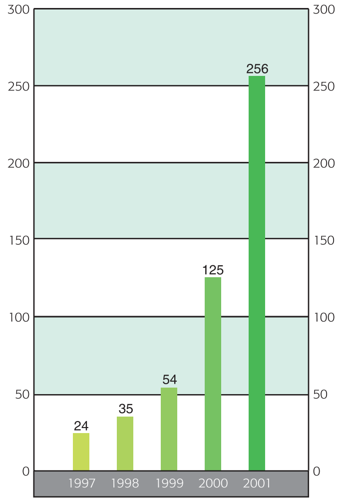
Material acquisitions and disposals during the year and future plans for material investments

Except the deemed disposal of interests in Shanghai Jahwa diluted from 40% to 28.15% after the listing of Shanghai Jahwa's shares on the Shanghai Stock Exchange Market, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies during the year 2001. Details of future investment plan of the Group are disclosed in the Chairman's Statement. Internal resources and/or balance of the proceeds of the issue of New Shares (as defined in the Prospectus) and/or financing from capital market and/or debt financing will be used by the Group to meet the funding requirement for business expansion plan, capital expenditure and acquisition projects.

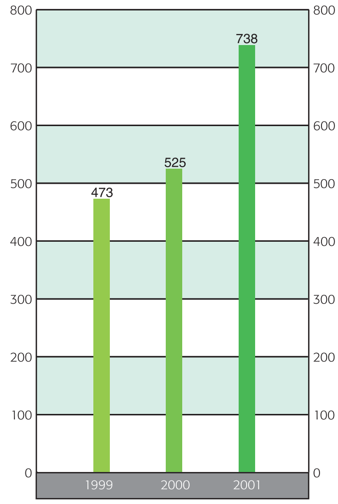
Contingent liabilities

The Group had no significant contingent liabilities at 31st December 2001.

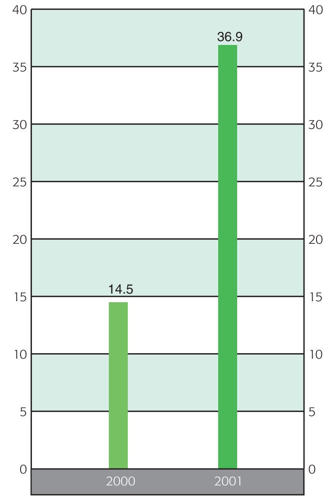
Qingchunbao Anti-ageing Tablet Turnover (RMB million)



Net Assets (HK$million)



Return on Capital Employed (%)



The following is a summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 23rd November 1999 ("Prospectus"):

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
Hangzhou Qingchunbao	
• *Sale of principal products*	The product mix of Hangzhou Qingchunbao has been revised to meet the market demand. Hence, the allocation of resources was adjusted in order to obtain higher economic value. The ranking of the top five products was changed. "Dan Shen Injection" and "Huang Qi Injection" have become two of the major products of Hangzhou Qingchunbao. Their turnover were approximately 29% and 71% higher than in the year 2000 respectively.
Shen Mai Injection : 7,847,000 vials	7,555,000 vials
Stomach Recuperation Granules : 3,260,000 boxes	1,894,000 boxes
Granules Niaoganning : 914,000 boxes	909,000 boxes
Granules Qingreling : 578,000 boxes	404,000 boxes
Qingchunbao Anti-ageing Tablet : 1,773,000 bottles	10,288,000 bottles Except Stomach Recuperation Granules, the sales volume of each of the above products was higher than in the year 2000. The sales volume of Stomach Recuperation Granules decreased by 8%.
• *Development of marketing channels*	
Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. Retail distribution outlets, including those with supermarket chains and other over-the-counter outlets, will increase to about 13 to 15.	Hospital, clinics and drug distributors are the principal marketing channels for pharmaceutical products. A change in the marketing strategy of health supplement products redirect the marketing effort to large-scale distributors and hypermarkets. Higher sales turnover was recorded. In addition, the increase in the number of sales outlets of Luen Wah Supermarket, etc. indirectly extended the sales network of Hangzhou Qingchunbao.
The marketing team will have a total staff number of about 665.	The marketing team has a total staff number of about 680.
• *Production and facilities*	
Premises located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Consistent with the business objective specified in the Prospectus.
Granule workshop in full compliance with GMP standards.	Modification of the Granule workshop is now in progress. There is no material impact on the production of granule products of Hangzhou Qingchunbao.

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
• *Research & Development*	
Project No: 202X-99-02	
Production permit obtained from State Drug Administration.	As the PRC Government has upgraded the technology standards for new Category 4 medicines, this project was therefore unable to proceed further.
Stomach Recuperation Capsule	
Review completed by provincial level State Drug Administration.	As new technology was used in the production of Stomach Recuperation Capsule. However, the PRC Government has still yet to announce standards for such technology. This project is then pending.
Shuangbaosu Oral Tonic (Low-sugar formula)	
Commence commercial production.	Shuangbaosu Oral Tonic (Low-sugar formula) was suspended at the end of 2000 after marketing research revealed that domestic and overseas competition was very keen, and that quality and price of competitor products varied greatly.
Research and development base	
• *Shanghai research and development base*	
Continue research and development projects transferred from Shanghai University of Traditional Chinese Medicine ("SUTCM").	The two products acquired from SUTCM, S-PPM and S-COM have begun long-virulence tests, which are progressing well.
Anticipated commencement of up to about 5 additional new projects, if available.	The Company selected four products from the technology transfer catalogue provided every six months by the SUTCM. The examination of products' features and efficacy has been completed at the end of 2001.
Anticipated commencement of clinical trial on newly developed drugs and/or health supplement products.	
Amount to be incurred: HK$5 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
• *Beijing research and development base*	
Continue existing research and development projects. Commence new projects if available. Coordinate the application for product approval of the Group's new products.	The first achievement of the Group's research and development effort, the Anntiflu Capsule, has obtained production approval from the State of Ministry of Health. The product's production and sales distribution will be organised by Hangzhou Qingchunbao. B-TLS is the second product of the Beijing research and development base. Testing of the drug's quality, formula and production technology has been finalised and experimental results on its medical effects have been encouraging. Submission for official assessment was made in December 2001.
Amount to be incurred: HK$7 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.
• *Hong Kong research and development base*	
Continue testing and analysing of Chinese medicine and formulating quality standards targeting for overseas market. Gradual expansion of the testing and analysing facility as appropriate.	The research project entitled, "Critical issues affecting the entry of Chinese Medicine, Plant Medicine and Health Supplement Products into International Markets: Rules and Regulations, Management, and Sales Channels", conducted by the Institute for the Advancement of Chinese Medicine at Hong Kong Baptist University at our behest was completed in 2001. The report helps understanding of international markets, the building of international channels and the development of new products. The Group is considering further expansion of its presence in international markets.
Amount to be incurred: HK$7 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
Production of pharmaceutical products	
• *Establishment of a production base in Hong Kong*	
Continue to expand the operation as appropriate.	The establishment of a production base in Hong Kong is pending and is subject to the type of products developed by the Group and the development progress of the overseas market.
• *Joint ventures with reputable Chinese medicine enterprises*	
Continue to locate suitable joint venture candidates and enter into joint venture agreements if appropriate.	Consistent with the business objective specified in the Prospectus.
• *Alliance with international pharmaceutical companies*	
Gradually expand the market coverage to other markets.	The Group and a German herbal medicine manufacturer in November 2001 reached a preliminary agreement to introduce barbary wolfberry fruit products into the European market. A marketing channel between China and European countries was formed preliminary.
Marketing and sales	
• *Expand and strengthen its distribution network in the PRC*	
Continue the operation of the acquired PRC Company.	The Group reached agreement in December 2001 regarding the acquisition of a 24% interest in Huqingyutang Drugstore. The company has obtained licence approval by the National Drug Supervision and Management Bureau to open drugstore chain outlets across China. It is also one of the key medical retailers to benefit from extra support from the state.
• *E-commerce*	
Form alliance with other pharmaceutical websites through mergers and acquisitions and links. Full implementation of e-commerce function.	The PRC Government has approved the agreement signed in 2000 for the acquisition of a 20% interest in Shanghai Pharmaceutical Network. The company runs a website, www.e135.com, which has been authorised by the relevant Government authorities. Business operation was

Business objective of the second half of 2001 as disclosed in the Prospectus	**Actual business progress up to the second half of 2001**
Expected daily hit rate on the website is about 8,000 times.	commenced. It is an application service provider rendering technical support to the Chinese medicines exchange platform. The Group considered that the foundation and the prospect of such website are among the best in China. The investment in this website has already materialised the Company's objective of engaging in e-commence business.
Amount to be incurred: HK$1 million.	Since the plan was changed strategically, a variance resulted between the actual amount and the planned amount. The shortage was financed by the Company general working capital.
• *Over-the-counter sales*	
Entered into agreement with overseas chain stores to expand the over-the-counter distribution network of the Group	During the period, there was another chain stores approached the Group in respect of expanding the Group's product distribution network. The potential partner was under evaluation. Therefore, there was a delay in finalising the agreement.
Amount to be incurred: HK$2.5 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.
Chinese medicine clinical center	
Continue to expand the number of clinics if appropriate.	The project will proceed further upon the announcement of the policies and regulations relating to Chinese medicine clinical centre by the Government of the Hong Kong Special Administrative Region.
Amount to be incurred: HK$1.5 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.

