



On behalf of the Board of Directors (the “Directors”), I am pleased to present the annual report of the Company for the year ended December 31, 2002.

RESULTS

For the year ended December 31, 2002, the Group reported turnover of HK\$1,625,130,000 and profit attributable to shareholders of HK\$228,142,000, representing increases of 39% and 63% over the previous year. The strong growth in turnover and profit was a combined result of expanded production volume of 7-ACA and penicillin, rebound of the prices of vitamin C, enhancement in production technology as well as effective measures in controlling production costs.

DIVIDEND

The Directors recommends the payment of a final dividend of HK6.0 cents per share for the year ended December 31, 2002 (2001: HK3.6 cents) payable on May 15, 2003 to shareholders whose names appear on the register of members of the Company on April 24, 2003.

BUSINESS REVIEW AND PROSPECTS

Production and sales

During the year, both the production capacity and output of the Group’s three major bulk drug series have increased, with equally strong sales. In July 2002, the Group diversified into finished drug business via acquisition from its parent company. The Group now has more than 18 types of bulk drug products and 170 types of finished drug products.

Penicillin series

Through the use of new production technology, the Group increased the production rate of penicillin by 14.3% during the year, thereby maintaining its leading position in the industry. The output of penicillin reached 3,803 tonnes, representing an increase of 36% (mainly attributable to penicillin industrial salt). The output of penicillin

downstream products was 1,013 tonnes, maintaining the level of previous year. Notwithstanding that 331 tonnes of self-produced penicillin products have been used in the manufacturing of some of the finished drug products during the year, sales volume of the entire series increased by 20% to 3,177 tonnes. Revenue from the entire series increased by 3% to HK\$524,284,000, accounting for 32% of the Group's revenue.

With the rising living standard in the PRC, there is an increasing demand for semi-synthetic penicillin products, and we expect that the Group's penicillin series will maintain a strong growth in 2003.

Cephalosporin series

The output of 7-ACA increased by 69% to 499 tonnes, whereas the output of cefazolin, a downstream product, reached 145 tonnes, maintaining the level of previous year. With regard to cefoperazone and cefradine, which were put into production last year, output reached 24 tonnes and 27 tonnes respectively. Notwithstanding that 21 tonnes of self-produced cefazolin have been used in the manufacturing of some of the finished drug products during the year, sales volume of the entire series increased by 45% to 495 tonnes. Revenue from this series increased by 37% to HK\$498,797,000, accounting for 31% of the Group's revenue.

With the commencement of operation of a new 7-ACA production line in 2002, the Group's annual capacity reached 800 tonnes of 7-ACA. In terms of the actual output in 2002, the Group ranked third in the world, lagging behind the top two manufacturers by only a small margin. The Group believes that when the production line attains full capacity, its market share will increase steadily and it will become the world's second largest manufacturer of 7-ACA. Furthermore, with the rising health consciousness and medication standard of the people in the PRC, growth in the demand for cephalosporin antibiotics remains strong and, therefore, the series will become a major contributor to the proliferation of the Group's sales and profit.

Vitamin C series

During the year, prices of vitamin C products rebounded strongly as a result of the scaling down of production by the overseas manufacturers. Prices of the products surged from US\$3.06 per kg on average in 2001 to US\$4.94 per kg by the end of 2002. The average price for the year reached US\$3.24 per kg, and there was a supply shortage in the market.

The output of vitamin C increased by 8% to 12,144 tonnes for the year, while the output of downstream products was 2,026 tonnes, similar to previous year. Sales volume and revenue of the entire series increased by 17% and 26% to 13,371 tonnes and HK\$362,093,000 respectively. The revenue from the series accounted for 22% of the Group's revenue. The increase in output and rebound of prices have made the series become a major source of profit for the Group again. For the first two months in 2003, the average price rose to US\$6.4 per kg. The Group believes that the current upward momentum in the price of vitamin C will sustain and the contribution from this series will greatly increase in 2003.

Finished drug division

The operation of the finished drug division has been smooth since the Group acquired the business in July 2002. After acquisition, over 300 million vials of powder injection, 340 million of capsules and 230 million of tablets were sold, generating a revenue of HK\$234,796,000, which took up 14% of the Group's revenue.

The acquisition of the finished drug business enabled the Group to diversify from producing solely bulk drug products to both bulk and finished drug products. The Group is now able to expand its customer base to hospitals. The Group believes that such product diversification and expanded customer base will enable it to better position itself to capture the opportunities in the pharmaceutical market and to expand the Group's earning base.

Product cost and profit margin

With the continued application of new technology and equipment, as well as our proven effective measures in controlling production costs, the manufacturing costs of all our products have been lowered. The production costs of vitamin C, penicillin and amoxicillin were lowered by 15%, 6% and 9% respectively. The lower production costs coupled with the upsurge in the price of vitamin C enabled the Group to attain a gross profit margin of 31%, representing an increase of 3 percentage points over the previous year.

Acquisition of a research and development company

On February 19, 2003, the Company entered into an agreement to acquire the entire equity interest of a research and development company from the Group's parent company. The acquired research and development company enhances the Group's production technology and research and development capability of new drugs, which in turn consolidate and further increase the competitiveness of the Group's existing bulk drug products and enable the Group to introduce more new finished drugs to the market.

Development of patent drug

In September 2002, the Group obtained formal approval from the State Drug Administration for the production of butylphthalide, a category one new drug in the PRC developed by the Group. The Group is planning to install a large scale production line with design fully complied with international standards. The product is expected to be a major force in driving growth of the Group in the next three to five years.

Outlook

In 2003, the Group will focus on establishing itself as the consolidator in the bulk drug sector and put in place building blocks to expand into the generic and patent drugs sector. We will also focus on reducing production cost through technology and achieving better margins.

We will expand our bulk drug production capacity through joint ventures, selective earnings accretive acquisitions and building new production lines. We are also seeking FDA accreditation for the bulk and finished drugs production lines to target sales in overseas high-end pharmaceutical market.

After acquiring the finished drug business from our parent company in 2002, we will also strengthen the finished drug sales network and brand name building in China.

The Group will also put particular efforts to the market development of our patent drug, Butylphthalide, ensuring its successful entry into the market.

FINANCIAL REVIEW

As at December 31, 2002, the Group's total bank borrowings was HK\$627.7 million, an increase of HK\$158.4 million as compared to HK\$469.3 million at the last year end date, and the maturity profile spread over a period of three years with HK\$543.3 million repayable within 1 year and HK\$84.4 million within 2 to 3 years.

Gearing ratio was 17%, which was calculated on the basis of the Group's net bank borrowings (after deducting cash and bank balances of HK\$324.3 million) over shareholders' funds at the year end date.

The majority of the Group's bank borrowings, approximately 80% at the year end date, was in Renminbi with the remaining balance in Hong Kong dollars. As the Group derives its revenue mainly in Renminbi, its exposure to foreign exchange rate fluctuations is not significant.

EMPLOYEES

At the year end date, the Group has approximately 6,798 employees, the majority of them are employed in the PRC. They are remunerated at market level with benefits such as medical, retirement benefit and share option scheme.

ACKNOWLEDGEMENT

On behalf of the Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

CAI DONG CHEN

Chairman

Hong Kong, March 25, 2003