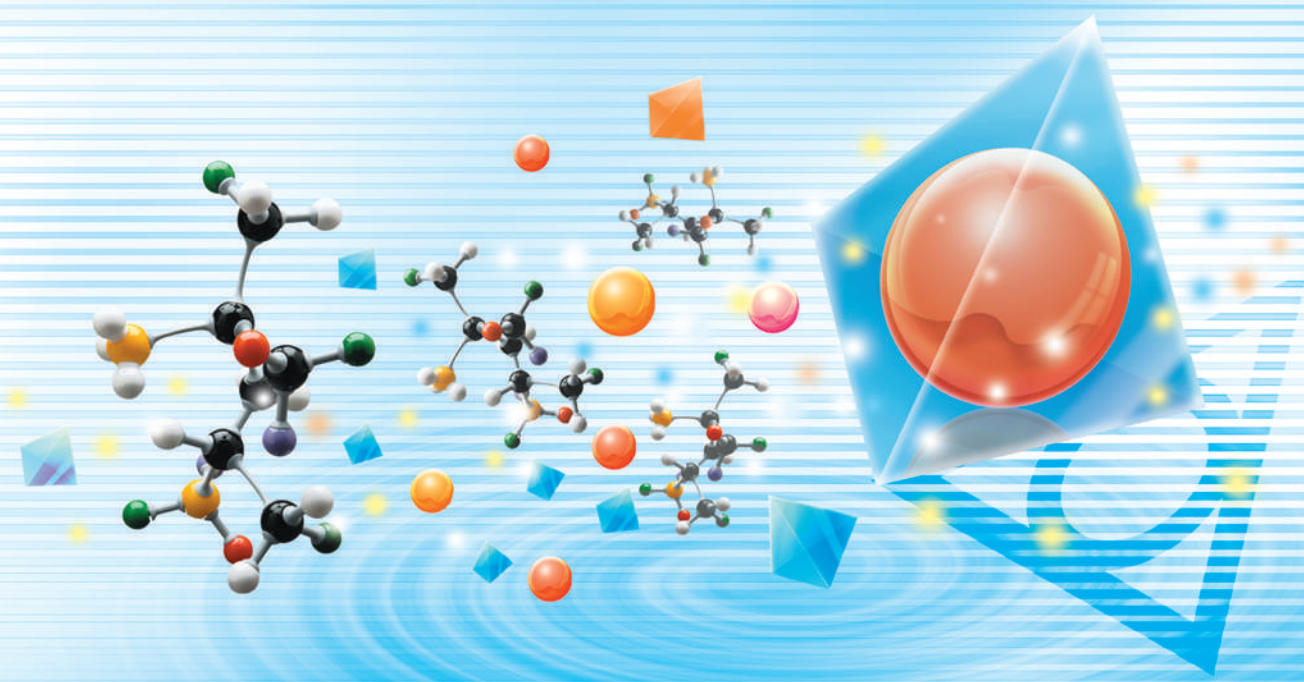
SINO BIOPHARMACEUTICAL LIMITED



ANNUAL REPORT

2001

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 with the domain name of www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

This document, for which the directors (the "Directors") of Sino Biopharmaceutical Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Sino Biopharmaceutical Limited (the "Company") is one of the leading developers of biomedicine and modernized Chinese medicine in China. It's principal activities include research and developing, manufacturing and sales of biopharmaceutical, modernized Chinese pharmaceutical and chemical medicines.