During the period from 2nd December 1999 (date of listing) to 31st December 2001, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

Principal Areas	Business Plan	Intended Funding	Actual Funding
		(HK$ million in approximation)	(HK$ million in approximation)
Research and Development	To establish a coordination centre	2	0
	To establish a research and development base in Shanghai	26	11
	To establish a research and development base in Beijing	28	2
	To establish a research and development base in Hong Kong	28	1
Production of Pharmaceutical Products	To establish a production base in Hong Kong and to joint venture with reputable Chinese medicine enterprises (including the possibility of acquiring additional interest in the Group's existing joint ventures)	38	0
Marketing and Sales	To partially finance the expansion and strengthening of its distribution network	20	0
	To develop e-commerce	8	16
	To strengthen its over-the-counter sales	5	0
Clinical Service	To establish a clinical centre in Hong Kong	5	0
Others	To use as general working capital	46	44
Investment Projects	To establish a joint venture company, Ningxia SIIC Viopes Nutraceuticals Co. Limited, to acquire a 38% interest in Guangdong Biolight and an 11% interest in E-COM Technology	0	34
		206	108

The balance of the proceeds HK$98 million was held as short-term deposit and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.

Corporate Administration

The success of an enterprise depends on the collaborative efforts and ability of all staff and their continual pursuit of value and innovation.

HUMAN RESOURCES

We strongly believe that the success of an enterprise depends on the collaborative efforts and ability of all staff and their continual pursuit of value and innovation. In view of this, the Group puts great weight on staff relationships and human resources management. At present, the Group has 1,747 employees in the following areas:

Company offices	1%
Sales and Marketing	39%
Production	41%
Administration and Procurement	12%
Quality Control	6%
Research and Development	1%

On 18th February 2000, the Group set up the Modern Chinese Medicine Experts Committee, comprising 13 domestic and overseas medical specialists. Two of them are experts in natural and traditional medicine from Europe. The Committee provides strong support in the Group's research and development efforts.

WELFARE POLICY

The Group has formulated human-resource and internal policies to define employee service requirements, remuneration and welfare benefits. With the overall objective of providing employees with competitive salaries and welfare conditions, the salary level will be adjusted in line with the performance of each employee as well as the market situation.

Due to the increase in number of employee and bonus payment, total remuneration including basic salaries and allowances, bonus and contributions to retirement benefit schemes for the year ended 31st December 2001 rose to HK$102 million (2000: HK$83.4 million), of which

HK$8.1 million (2000: HK$7.96 million) was directors remuneration. Details of directors' emoluments and benefits are set out in note [8] to the financial statements.

In January 2000, the Company offered the first batch of 39,200,000 share options to its staff and executive directors, 500,000 of which were lapsed. These share options may be exercised from 21st January 2003 to 20th January 2006 at a price of HK$1.69. The Company has not granted any share option in 2001.

STAFF TRAINING

Human resources are among a company's most important assets. Thus the Group attaches great importance to staff development. The Group has held many in-house training programmes, including: QA; QC training (2000 Medicine Management Law); internal staff training (2000 Medicine Management Law); financial staff training (Enterprise Accounting System (Revised)); and role-plays for sale executives. Moreover, the Group encourages staff to enrol in part-time education and subsidises the participation of staff at various levels on courses related to their work.

STAFF RELATIONSHIPS

In order to strengthen communication between the company and our staff and to improve the sense of community, the Group publishes an in-house monthly newsletter. We share the latest information concerning the Group's business and recent developments in the domestic and overseas medical markets.

To enhance the staff's understanding of the Group's management culture, its subordinate enterprises and their business operations, we arranged an inspection tour in Shanghai and Hangzhou for the Hong Kong staff to promote communication and interaction between staff from different regions.

CORPORATE MANAGEMENT

Executive Committee

To seize opportunities and control business risks in a dynamic business environment, it is crucial to operate a decision-making procedure that stresses efficiency and results. Therefore, the Board of Directors of the Group has on 18th March 2002 set up an Executive Committee consisting of Mr. Lu Ming Fang, Mr. Li Wei Da, Mr. Zhou Jie and Mr. Chen Shu Zi, who are mainly responsible for reviewing business projects and daily operations. At each quarterly plenary Board meeting, the executive committee will report to the Board and circulate relevant minutes.

Audit Committee

The audit committee consists of three Independent Non-Executive Directors: Mr. Li Ka Cheung, Eric, Mr. Kwok Chin Kung, Robert and Mr. Lee Ka Sze, Carmelo. The committee confers at least twice a year. Its major responsibilities include:

- Discussing the nature and scope of the audit with auditors before the commencement of the auditing procedure;
- Reviewing the Group's financial reporting procedures and internal monitoring procedures;
- Examining and approving the Group's annual report, half year report, quarterly report and accounting items; and
- Examining and verifying the internal audit plan to ensure co-ordination between auditors and internal audit staff.

The fifth and sixth audit committee meeting were held respectively on 31st July 2001 and 7th March 2002. At the meetings, the committee focused on examining and approving the interim results for the period ended 30th June 2001, the final results for the year ended 31st December 2001, and internal auditing issues.

Directors and Senior Management Profile

FROM LEFT TO RIGHT :

Front row : **Li Wei Da, Lu Ming Fang, Kwok Chin Kung, Robert**

Back row : **Li Ka Cheung, Eric, Chen Shu Zi, Zhou Jie, Lee Ka Sze, Carmelo, Wu Jian Zhuang**

DIRECTORS

Executive Director

Mr. Lu Ming Fang, aged 45, is the chairman of the Group, the chief executive officer of Shanghai Industrial Holdings Limited ("SIHL") and the vice president of Shanghai Industrial (Holdings) Company Limited ("SIIC"). Mr. Lu graduated from Fudan University in Shanghai with a master's degree in economics and holds the designation of senior economist. Prior to joining SIIC in July 1995, Mr. Lu had worked for Shanghai Medicinal Materials Company, Shanghai Municipal Drug Administration, Shanghai Wen Hui Bao and Shenyin & Wanguo Securities Co., Ltd. ("Shenyin & Wanguo"). Mr. Lu had been actively involved in the flotation of SIHL, and the subsequent asset injection exercises. Management positions he had held within the SIIC group including deputy general manager of asset management department at SIIC; executive deputy managing director of S.I. Capital Management Co., Ltd ("S.I. Capital"), a subsidiary of SIIC; managing director of Shanghai Industrial United Holdings Company Limited, a company listed on the Shanghai Stock Exchange A Shares Market and assistant president and general manager of planning and finance department of SIIC.

Mr. Feng Gen Sheng, aged 67, is the vice chairman of the Group, the vice chairman and the general manager of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao"), the chairman of China (Hangzhou) Qingchunbao Group Co., Ltd. ("China Qingchunbao"), the chairman of Hangzhou Huqingyu Tang Co., Ltd. Mr. Feng was accredited as senior economist and certified pharmacist. He began to assume office as the factory manager of Hangzhou No. 2 Chinese Medicine Factory in 1972. He has over 53 years of experience in pharmaceutical business and was awarded as Excellent Entrepreneur of the State（全國首屆優秀企業家）.

