

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended December 31, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the activities of its subsidiaries are set out in note 38 to the financial statements.

PROPOSED CHANGE OF COMPANY NAME

On February 19, 2003, the directors propose to change the name of the Company from China Pharmaceutical Enterprise and Investment Corporation Limited (中國製藥企業投資有限公司) to China Pharmaceutical Group Limited (中國製藥集團有限公司). The proposed change of the company name is subject to the approval of shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases during the year attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total sales and purchases respectively.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended December 31, 2002 are set out in the consolidated income statement on page 15 of the annual report and the accompanying notes to the financial statements.

The directors recommend a final dividend of HK6.0 cents per share.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the statement of changes in equity on page 19.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand and upgrade its production facilities for the bulk drug products. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL, WARRANTS AND SHARE OPTIONS

Details of movements in the issued share capital, warrants and share options of the Company are set out in notes 24, 25 and 26 to the financial statements, respectively.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Cai Dong Chen, *Chairman*

Ding Er Gang

Liu Yi

Qu Ji Guang

Wei Fu Min

Yue Jin

Wei Guo Ping

(passed away on March 19, 2002)

Wang Xian Jun

(resigned on December 23, 2002)

Independent non-executive directors:

Huo Zhen Xing

Lee Ka Sze, Carmelo

Qi Mou Jia

In accordance with the Company's Articles of Association 101, Messrs. Ding Er Gang, Huo Zhen Xing and Wei Fu Min retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**CAI Dong Chen**

Appointed as a director of the Company in 1998. Mr. Cai, aged 49, senior engineer, is the Chairman of SPG. Mr. Cai graduated from Hebei Pharmaceutical Finance College, the People's Republic of China (the "PRC") in 1972. He joined Hebei Pharmaceutical Factory ("HPF"), the PRC in 1972 as a technician and was appointed factory manager of HPF in 1984. Mr. Cai has over twenty years of management experience in the pharmaceutical industry.

DING Er Gang

Appointed as a director of the Company in 1997. Mr. Ding, aged 42, is an economist. He graduated from Hebei College of Economic, the PRC and joined Hebei Province Municipal Planning Research Centre as an assistant researcher. Mr. Ding is responsible for the overall financial management and investor relations.

LIU Yi

Appointed as a director of the Company in 2001. Mr. Liu, aged 49, graduated from Beijing University, the PRC in 1980. Mr. Liu has over twenty years of management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued**QU Ji Guang**

Appointed as a director of the Company in 2001. Mr. Qu, aged 48, has over twenty years of marketing and management experience in the pharmaceutical industry.

WEI Fu Min

Appointed as a director of the Company in 1994. Mr. Wei, aged 56, is a senior engineer. He graduated from Tianjin Industrial College, the PRC in 1970. Mr. Wei has over twenty years of technical and management experience in the pharmaceutical industry.

YUE Jin

Appointed as a director of the Company in 2001. Mr. Yue, aged 39, graduated from Hebei University, the PRC in 1985. Mr. Yue has over fifteen years of product development and project management experience in the pharmaceutical industry.

HUO Zhen Xing

Appointed as a non-executive director of the Company in 1994. Mr. Huo, aged 66, was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

LEE Ka Sze, Carmelo

Appointed as a non-executive director of the Company in 1996. Mr. Lee, aged 43, is a solicitor by profession and is a partner of a Hong Kong law firm.

QI Mou Jia

Appointed as a non-executive director of the Company in 1996. Mr. Qi, aged 69, is a senior engineer. He is a former director of State Drug Administration of China (“SDA”). He was the deputy chairman and chairman of SDA in 1978 and 1982-1994 respectively.

DIRECTORS' INTERESTS IN SECURITIES

As at December 31, 2002, none of the directors or their associates had any personal, family, corporate or other interest in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”).

As at December 31, 2002, other than as disclosed in note 26 to the financial statements in respect of share options granted to the directors of the Company, none of the directors, the chief executives or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and none of the directors or their spouses, or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its holding companies, or its fellow subsidiaries or its 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 debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

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

SUBSTANTIAL SHAREHOLDER

As at December 31, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholder had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of ordinary shares of the Company held	Percentage of issued share capital
Shijiazhuang Pharmaceutical Group Company Limited ("SPG")	870,166,161 (<i>Note</i>)	57.93%

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at December 31, 2002.

Note: Out of the 870,166,161 shares, 25,000,000 shares are held by Mr. Ding Er Gang, an executive director of the Company, as trustee for SPG and 16,729,762 shares are held by China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 37 (I) to the financial statements. In the opinion of the independent non-executive directors, the above transactions were entered into by the Group:

- (i) in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to or from independent third parties; and
- (iv) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CONNECTED TRANSACTIONS – continued

In addition, the Group also entered into an agreement with SPG and one of its subsidiaries for the acquisition by the Company of the entire issued share capital of Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd. (“Zhongnuo”) for a consideration of approximately HK\$203.8 million. Zhongnuo is a limited liability company established in the PRC and is engaged in the manufacture of finished drugs products.

Details of the transaction relating to the Company’s acquisition of Zhongnuo are set out in a circular issued by the Company to shareholders dated May 10, 2002. The acquisition was approved by the shareholders in an extraordinary general meeting held on May 27, 2002.

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.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

Pursuant to a term loan agreement, it will be an event of default under the loan agreement if SPG ceases to own more than 40% of the issued share capital of the Company. The outstanding principal of the term loan at December 31, 2002 was HK\$125,010,000 and the last instalment repayment is due on May 21, 2005.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Practice Note 19 to the Listing Rules.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year ended December 31, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The Company has an audit committee consisting of two independent non-executive directors of the Company. The committee meets regularly with the external auditors and management to review the interim and yearly financial statements of the Group.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 39 to the financial statements.

AUDITORS

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

On behalf of the Board
Cai Dong Chen
Chairman

Hong Kong, March 25, 2003