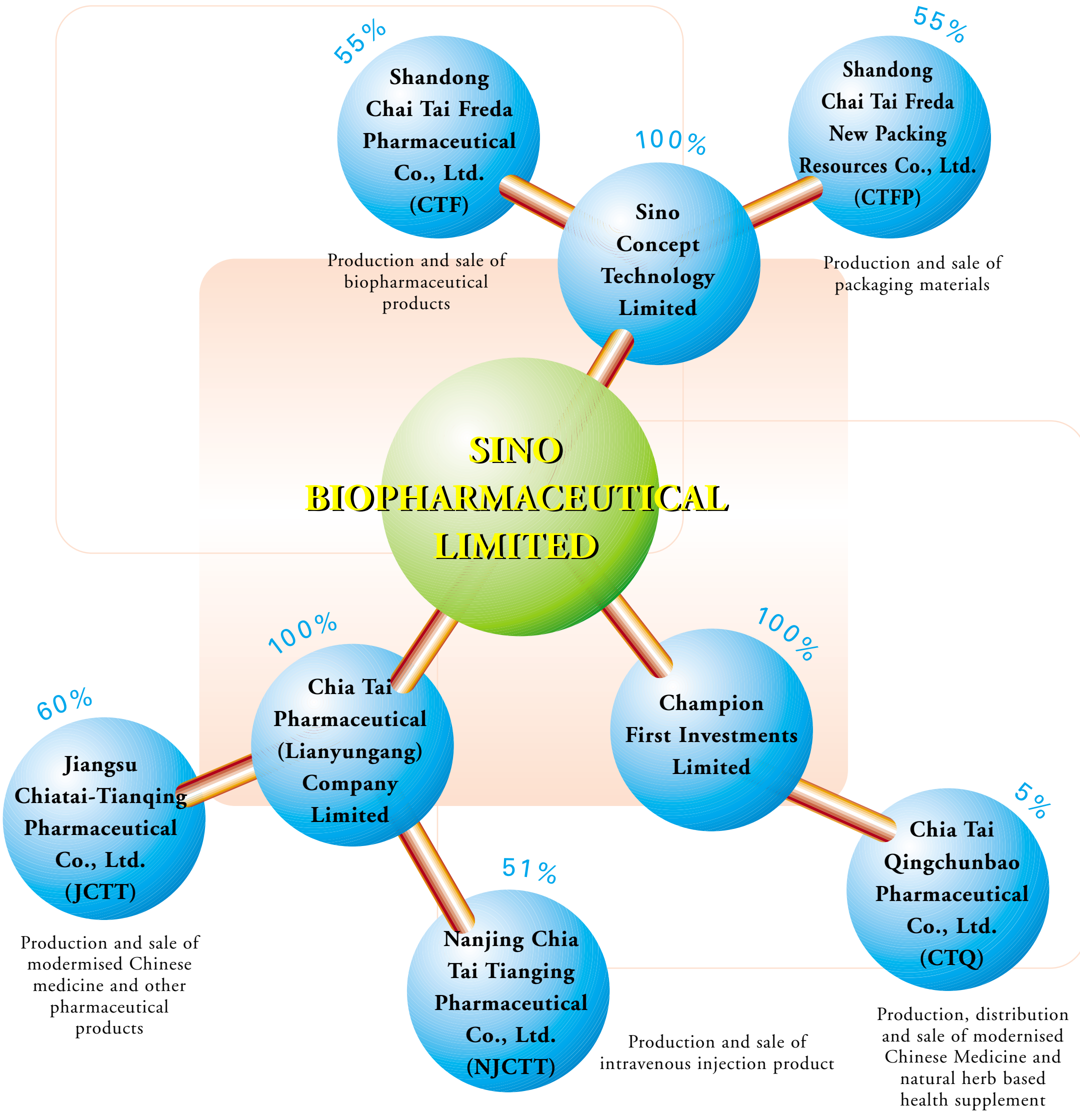
The Company, managed by experienced senior management is supported by some of the country's top researchers and a far-reaching sales network. It has been awarded Good Manufacturing Practice ("GMP") in respect of it production facilities for intravenous injection, powder injection, tablet, capsule, eyedrops and ointment products.

The Company's aim is to bring healthier lives to people and greater value to its shareholders by developing innovative biopharmaceuticals and modernized Chinese medicines.

The Company's focus is on therapeutics for ophthalmic diseases, liver diseases, illnesses associated with aging, dermatitis applications and cardio-cerebral diseases.

JCTT, CTF and NJCTT are the principal subsidiaries of the Company.