Mr. Li Wei Da, aged 54, is the vice chairman of the Group, the deputy chief executive officer of SIHL. He is also the chairman of Hangzhou Qingchunbao and vice chairman of Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa"). He graduated from Shanghai Second Polytechnical University with a degree in auto control. Mr. Li was previously the deputy general manager of Shanghai Bearing Limited. He has over 32 years of experience in industrial enterprise management.

Mr. Zhou Jie, aged 34, is the managing director of the Group, the deputy chief executive officer of SIHL and the vice chairman of Shanghai Bright Dairy and Food Co., Ltd. Mr. Zhou graduated from Shanghai Jiaotong University with a master's degree in management engineering. He had been a deputy general manager of investment banking at Shenyin & Wanguo, head office before joining SIIC in 1996. Mr. Zhou was previously chairman and general manager of S.I. Capital.

Mr. Chen Shu Zi, aged 54, is the deputy managing director of the Group, the vice chairman of Guang Dong Biolight Medical Technology Co., Ltd, a director of Shanghai Pharmaceutical Business Network Co., Ltd. and a director of E-COM Technology Limited. Mr. Chen joined SIIC Shanghai Holdings Co., Ltd. as general manager of the enterprise management department in October 1998. He graduated from Fudan University with a master degree in economics and management. Mr. Chen was previously a director and deputy general manager of 上海輪胎橡膠（集團）股份有限公司 (Shanghai Rubber Tyre (Group) Limited). He has extensive working experience in corporate management.

Mr. Ge Wen Yao, aged 55, is an executive director of the Group, an executive director of SIHL and the Chairman of Shanghai Jahwa. He graduated from Shanghai Finance and Economics University with a major in economics, and a master's degree in enterprise management. He was the factory director of Shanghai Daily Chemicals Factory and the deputy general manager of Shanghai Daily Chemical Co. He has over 24 years of experience in cosmetics business management.

Mr. Wu Jian Zhuang, aged 55, is an executive director of the Group, a director of Hangzhou Qingchunbao and Shanghai Jahwa. Mr. Wu graduated from Hua Tung Normal University with a master degree of economics. He was previously the general manager of Shanghai Dairy Company and Shanghai Agriculture Investment Corporation. He has more than 27 years of experience in corporate administration and management.

Independent Non-Executive Director

Mr. Kwok Chin Kung, Robert, aged 63, is a Chartered Accountant and joined the Jardine Matheson Group in 1964. He is a director of Jardine Matheson Ltd., Dairy Farm International Holdings Ltd., Hongkong Land Holdings Ltd., Jardine Matheson Holdings Ltd., Jardine Strategic Holdings Ltd. and Mandarin Oriental International Ltd.

Mr. Li Ka Cheung, Eric, aged 48, LDD, Hon. DSocSc, B.A. (Econ) Hon., FHKSA, FCA, FCIS, Hon. HKAT, OBE, JP. Mr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants and an independent non-executive director of SmarTone Telecommunications Holdings Ltd.; The Kowloon Motor Bus Holdings Ltd.; Wong's International (Holdings) Ltd.; CATIC International Holdings Ltd. and Hang Seng Bank Limited. Mr. Li is a member of the Legislative Council of Hong Kong and serves as chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Society of Accountants.

Mr. Lee Ka Sze, Carmelo, aged 41, is a partner of Woo, Kwan, Lee & Lo. Mr. Lee received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Lee is an independent non-executive director of several listed public companies in Hong Kong, namely China Everbright International Ltd., China Pharmaceutical Enterprise & Investment Corporation Ltd., Pak Fah Yeow International Ltd., Termbray Industries International (Holdings) Ltd., Tern Properties Company Ltd., Yugang International Ltd., Yunnan Enterprises Holdings Ltd., Safety Godown Company Limited, Prestige Holdings Limited, The Cross-Harbour (Holdings) Limited and Hopewell Holdings Limited. Mr. Lee is also a listing committee member of the Main Board of the Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Ms. Li Yu Hang, aged 50, is a director of and deputy chief executive of Hangzhou Qingchunbao and deputy chairman of China Qingchunbao. She was appointed the deputy factory manager of Hangzhou No. 2 Chinese Medicine Factory in 1989. She has over 27 years of experience in the management of pharmaceutical enterprise. Ms. Li was also a committee manager of the 8th Standing Committee of Zhejiang Political Consultative Conference, executive of the standing committee of Hangzhou Women Association.

Mr. Xu Zheng Yu, aged 45, is a director of and deputy chief executive of Hangzhou Qingchunbao and the general manager in charge of the sales and production of pharmaceutical products of Hangzhou Qingchunbao. Mr. Xu graduated from Xian Medical University with a bachelor degree in medical. He is a senior medical officer and has about 22 years of experience in medical research and management in pharmaceutical enterprise. He has extensive experience in sales of pharmaceutical products.

Mr. Zhou Qi Ying, aged 54, is a director and general manager of Shanghai Jahwa. He holds the designation of senior economist and has a master's degree in industrial economics from Shanghai Finance and Economics University. He has been the deputy general manager of Shanghai Jahwa (Holdings) Co., Ltd. ("SJC") since August

1982. He has over 28 years of experience in industrial enterprise manager.

Mr. Liu Yu Liang, aged 40, is a director of Shanghai Jahwa. Mr. Li graduated from Shanghai No. 2 Military Medical University （上海第二軍醫大學） with a doctoral degree. He also holds an associate professorship. Mr. Liu was appointed the chief medical officer of Shanghai Changhai Hospital （上海長海醫院） in 1983. He joined SJC in 1995 and held the positions of research supervisor and deputy general manager. Mr. Liu has extensive experience in research and development.

Mr. Zhou Jun Bi, aged 43, is a director and the general manager of Ningxia SIIC Viopes Nutraceuticals Co. Limited. Mr. Zhou graduated from Shanghai Medical Industrial College major in medical synthesis. He was accredited as engineer. Mr. Zhou completed his MBA training in 2000. He worked in Shanghai HuaiHai Pharmaceutical Co., Ltd. since September 1981 in various capacities of technician, factory supervisor, deputy factory manager and general deputy factory manager. He has over 20 years experience in corporate administration, enterprise management and operational management in pharmaceutical industry.

Mr. Liu Yong, aged 38, is the general manager of Beijing SIIC Phytopharmaceuticals Co. Ltd. ("BSP"). He graduated from Munich University of Germany with a doctoral degree in Pharmacy in 1996. Mr. Liu has been worked in pharmaceutical industry in Germany. He joined BSP in 2000.

Mr. Wang Shun Long, aged 37, is the deputy general manager of BSP and the Head of Strategic Management Department of the Group. Mr. Wang joined SIHL in May 1997. He graduated from Tsinghua University with a doctoral degree in engineering. Prior to joining SIHL, Mr. Wang was employed at the Eindhoven University of Technology in the Netherlands as a researcher for three years.

Miss Wong Mei Ling, Marina, aged 35, is the Company Secretary and the Head of Company Secretarial Department of the Group. Miss Wong graduated with honours from the City University of Hong Kong with a Bachelor of Arts degree in accountancy. She also holds a master's degree in Business Administration awarded by the University of Wales and the University of Manchester in United Kingdom jointly. Miss Wong is an Associate of the Institute of Chartered Secretaries and Administrators. Prior to joining SIHL in March 1997, she has worked for a Hong Kong listed group and an international accountancy firm. Miss Wong has over ten years of experience in company secretarial practice.

Mr. Chak Kwan, Byron, aged 35, is the Qualified Accountant and the Deputy Head of Finance Department of the Group. Mr. Chak graduated from Shanghai Fudan University with Bachelor of Arts degree. He is associated member of the Hong Kong Society of Accountant and the Association of Chartered Certified Accountants. Mr. Chak jointed the Group in December 1999.

The Directors have pleasure in presenting their report together with the audited financial statements of SIIC Medical Science and Technology (Group) Limited ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sale of Chinese medicine and health supplement products.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2001 are set out in the consolidated income statement on page 39 of the annual report.

The directors recommend a final dividend of HK3 cents per share and a special final dividend of HK1.5 cents per share.

FINANCIAL SUMMARY

A summary of the results of the Group for the year ended 31st December 2001 and the pro forma combined results of the Group for the previous four years is set out on page 77 of the annual report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 22 to the financial statements.

SHARE OPTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 3rd December 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 10th November 2009. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options are exercisable on the expiry of three years after the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

As 31st December 2001, the number of shares in respect of which options had been granted under the Scheme was 38,700,000, representing 6.2% of the shares of the Company in issued at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately HK$12 million on the acquisition of property, plant and equipment for the purpose of expanding the Group's business. These and other movements during the year in property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2001 are set out in note 15 to the financial statements.

ASSOCIATE

Details of the Group's associate at 31st December 2001 is set out in note 16 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Details of the Group's jointly controlled entities at 31st December 2001 are set out in note 17 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Zhuo Fu Min	(resigned on 25th January 2002)
Lu Ming Fang *(Chairman)*	(appointed on 25th January 2002)
Feng Gen Sheng *(Vice Chairman)*	
Li Wei Da *(Vice Chairman)*	
Zhou Jie *(Managing Director)*	(appointed on 25th January 2002)
Chen Shu Zi *(Deputy Managing Director)*	
Ge Wen Yao	
Wu Jian Zhuang	

Independent non-executive directors:

Kwok Chin Kung, Robert
Li Ka Cheung, Eric
Lee Ka Sze, Carmelo

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Lu Ming Fang, Mr. Li Wei Da, Mr. Zhou Jie, Mr. Kwok Chin Kung, Robert and Mr. Lee Ka Sze, Carmelo retire and, being eligible, offer themselves for re-election.

Mr. Li Wei Da and Mr. Chen Shu Zi have entered into service agreements with the Company for an initial period of three years commencing 15th October 1999, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

Mr. Zhou Jie has entered into service agreement with the Company for an initial period of three years commencing 1st February 2002, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

The term of office of each of the non-executive directors is the period up to 31st December 2003.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

Mr. Zhuo Fu Min has personal interest in 1,500,000 shares of Shanghai Industrial Holdings Limited ("SIHL"), an intermediate holding company of the Company. Save as disclosed herein above, as at 31st December 2001, none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Pursuant to the Scheme, certain directors and employees of the Company have interests in share options to subscribe for shares in the Company which were granted to them in January 2000 at an exercise price of HK$1.69 per share. The following table discloses movements in the Company's share options during the year:

	Number of shares subject to shares options		
	Outstanding at 1.1.2001	**Lapsed during the year**	**Outstanding at 31.12.2001**
Directors:			
Name of director			
Zhuo Fu Min	8,000,000	–	8,000,000
Feng Gen Sheng	6,000,000	–	6,000,000
Li Wei Da	6,000,000	–	6,000,000
Chen Shu Zi	4,000,000	–	4,000,000
Ge Wen Yao	2,500,000	–	2,500,000
Wu Jian Zhuang	2,500,000	–	2,500,000
	29,000,000	–	29,000,000
Employees:	10,200,000	500,000	9,700,000
	39,200,000	500,000	38,700,000

The aforesaid options can be exercised during the period from 21st January 2003 to 20th January 2006.

(b) Pursuant to the share option scheme of SIHL, an intermediate holding company, certain directors of the Company have interests in share options ("SIHL Options") to subscribe for shares in SIHL ("SIHL Shares") which were granted to them as follows:

			Number of SIHL Shares subject to SIHL Options				
Name of director	Month of grant	Exercise price per share	Outstanding at 1.1.2001	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2001
		HK$					
Zhuo Fu Min	January 1999	9.568	1,400,000	–	–	–	1,400,000
Lu Ming Fang	August 1998	10.432	1,500,000	–	1,000,000	–	500,000
	February 1999	9.568	1,200,000	–	–	–	1,200,000
	July 2001	10.432	–	1,500,000	–	–	1,500,000
Li Wei Da	April 1997	30.912	2,000,000	–	–	2,000,000	–
	January 1999	9.568	1,200,000	–	–	–	1,200,000
Zhou Jie	August 1998	10.432	1,500,000	–	–	–	1,500,000
	February 1999	9.568	1,200,000	–	–	–	1,200,000
Chen Shu Zi	July 2001	10.432	–	1,500,000	–	–	1,500,000
Wu Jian Zhuang	January 1999	9.568	1,000,000	–	–	–	1,000,000

The aforesaid options can be exercised during the three and a half years commencing on the expiry of six months after the date of grant.

Save as disclosed above, at no time during the year was the Company or any its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lee Ka Sze, Carmelo, an independent non-executive director of the Company, is a partner of Messrs. Woo, Kwan, Lee & Lo, solicitors. The firm rendered professional services to the Group and received normal remuneration for such services.

Except as disclosed above, there were no contracts of significance to which the Company or its holding companies or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2001, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following persons are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") (note)	398,624,000
Shanghai Industrial Investment Treasury Company Limited ("STC") (note)	398,618,000
Shanghai Investment Holdings Limited ("SIH") (note)	398,618,000
SIHL (note)	398,618,000
Central Force Investments Limited ("CFI")	372,000,000

Note: S.I. Infrastructure Holdings Limited ("SIIH") and SIHL Treasury Limited ("SIHL Treasury") are the beneficial owners of 4,261,000 and 3,238,000 ordinary shares of the Company respectively. SIIH, SIHL Treasury and CFI are wholly owned subsidiaries of SIHL, which is, in turn, a subsidiary of SIH. STC owns 100% of SIH. Accordingly, SIH and STC are deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by SIHL, SIIH, SIHL Treasury and CFI as listed above.

Nanyang Enterprises Limited ("NEL") is the beneficial owner of 6,000 ordinary shares of the Company. SIIC owns 100% of NEL and STC. Accordingly, SIIC is deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by NEL and STC.

Save as disclosed above, as at 31st December 2001, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 32(I) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 32(I)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

COMPETING INTERESTS

The ultimate holding company of the Company, SIIC has interest in SIIC Investment (Shanghai) Co., Ltd. ("SIICI") and Shanghai Industrial United Holdings Co., Ltd. ("Shanghai United"). SIHL, an intermediate holding company of the Company, has interest in Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical"), Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech") and Mergen Limited ("Mergen").

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd ("SMU Biotech") and Shanghai SIIC Kehau Biopharmaceutical Co., Ltd. ("SIIC Biopharmaceutical"). SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection, which is used for emergency treatment to dissolve blood clog from myocardial infection. SIIC Biopharmaceutical is principally engaged in research and development of EPO, which has a medical application for increasing erythrocyte.

Shanghai United is a conglomerate engaging in three principal areas of business being high technology, supermarket chain, and textile manufacturing. Shanghai United's investments in high technology enterprises comprise medical and pharmaceutical related operations. Shanghai United has interest in Shanghai Medical Equipment Co., Ltd. ("Med Equipment"), a medical device company, SIIC Kehua Biology Company Limited ("Kehua Biology"), and Zhejiang Zuoli Pharmaceutical Company Ltd. ("Zuoli") and Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. ("SIUHP"). Med Equipment is engaged in the design, development, manufacturing and distribution of medial apparatus including emergency room, operating room and dental equipment. Kehua Biology is engaged in the development, production and distribution of clinical diagnosis reagent and related products. Its main products include hepatitis B testing agent, hepatitis C antibody diagnosis testing agent and HIV antigen. Zuoli and SIUHP is engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products. Mr. Lu Ming Fang is a director of Shanghai United and holds 10,000 shares of Shanghai United.

Sunve Pharmaceutical is principally engaged in the development, manufacture and sale of Vitamin C and other Western pharmaceutical products. Sunway Biotech is principally engaged in the research, development, manufacturing and sale of granulocyte colony stimulant and anti-cancer drug.

Save as disclosed above, as at 31st December 2001, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

To the best knowledge of the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP Paribas Peregrine"), its directors, employees or associates did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st December 2001.

Pursuant to the sponsorship agreement entered into between BNP Paribas Peregrine and the Company dated 23rd November 1999, BNP Paribas Peregrine has been appointed as sponsor of the Company for the period ended 31st December 2001 and the Company shall pay an agreed amount of fee to BNP Paribas Peregrine for its provision of services.

Mr. Leung Pak To, Francis is an independent non-executive director of SIHL, an intermediate holding company of the Company and was the Vice Chairman of BNP Paribas Peregrine Group, the parent company of BNP Paribas Peregrine, up until 30th June 2001.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 31 to the financial statements.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended 31st December 2001 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 17th September 1999. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

Lu Ming Fang
Chairman

Hong Kong, 18th March 2002

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
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香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED

上海實業醫藥科技(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 39 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2001 and of the profit 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.