On 29 September, 2000, the Company was successfully listed on GEM of the Stock Exchange. Its ordinary shares are traded under the stock code 8027.



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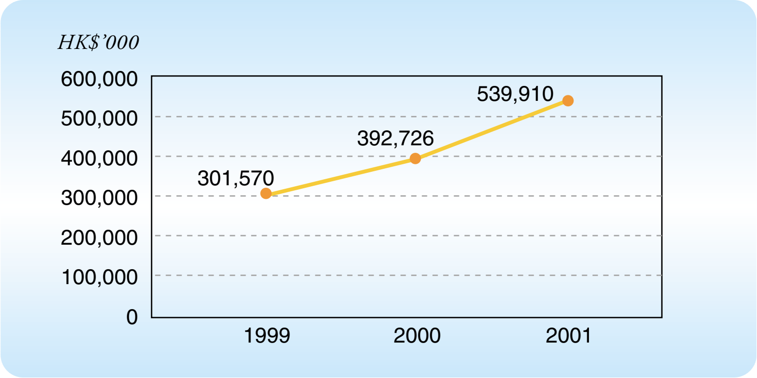
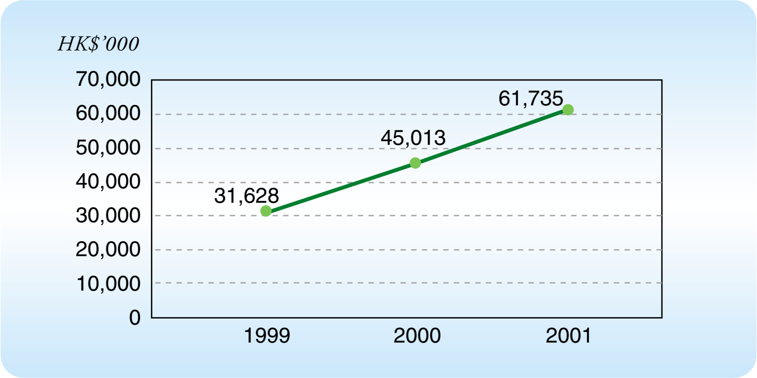
	2001 HK$'000	2000 HK$'000 (restated)	1999 HK$'000 (restated)
RESULTS			
TURNOVER	**539,910**	392,726	301,570
Cost of sales	**(101,436)**	(83,222)	(82,161)
Gross profit	**438,474**	309,504	219,409
Selling and distribution costs	**(237,601)**	(163,740)	(112,838)
Administrative expenses	**(78,610)**	(54,987)	(41,547)
Other operating income	**5,092**	2,314	881
Other operating expenses	**(7,793)**	(5,400)	(4,976)
PROFIT FROM OPERATING ACTIVITIES	**119,562**	87,691	60,929
Finance costs	**(1,913)**	(2,483)	(3,721)
PROFIT BEFORE TAX	**117,649**	85,208	57,208
Tax	**(8,184)**	(6,767)	(2,611)
PROFIT BEFORE MINORITY INTERESTS	**109,465**	78,441	54,597
Minority interests	**(47,730)**	(33,428)	(22,969)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**61,735**	45,013	31,628
ASSETS AND LIABILITIES			
TOTAL ASSETS	**433,129**	377,232	288,386
TOTAL LIABILITIES	**91,800**	98,609	106,425
MINORITY INTERESTS	**96,790**	68,819	57,342
NET ASSETS	**244,539**	209,804	124,619

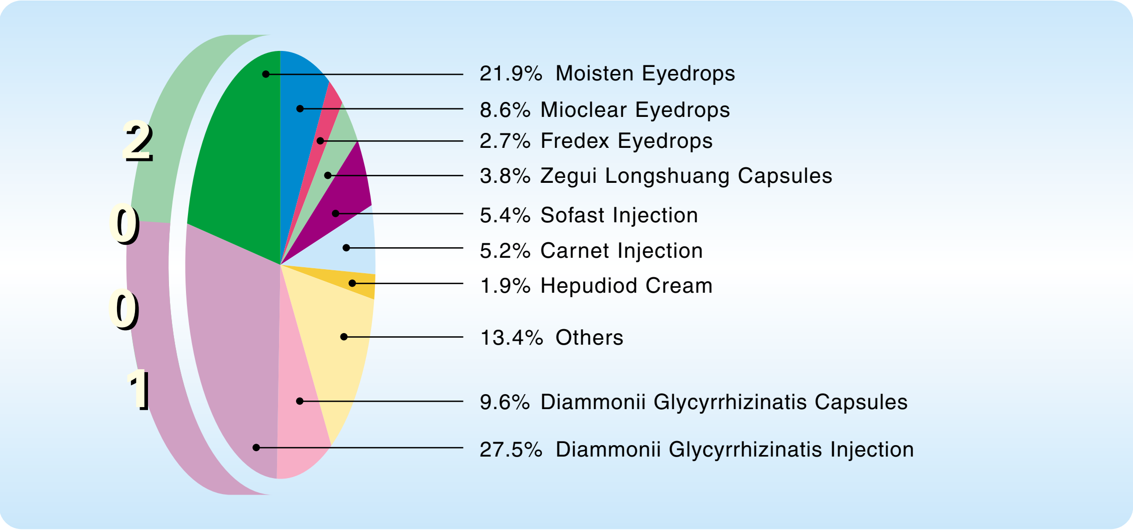
Sales Growth



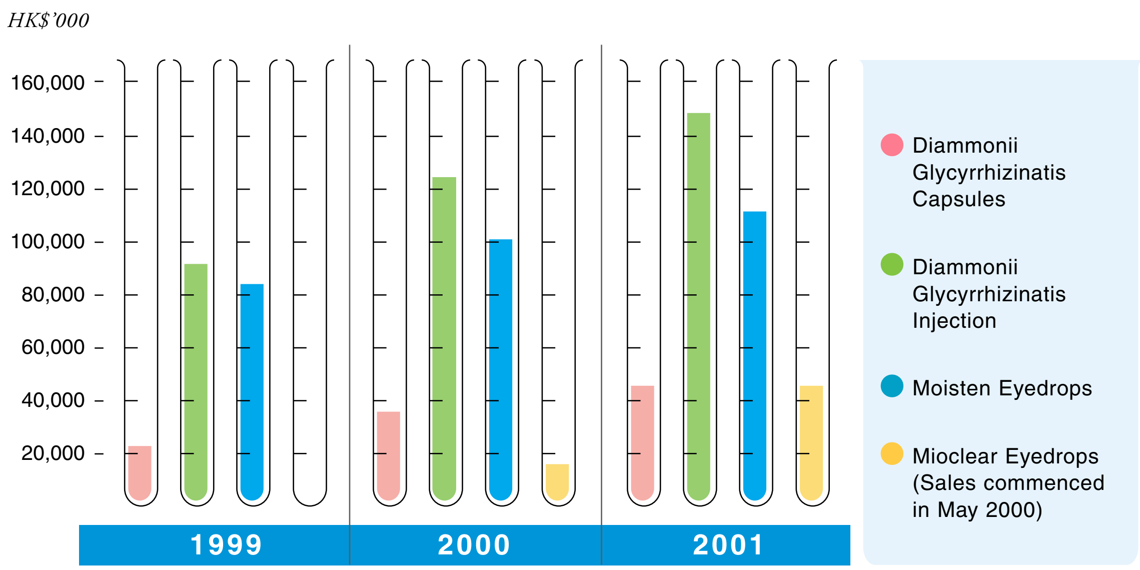
Profit Growth



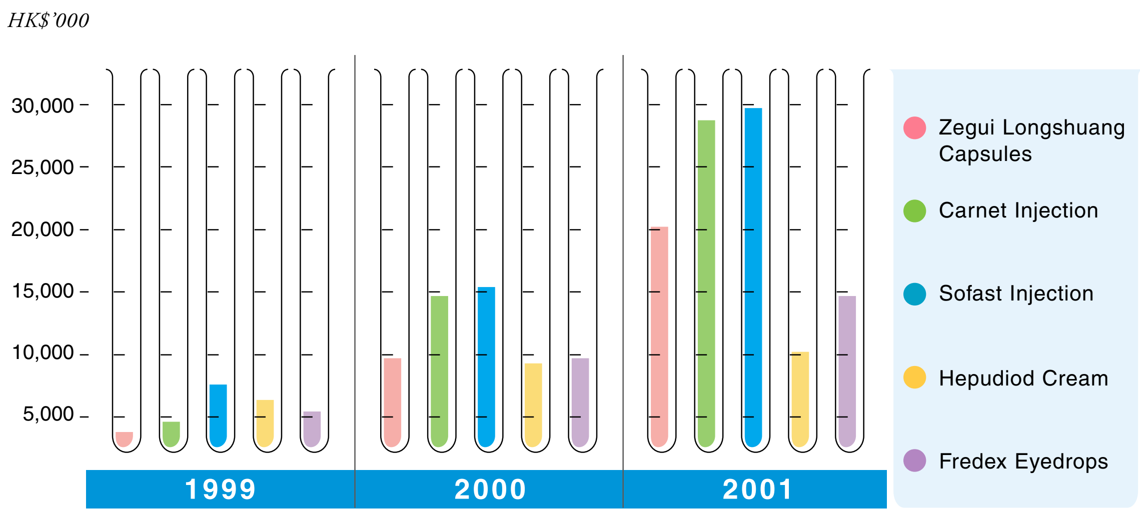
Sales Mix



Growth of Major Products



Growth of Mid-end Products



Sino Biopharmaceutical Limited ("the Company") is principally engaged in the research, production and sales of biopharmaceutical products, Chinese medicines and chemical medicines. On behalf of the board of directors. I have the great pleasure to announce the results of the Company for the year ended 31 December, 2001.

Mr. Tse Ping, Chairman

Results

For the year ended 31 December, 2001, turnover amounted to approximately HK$539.91 million, representing an increase of 37.5% as compared with last year. Profit attributable to shareholders of the Company reached HK$61.74 million, representing an increase of 37.1% as compared with last year. Basic earnings per share of the Company is HK 20.6 cents, increased by 17.1% over last year. The directors of the Company ("Directors") recommended a final dividend of HK 10 cents per share, in addition to an interim dividend of HK 4 cents per share declared on 1 August, 2001. The total dividend per share for the year amounted to HK 14 cents.

BUSINESS REVIEW

General

The year 2001 was the first full financial year since the listing of Shares on GEM on 29 September, 2000. The Company and its subsidiaries (the "Group") have taken full opportunity of the listing to strengthen its management and to develop new markets. With its major production facilities obtaining the Good Manufacturing Practice (GMP) certificates, the Group has adopted an approach of "combining replication and innovation" in its product research with an objective to rationalize its product mix. Meanwhile, the Group increasingly focused on intellectual property rights. During the year under review, the Group applied for patents for two inventions and one for a new usage and obtained the patents in China for the exterior designs of two products. On the management front, the Group focused on its human resources-based management philosophy, placing equal emphasis on "target management" and "risk management". The Group owes its success in accomplishing its 2001 business targets to its talented staff and its technology and products. The board of Directors (the "Board") mastered its unique tactics in making major decisions and the Group's staff have been provided with a satisfactory working environment with access to comprehensive on-job training.