Deloitte Touche Tohmatsu

Hong Kong, 18th March 2002

For the year ended 31st December 2001

	NOTES	2001 HK$'000	2000 HK$'000 (As restated)
Turnover		723,911	533,434
Cost of sales		(283,900)	(166,886)
Gross profit		440,011	366,548
Investment income	*5*	8,496	15,428
Other revenue		208	578
Distribution costs		(205,853)	(181,156)
Administrative expenses		(85,286)	(75,915)
Profit from operations	*6*	157,576	125,483
Finance costs	*7*	(4)	(1,526)
Gain on deemed disposal of interest in a jointly controlled entity		155,694	–
Share of results of an associate		27,577	–
Share of results of jointly controlled entities		259	23,490
Profit from ordinary activities before taxation		341,102	147,447
Taxation	*9*	(52,831)	(20,215)
Profit before minority interests		288,271	127,232
Minority interests		(55,586)	(54,914)
Profit for the year	*10*	232,685	72,318
Dividends	*11*	18,600	–
Earnings per share	*12*		
– Basic		37.5 cents	11.7 cents

At 31st December 2001

	NOTES	2001 HK$'000	2000 HK$'000 (As restated)
Non-Current Assets			
Investment property	13	12,000	12,000
Property, plant and equipment	14	125,438	126,541
Interest in an associate	16	284,012	–
Interest in jointly controlled entities	17	15,360	120,016
Investment in securities	18	11,700	–
		448,510	258,557
Current Assets			
Inventories	19	49,919	46,880
Trade and other receivables	20	147,588	128,992
Dividends receivable from a jointly controlled entity		–	6,107
Amount due from an associate		4,108	–
Bank balances and cash		420,149	361,284
		621,764	543,263
Current Liabilities			
Trade and other payables	21	139,506	112,260
Taxation payable		15,217	5,875
Dividend payable to minority interests		50,000	–
		204,723	118,135
Net Current Assets		417,041	425,128
		865,551	683,685
Capital and Reserves			
Issued capital	22	62,000	62,000
Reserves	24	676,043	462,715
		738,043	524,715
Minority interests		119,484	156,870
Non-Current Liability			
Deferred taxation	25	8,024	2,100
		865,551	683,685

The financial statements on pages 39 to 76 were approved and authorised for issue by the Board of Directors on 18th March 2002 and are signed on its behalf by:

Zhou Jie
DIRECTOR

Chen Shu Zi
DIRECTOR

At 31st December 2001

	NOTES	2001 HK$'000	2000 HK$'000 (As restated)
Non-Current Assets			
Plant and equipment	*14*	1,910	2,530
Interest in subsidiaries	*15*	322,920	288,594
		324,830	291,124
Current Assets			
Trade and other receivables		747	3,876
Dividends receivable		71,590	46,000
Bank balances and cash		123,201	170,415
		195,538	220,291
Current Liabilities			
Trade and other payables		11,184	12,525
Net Current Assets		184,354	207,766
		509,184	498,890
Capital and Reserves			
Issued capital	*22*	62,000	62,000
Reserves	*24*	447,184	436,028
		509,184	498,028
Non-Current Liabilities			
Amounts due to subsidiaries	*15*	–	862
		509,184	498,890

Zhou Jie
DIRECTOR

Chen Shu Zi
DIRECTOR

For the year ended 31st December 2001

	2001 HK$'000	2000 HK$'000 (As restated)
Share of exchange difference arising from translation of operations in the mainland People's Republic of China	–	(12)
Net profit for the year	232,685	72,318
Total recognised gains	232,685	72,306
Eliminated against reserves of goodwill arising on acquisition of jointly controlled entities	–	(20,725)
	232,685	51,581
Prior period adjustment arising from the effect of change in in accounting policy (Note 2) – Increase in accumulated profits at 1st January 2001	18,600	–

For the year ended 31st December 2001

	NOTES	2001 HK$'000	2000 HK$'000 (As restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	26	167,355	138,540
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid to minority shareholders of subsidiaries		(45,731)	(37,554)
Dividend paid		(18,600)	–
Interest received		7,355	13,933
Dividend received from an associate (formerly a jointly controlled entity)		6,107	–
Rental income received		1,430	1,305
Interest paid on bank and other borrowings		–	(1,498)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(49,439)	(23,814)
TAXATION PAID			
Tax paid in the mainland People's Republic of China		(34,148)	(19,461)
INVESTING ACTIVITIES			
Increase (decrease) in bank deposits		50,116	(34,970)
Purchase of property, plant and equipment		(11,962)	(7,993)
Purchase of investment securities		(11,700)	–
Advance to an associate		(4,000)	–
Capital contributions to jointly controlled entities		–	(36,641)
Proceeds from disposal of property, plant and equipment		–	171
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		22,454	(79,433)
NET CASH INFLOW BEFORE FINANCING		106,222	15,832
FINANCING	27		
Capital contributed by minority shareholders		2,759	3,219
Repayment of borrowings		–	(43,084)
NET CASH INFLOW (OUTFLOW) FROM FINANCING		2,759	(39,865)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		108,981	(24,033)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		311,168	335,201
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		420,149	311,168
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		420,149	361,284
Less: Bank deposits with more than three months of maturity		–	(50,116)
		420,149	311,168

1. GENERAL

The Company is a listed public limited company incorporated in the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). Its ultimate holding company is Shanghai Industrial Investment (Holdings) Company Limited, incorporated in Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 33.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) Events after the Balance Sheet Date, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the accumulated profits as at 1st January 2001 by HK$18,600,000.

Leases

SSAP 14 (Revised) Leases has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Goodwill

In the current year, the Group has adopted SSAP 30 Business Combinations and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisition prior to 1st January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisition after 1st January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

For the year ended 31st December 2001

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represent the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition after 1st January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1st January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Investment in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interest in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Interest in joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in jointly controlled entities is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the premium paid on acquisition in so far as it has not already been written off or amortised less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from letting of properties and plant and machinery under operating leases, is recognised on a straight line basis over the period of the respective leases.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

For the year ended 31st December 2001

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation at the balance sheet date and any accumulated impairment losses.

Properties in the course of construction for production are carried at cost less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The cost of land use rights is amortised over the period of the rights using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	5%
Furniture, fixtures and equipment	20% – 30%
Motor vehicles	20%
Plant and machinery	10%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Taxation

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations in the mainland People's Republic of China (the "PRC") are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

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

4. SEGMENT INFORMATION

For the years ended 31st December 2001 and 2000, the Group was engaged in the manufacture and sale of Chinese medicine and health supplement products. More than 90% of the Group's turnover, contribution to operating profit and assets was attributed to this business segment and located in the PRC.

5. INVESTMENT INCOME

	2001 HK$'000	2000 HK$'000
Interest income	7,463	13,933
Property rental income (net of outgoings)	1,033	1,495
	8,496	15,428

For the year ended 31st December 2001

6. PROFIT FROM OPERATIONS

	2001 HK$'000	2000 HK$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
Basic salaries and allowances	55,655	50,329
Bonuses	38,818	26,243
Retirement benefits scheme contributions	7,669	6,812
	102,142	83,384
Auditors' remuneration	1,250	1,200
Depreciation and amortisation of property, plant and equipment	12,711	11,923
Loss on disposal of property, plant and equipment	354	529
Operating lease rentals in respect of land and buildings	3,792	3,520
Research and development costs	8,742	3,786

7. FINANCE COSTS

	2001 HK$'000	2000 HK$'000
Interest on bank and other borrowings wholly repayable within five years	–	1,498
Other finance costs	4	28
	4	1,526

For the year ended 31st December 2001

8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2001 HK$'000	2000 HK$'000
Directors' emoluments		
Independent non-executive directors		
Fees	597	597
Executive directors		
Fees	–	–
Basic salaries and allowances	4,245	4,246
Bonuses	3,085	2,919
Retirement benefits scheme contributions	169	195
	7,499	7,360
Total directors' emoluments	8,096	7,957

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
Up to HK$1,000,000	6	6
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	1	2
HK$2,000,001 to HK$2,500,000	1	-
HK$2,500,001 to HK$3,000,000	1	1

For the year ended 31st December 2001, the executive directors received emoluments of approximately HK$2,713,000, HK$2,098,000, HK$1,882,000, HK$345,000, HK$231,000 and HK$231,000 respectively and the independent non-executive directors received emoluments of approximately HK$199,000, HK$199,000 and HK$199,000 respectively.

For the year ended 31st December 2000, the executive directors received emoluments of approximately HK$2,713,000, HK$1,958,000, HK$1,882,000, HK$345,000, HK$231,000 and HK$231,000 respectively and the independent non-executive directors received emoluments of approximately HK$199,000, HK$199,000 and HK$199,000 respectively.

For the year ended 31st December 2001

8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS – Continued

Employees' Emoluments

During the year, the five highest paid individuals included three (2000: three) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2000: two) highest paid individuals were as follows:

	2001 HK$'000	2000 HK$'000
Basic salaries and allowances	972	1,496
Bonuses	2,243	1,308
	3,215	2,804

The emoluments of the remaining two (2000: two) highest paid individuals were within the following bands:

	2001 Number of individuals	2000 Number of individuals
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	1	1

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

For the year ended 31st December 2001

9. TAXATION

	2001 HK$'000	2000 HK$'000
The charge comprises:		
PRC income tax		
– current year provision	40,794	16,763
– underprovision in prior year	2,696	–
	43,490	16,763
Deferred taxation (note 25)		
– current year provision	3,824	–
– effect of change in tax rate	2,100	–
	5,924	–
Share of PRC income tax of an associate	3,280	–
Share of PRC income tax of jointly controlled entities	137	3,452
	52,831	20,215

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, associate and jointly controlled entities are entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC income tax for the following three years.

The tax holiday for 正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) ("Hangzhou Qingchunbao") expired in 1997. However, pursuant to an approval received from local tax authorities in September 1998, Hangzhou Qingchunbao was classified as one of the approved "High Technology entities". Accordingly, Hangzhou Qingchunbao was entitled to a preferential PRC income tax rate of 12% for the three years ended 31st December 2000. Hangzhou Qingchunbao is subject to a PRC income tax rate of 24% for the year ended 31st December 2001 and thereafter.

The tax holiday for 上海家化聯合股份有限公司 (Shanghai Jahwa United Co., Ltd.) ("Shanghai Jahwa") expired in 2000. However, pursuant to an approval received from local tax authorities in September 2001, Shanghai Jahwa was classified as one of the approved "High Technology entities". Accordingly, Shanghai Jahwa is entitled to a preferential PRC income tax rate of 13.5% for the three years ending 31st December 2003.

The Group had no significant unprovided deferred taxation for the year.

For the year ended 31st December 2001

10. PROFIT FOR THE YEAR

Of the Group's profit for the year, a profit of HK$29,756,000 (2000: HK$39,583,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Final dividend of HK3 cents per share for the year ended 31st December 2000	18,600	–

The final dividend of HK$3 cents (2000: HK3 cents) and a special dividend of HK1.5 cents (2000: Nil) per share have been proposed by the directors and is subject to approval by the shareholders in general meeting.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of HK$232,685,000 (2000: HK$72,318,000) and 620,000,000 (2000: 620,000,000) shares in issue during the year.

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence during the years.

13. INVESTMENT PROPERTY

	THE GROUP HK$'000
Valuation at 31st December 2000 and 2001	12,000

The investment property was revalued at 31st December 2001 by Debenham Tie Leung, an independent property valuer, on an open market existing use basis. The revaluation did not give rise to any surplus or deficit.

The Group's investment property is rented out under an operating lease.

The Group's investment property is situated in the PRC and is held under medium-term land use rights.

For the year ended 31st December 2001

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP						
COST						
At 1st January 2001	114,975	9,706	14,947	44,467	2,691	186,786
Additions	173	1,484	2,402	505	7,398	11,962
Transfers	1,679	980	677	4,913	(8,249)	–
Disposals	–	(821)	(515)	(665)	–	(2,001)
At 31st December 2001	116,827	11,349	17,511	49,220	1,840	196,747
DEPRECIATION AND AMORTISATION						
At 1st January 2001	26,337	6,342	9,191	18,375	–	60,245
Provided for the year	4,899	1,758	1,809	4,245	–	12,711
Eliminated on disposals	–	(670)	(463)	(514)	–	(1,647)
At 31st December 2001	31,236	7,430	10,537	22,106	–	71,309
NET BOOK VALUE						
At 31st December 2001	85,591	3,919	6,974	27,114	1,840	125,438
At 31st December 2000	88,638	3,364	5,756	26,092	2,691	126,541

For the year ended 31st December 2001

14. PROPERTY, PLANT AND EQUIPMENT – Continued

	Furniture, fixtures and equipment HK$'000
THE COMPANY	
COST	
At 1st January 2001	3,252
Additions	103
At 31st December 2001	3,355
DEPRECIATION	
At 1st January 2001	722
Provided for the year	723
At 31st December 2001	1,445
NET BOOK VALUE	
At 31st December 2001	1,910
At 31st December 2000	2,530

The Group's property interests are situated in the PRC and are held under medium-term land use rights.

For the year ended 31st December 2001

15. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK$'000	HK$'000
Unlisted shares, at cost	252,004	247,209
Amounts due from subsidiaries	70,916	41,385
	322,920	288,594
Amounts due to subsidiaries	–	862

In the opinion of the directors, the amounts due from and the amounts due to subsidiaries will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current.

Details of the Company's subsidiaries at 31st December 2001 are set out in note 33.

16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Share of net assets of an associate	284,012	–

Details of the Group's associate at 31st December 2001 are as follows:

Name of associate	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
Shanghai Jahwa	PRC	28.15%	Manufacture, distribution and sales of personal care and cosmetics products

A summary of the financial information in respect of Shanghai Jahwa, the associate of the Group is set out in note 34.

For the year ended 31st December 2001

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2001 HK$'000	2000 HK$'000
Share of net assets of jointly controlled entities	15,360	120,016

Details of the Group's jointly controlled entities at 31st December 2001 are as follows:

Name of associate	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
上海醫藥商務網絡有限公司 Shanghai Pharmaceutical Business Network Co., Ltd.	PRC	20%	Provision of e-commerce and internet services
廣東寶萊特醫用科技股份有限公司 Guang Dong Biolight Medical Technology Co., Ltd.	PRC	38%	Manufacture and sale of medical equipments
正大青春寶（鶴崗）藥業有限公司*	PRC	60%	Manufacture and sale of Chinese medicine

* Although the Group holds a 60% of the registered capital of 正大青春寶(鶴崗)藥業有限公司, none of the shareholders is in a position to control unilaterally its activities and accordingly the investee is classified as a jointly controlled entity.

At 31st December 2000, the Group also held 40% interest in Shanghai Jahwa.

18. INVESTMENT IN SECURITIES

The Group

The amount represents the cost of a 11% interest in a company which is established in the PRC and is engaged in the manufacture and marketing of digital medical imaging and medical information systems.

For the year ended 31st December 2001

19. INVENTORIES

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Raw materials	25,382	9,381
Work in progress	10,947	9,915
Finished goods	13,590	27,584
	49,919	46,880

The inventories were carried at cost.

20. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK$130,440,000 (2000: HK$113,453,000) and their aged analysis is as follows:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Trade receivables:		
Within 30 days	81,596	46,958
Within 31 - 60 days	23,738	24,170
Within 61 - 90 days	19,422	19,776
Within 91 - 180 days	5,684	21,449
Within 181 - 360 days	—	1,100
	130,440	113,453

For the year ended 31st December 2001

21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$12,997,000 (2000: HK$10,011,000) and their aged analysis is as follows:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Trade payables:		
Within 30 days	11,070	7,609
Within 31 – 60 days	1,230	1,457
Within 61 – 90 days	564	–
Within 91 – 180 days	100	272
Within 181 – 360 days	–	213
Over 360 days	33	460
	12,997	10,011

22. ISSUED CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January 2000, 31st December 2000 and 2001	1,000,000,000	100,000
Issued and fully paid:		
At 1st January 2000, 31st December 2000 and 2001	620,000,000	62,000

There was no change in the share capital of the Company during both years.

For the year ended 31st December 2001

23. SHARE OPTIONS

At 31st December 2001, the options to subscribe for shares outstanding under the Company's share option scheme were as follows:

Month of grant	Exercise price per share	Number of shares subject to share options outstanding at 31.12.2001
	HK$	
January 2000	1.69	38,700,000

The share options can be exercised during the period from 21st January 2003 to 20th January 2006.

For the year ended 31st December 2001

24. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Goodwill HK$'000	PRC statutory funds HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE GROUP							
At 1st January 2000	192,130	194,649	–	1,500	–	22,855	411,134
Goodwill arising on acquisition of jointly controlled entities	–	–	(20,725)	–	–	–	(20,725)
Exchange differences on translation of PRC operations	–	–	–	–	(12)	–	(12)
Transfers	–	–	–	12,540	–	(12,540)	–
Profit for the year	–	–	–	–	72,318	72,318	
Dividends	–	–	–	–	–	(18,600)	(18,600)
At 31st December 2000							
– as originally stated	192,130	194,649	(20,725)	14,040	(12)	64,033	444,115
– as adjusted for derecognition of liability for 2000 final dividend	–	–	–	–	–	18,600	18,600
– as restated	192,130	194,649	(20,725)	14,040	(12)	82,633	462,715
Realised on deemed disposal of interest in a jointly controlled entity	–	–	–	(757)	–	–	(757)
Transfers	–	–	–	10,595	–	(10,595)	–
Profit for the year	–	–	–	–	–	232,685	232,685
Dividends (note 11)	–	–	–	–	–	(18,600)	(18,600)
At 31st December 2001	192,130	194,649	(20,725)	23,878	(12)	286,123	676,043
Attributable to:							
– the Company and subsidiaries	192,130	194,649	(20,725)	19,345	(12)	249,774	635,161
– an associate	–	–	–	2,734	–	21,563	24,297
– jointly controlled entities	–	–	–	1,799	–	14,786	16,585
	192,130	194,649	(20,725)	23,878	(12)	286,123	676,043
THE COMPANY							
At 1st January 2000	192,130	194,649	–	–	–	9,666	396,445
Profit for the year (note 10)	–	–	–	–	–	39,583	39,583
Dividends	–	–	–	–	–	(18,600)	(18,600)
At 31st December 2000							
– as originally stated	192,130	194,649	–	–	–	30,649	417,428
– as adjusted for derecognition of liability for 2000 final dividend	–	–	–	–	–	18,600	18,600
– as restated	192,130	194,649	–	–	–	49,249	436,028
Profit for the year (note 10)	–	–	–	–	–	29,756	29,756
Dividends (note 11)	–	–	–	–	–	(18,600)	(18,600)
At 31st December 2001	192,130	194,649	–	–	–	60,405	447,184

For the year ended 31st December 2001

24. RESERVES – Continued

The contributed surplus represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued at the time of a previous group reorganisation.

PRC statutory funds are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries, associate and jointly controlled entities.

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company's reserves available for distribution to shareholders as at 31st December 2001 represent the aggregate of share premium, contributed surplus and accumulated profits of approximately HK$447 million (2000: HK$436 million).

25. DEFERRED TAXATION

	THE GROUP	
	2001 HK$'000	2000 HK$'000
Balance at beginning of the year	2,100	2,100
Charge for the year (note 9)	5,924	–
Balance at end of the year	8,024	2,100

The deferred tax liability represents principally the tax effect of the recognition of income and expenses by Hangzhou Qingchunbao in different accounting periods with regard to its financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and its PRC tax computation.

The Group and the Company had no significant unprovided deferred taxation at the balance sheet date.

For the year ended 31st December 2001

26. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK$'000	2000 HK$'000
Profit from ordinary activities before taxation	341,102	147,447
Interest income	(7,463)	(13,933)
Rental income	(1,033)	(1,495)
Interest expense	–	1,498
Share of results of jointly controlled entities	(259)	(23,490)
Share result of an associate	(27,577)	–
Gain on deemed disposal of interest in a jointly controlled entity	(155,694)	–
Depreciation and amortisation of property, plant and equipment	12,711	11,923
Loss on disposal of property, plant and equipment	354	529
Increase in inventories	(3,039)	(10,355)
Increase in trade and other receivables	(18,993)	(2,600)
Increase in trade and other payables	27,246	29,016
Net cash inflow from operating activities	167,355	138,540

For the year ended 31st December 2001

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Short-term bank and other borrowings HK$'000	**Minority interests** HK$'000
At 1st January 2000	43,084	136,291
Repayment	(43,084)	–
Share of profits by minority shareholders of subsidiaries	–	54,914
Dividend paid to minority shareholders	–	(37,554)
Capital contributed by minority shareholders	–	3,219
At 31st December 2000	–	156,870
Share of profits by minority shareholders of subsidiaries	–	55,586
Dividend paid and payable to minority shareholders	–	(95,731)
Capital contributed by a minority shareholder	–	2,759
At 31st December 2001	–	119,484

28. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments for land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP		**THE COMPANY**	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Within one year	1,037	917	665	665
In the second to fifth years inclusive	59	26	–	–
	1,096	943	665	665

28. OPERATING LEASE ARRANGEMENTS – Continued

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 2 years and rentals are fixed.

Included in the above are operating lease commitments for land and building of approximately HK$0.7 million (2000: HK$0.7 million) payable by the Company to a connected party.

The Group as a lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Within one year	392	1,995
In the second to fifth years inclusive	1,570	8,483
After five years	–	1,442
	1,962	11,920

The Company had no significant operating lease arrangements at the balance sheet date.

For the year ended 31st December 2001

29. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of a proposed investment in				
– a PRC subsidiary	–	–	–	5,544
– a PRC jointly controlled entity	11,215	–	–	–
Capital expenditure contracted for but not provided in the financial statements in respect of addition in construction in progress	5,641	–	–	–

In addition to the above, the Group's share of capital commitments of the jointly controlled entity is as follows:

	THE GROUP	
	2001 HK$'000	2000 HK$'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	–	12,710

For the year ended 31st December 2001

30. CONTINGENT LIABILITIES

	THE COMPANY	
	2001	2000
	HK$'000	HK$'000
Guarantees given to a bank in respect of banking facilities extended to a subsidiary	39,000	–

The Group had no significant contingent liabilities at the balance sheet date.

31. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits schemes for their qualifying employees. To comply with the Mandatory Provident Fund Scheme Ordinance (the "MPFO"), a Mandatory Provident Fund Scheme (the "MPF Scheme") has also been established. New employees joined on or after 1st December 2000, however, must join the MPF Scheme. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the income statement represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the schemes prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

The employees employed by Hangzhou Qingchunbao are members of a state-managed retirement benefits scheme operated by the PRC government. Hangzhou Qingchunbao is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

At the balance sheet date, no forfeited contributions are available to reduce the contribution payable in the future years.

For the year ended 31st December 2001

32. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) CONNECTED PARTIES

(a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the GEM Listing Rules. The significant transactions with the connected parties during the year, and significant balances with them at the balance sheet date, are as follows:

Transactions:

Name of company	**Nature of transactions**	2001 HK$'000	2000 HK$'000
Fellow subsidiaries			
SIIC Estate Company Limited	Rental, management fees and air-conditioning charges paid by the Group in respect of land and buildings (note i)	1,240	1,242

Balances:

Name of company	**Nature of transactions**	2001 HK$'000	2000 HK$'000
Fellow subsidiaries			
Shanghai Industrial Holdings Limited	Balance receivable at 31st December – payment on behalf by the Group (note ii)	595	439
Directors	Balance payable at 31st December – accrued emoluments (note ii)	2,887	1,617

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32. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – Continued

(I) CONNECTED PARTIES – Continued

Notes:

(i) The rental, management fees and air-conditioning charges were charged in accordance with the relevant tenancy agreement and the prevailing rent is equivalent or approximate to the open market rental as certified by an independent firm of professional property valuer.

(ii) The amounts were unsecured, non-interest bearing and had no fixed repayment terms.

(b) Details of operating lease commitments with a connected party are set out in note 28.

(c) At 31st December 2001, the intermediate holding company, Shanghai Industrial Holdings Limited, had given a guarantee of HK$1 million (2000: HK$5 million) to a bank in respect of credit facilities extended to the Company.

(II) RELATED PARTY, OTHER THAN CONNECTED PARTY

(a) During the year, the Group had significant transactions with related companies, other than connected parties, and significant balances with them at the end of the year, as follows:

Transactions:

Name of company	**Nature of transactions**	2001 HK$'000	2000 HK$'000
Minority shareholders of the Company's PRC subsidiary, Hangzhou Qingchunbao:			
中國(杭州)青春寶集團有限公司 (China (Hangzhou) Qingchunbao Group Co., Ltd.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (note i)	41	28,913
	Purchase of materials (note ii)	2,621	1,429
	Interest paid (note iii)	–	393
An associate:			
Shanghai Jahwa	Interest received (note iv)	108	–

For the year ended 31st December 2001

32. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – Continued

(II) RELATED PARTY, OTHER THAN CONNECTED PARTY – Continued

Balances:

Name of company	**Nature of balances**	2001 HK$'000	2000 HK$'000
China Qingchunbao and its subsidiaries	Balance due from/to at 31st December		
	– trade receivables (note v)	147	2,542
	– trade payable (note v)	1,116	172
	– dividend payable (note v)	50,000	–
Shanghai Jahwa	Balance due from at 31st December		
	– loan receivable (note iv)	4,000	–

Notes:

(i) These transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

(ii) These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.

(iii) The interest was charged at 0.4% per month on the outstanding loan balance in accordance with the relevant loan agreement.

(iv) The loan was unsecured, carried interest at 6.5% per annum and has no fixed repayment terms.

(v) The amounts were unsecured, non-interest bearing and had no fixed repayment terms.

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33. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2001 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.)	PRC	RMB128,500,000	–	55%	Manufacture and sale of Chinese medicine and health supplement products
SIIC MedTech Health Products Limited (Formerly known as Chia Tai Health Products Company Limited)	Hong Kong	Ordinary shares – US$2 Non-voting deferred shares – US$2	–	100%	Investment holding
Golden News Enterprises Limited	British Virgin Islands	US$60	–	100%	Investment holding
SIMST Medical Science and Technology Development Limited	British Virgin Islands	US$1	100%	–	Investment holding
S.I. Daily Chemical Holdings Ltd.	British Virgin Islands	US$56,250	100%	–	Investment holding
北京上實中藥有限公司 (Beijing SIIC Phytopharmaceuticals Co., Ltd.)	PRC	US$250,000	100%	–	Research and development of Chinese medicine and natural products
上海醫創中醫藥科研開發中心有限公司 (Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co., Ltd.)	PRC	RMB3,000,000	55%	–	Research and development of Chinese medicine and natural products

33. SUBSIDIARIES – Continued

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Green Source Medical Trading Limited	British Virgin Islands/Hong Kong	US$1	100%	–	Trading of pharmaceutical products
SIMST eMedical Network Limited	British Virgin Islands	US$1	100%	–	Investment holding
SIIC-CYBeR Pacificare Limited	British Virgin Islands	US$750,000	–	66.67%	Marketing of medicare system units
SIIC MedTech Research and Development Limited	Hong Kong	HK$2	100%	–	Research and development of Chinese medicine and natural products
寧夏上實保健品有限公司 (Ningxia SIIC Viopes Nutraceuticals Co. Limited)	PRC	RMB10,000,000	59%	–	Manufacture and trading of Chinese medicinal products

The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective company and have practically no rights to dividends or to participate in any distributions on winding up.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

34. SUMMARY OF FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S ASSOCIATE

Shanghai Jahwa, formerly a jointly controlled entity of the Group, was listed on the Shanghai Stock Exchange A Shares Market on 15th March 2001 and was classified as an associate of the Group thereafter. Accordingly, comparative information for the year ended 31st December, 2001 is included in Note 35.

The following is a summary of the most recent audited and published financial information of Shanghai Jahwa prepared in accordance with accounting principles generally accepted in the PRC for the year ended 31st December 2001.

Consolidated results for the year:

	2001 RMB'000
Turnover	1,275,382
Profit from ordinary activities before taxation	85,330

	15.3.2001 **to** **31.12.2001** HK$'000
Profit from ordinary activities before taxation attributable to the Group in accordance with accounting principles generally accepted in Hong Kong *	27,577

For the year ended 31st December 2001

34. SUMMARY OF FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S ASSOCIATE – Continued

Consolidated financial position:

	2001 RMB'000
Non-current assets	320,258
Current assets	1,183,407
Current liabilities	(420,141)
Non-current liabilities	(9,000)
Minority Interests	(4,174)
Net assets	1,070,350

	2001 HK$'000
Net assets attributable to the Group in accordance with accounting principles generally accepted in Hong Kong	284,012

* The profit from ordinary activities before taxation attributable to the Group from Shanghai Jahwa for the period from 1st January 2001 to 15th March 2001 before its listing on the Shanghai Stock Exchange A Shares Market was HK$288,000 and was included within "Share of results of jointly controlled entities" of the income statement.

For the year ended 31st December 2001

35. SUMMARY OF FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S MAJOR JOINTLY CONTROLLED ENTITY

The following is a summary of the most recent audited financial information of Shanghai Jahwa for the year ended 31st December 2000 before its listing on the Shanghai Stock Exchange A Shares Market on 15th March 2001 prepared in accordance with accounting principles generally accepted in Hong Kong.

Consolidated results for the year:

	2000 HK$'000
Turnover	949,581
Profit from ordinary activities before taxation	60,705
Profit from ordinary activities before taxation attributable to the Group	24,282

Consolidated financial position:

	2000 HK$'000
Non-current assets	318,759
Current assets	392,850
Current liabilities	(442,172)
Non-current liabilities	(16,084)
Minority Interest	(2,493)
Net assets	250,860
Net assets attributable to the Group	100,344

	Year ended 31st December				
	1997	1998	1999	2000	2001
	HK$'000	HK$'000	HK$'000	HK$'000 (As restated)	HK$'000
RESULTS					
Turnover	313,264	375,373	424,780	533,434	723,911
Cost of sales	(116,306)	(128,643)	(144,440)	(166,886)	(283,900)
Gross profit	196,958	246,730	280,340	366,548	440,011
Investment income	1,127	1,880	16,087	15,428	8,496
Other revenue	–	2,847	19	578	208
Distribution costs	(83,117)	(113,212)	(133,267)	(181,156)	(205,853)
Administrative expenses	(35,545)	(44,605)	(48,203)	(75,915)	(85,286)
PRC sales tax refund	24,069	27,376	–	–	–
Profit from operations	103,492	121,016	114,976	125,483	157,576
Finance costs	(4,901)	(4,079)	(2,975)	(1,526)	(4)
Gain on deemed disposal of interest in a jointly controlled entity	–	–	–	–	155,694
Share of results of an associate	–	–	–	–	27,577
Share of results of jointly controlled entities	11,775	13,861	14,711	23,490	259
Profit from ordinary activities before taxation	110,366	130,798	126,712	147,447	341,102
Taxation	(13,356)	(13,793)	(14,217)	(20,215)	(52,831)
Profit before minority interests	97,010	117,005	112,495	127,232	288,271
Minority interests	(38,231)	(47,416)	(41,012)	(54,914)	(55,586)
Profit for the year	58,779	69,589	71,483	72,318	232,685

	At 31st December		
	1999	2000	2001
	HK$'000	HK$'000 (As restated)	HK$'000
ASSETS AND LIABILITIES			
Non-current assets	233,352	258,557	448,510
Current assets	513,074	543,263	621,764
Current liabilities	134,901	118,135	204,723
Non-current liabilities	2,100	2,100	8,024
Minority interests	136,291	156,870	119,484
Net assets	473,134	524,715	738,043

Note: The results for each of the three years ended 31st December 1997, 1998 and 1999 have been prepared on a pro forma combined basis as if the group structure immediately after the group reorganisation had been in existence throughout those years.

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of SIIC Medical Science and Technology (Group) Limited (the "Company") will be held at the Conference Room, 26 Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on 6th May 2002, Monday, at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and of the Auditors for the year ended 31st December 2001.

2. To declare a final dividend and a special final dividend for the year ended 31st December 2001.

3. To re-elect Directors and authorise the Board of Directors to fix their remuneration.

4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.

By Order of the Board
Wong Mei Ling, Marina
Company Secretary

Hong Kong, 18th March 2002

Head Office:
10 Floor
Shanghai Industrial Investment Building
48-62 Hennessy Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed.

3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the head office of the Company at 10 Floor, Shanghai Industrial Investment Building, 48-62 Hennessy Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. The register of members of the Company will be closed from 2nd May 2002, Thursday to 6th May 2002, Monday, both days inclusive, during which period no transfer of shares will be effected.