In order to maintain the fundamentals of a healthy business growth and the development momentum, the Group adjusted its product mix by classifying its products into four categories: major products, mid-end products, ordinary products and emerging products. The Group has placed more marketing efforts on products in the major and mid-end categories. These products include Moisten (潤舒) eyedrops and Mioclear (潤潔) eyedrops for ophthalmia, Diammonii Glycyrrhizinatis (甘利欣) injections and capsules for treating hepatitis, and Zegui Longshuang (澤桂癃爽) capsules for the prostate. The increased marketing efforts not only highlighted the Group's branded products but also served to establish the Group's corporate image, bringing sales momentum to its other products. For the year ended 31 December, 2001, the sales of the Group increased by approximately 37.5% as compared with that of last year. The Group has strengthened end product sales by opening new sales offices, bringing the total number of sales offices to 70, compared with 60 sales offices at the end of 2000. The Group's sales network grew to be comprehensive and effective during the year under review. The product of Mioclear (潤潔) eyedrops, which debuted in May 2000, generated revenues of approximately RMB50 million to the Group during the year under review, making it one of the principal products of the Group. The Group's new products for hepatitis, Oxymatrine (苦參素) glucose injections and capsules, have been well established in the market in China since their launch in December 2001 and are likely to become the Group's principal products very soon.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. was set up on 31 August, 2001, details of which were disclosed in the Company's announcement dated 1 August, 2001.

Lianyungang Chia Tai-Taiqing Pharmaceutical Co., Ltd. was granted approval from China's Ministry of Foreign Trade and Economic Co-operation to be renamed as Jiangsu Chia Tai – Tianqing Pharmaceutical Co., Ltd. Details of which were disclosed in the Company's announcements dated 7 and 21 December, 2001.

The Company's subsidiaries, Shangdong Chia Tai Freda Pharmaceutical Co., Ltd. and Jiangsu Chia Tai – Tianqing Pharmaceutical Co., Ltd., were the major profit contributors to the Group during the year under review.

Shangdong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF")

CTF's bio-pharmaceutical products are based on its proprietary biotechnology. It has developed a broad spectrum of products which apply hyaluronan, a biotechnology product, as a substrate. CTF's research and application of hyaluronan is comparable with advanced international standards. It is particularly outstanding in the research and application of hyaluronan in the ophthalmic field with its major ophthalmic product – Moisten (潤舒) eyedrops – which was well received in China. In the ophthalmic field, medicines applying hyaluronan as substrates have been popular among both doctors and users. "Moisten" (潤舒) eyedrops was also accredited by the Industry and Commerce Bureau of Shandong as a famous brand of eyedrops in the Shandong Province.

During the year under review, CTF increased its marketing efforts for its eyedrop brands, Moisten (潤舒) eyedrops and Mioclear (潤潔) eyedrops. The non-prescription medicine teams were strengthened and the marketing of end-products was enhanced, which also promoted the sales of Sofast (施沛特) injection for osteoarthritis and Hepudido (海普林) cream for dermatitis. For the year ended 31 December, 2001, the sales of CTF grew approximately 41.0% as compared with that of last year.

Shpke (施沛克) injection, which is used to avoid stickiness in wounds after surgery and a new treatment applying hyaluronan introduced by CTF in October 2001, represented a step forward in the research and application of hyaluronan conducted by the CTF.

On 5 March, 2002, the ointment product of CTF was certified by the GMP licensing center of the State Drug Administration through on-site checks and CTF is waiting for the award of formal certificate. As a result, all of CTF's product types shall have secured GMP approvals. To make effective use of the existing sales channels and production facilities to cater for the Group's research and development plan, CTF is planning to increase its product mix, namely nose drops, ear drops, eye ointment, tablets and capsules, in order to meet its business development and expansion needs.

All of the production facilities of Shandong Chia Tai Freda New Packaging Resources Co., Ltd., a joint venture established in December 2000 for the production of packaging bottles for eyedrops, were installed and trial-operated. The production commenced during the year under review. It is expected that this joint venture will have an annual production capacity of approximately 10 million bottles. Emphasis will be placed on the anti-counterfeit function of the bottles it produces for the eyedrops produced by CTF.

CTF was accredited an advanced unit and a high and new technology model enterprise in Jinan in 2001.

Jiangsu Chia Tai – Tianqing Pharmaceutical Co., Ltd. ("JCTT")

JCTT is a leading manufacturer of modernized Chinese medicines treating hepatitis and diseases of the elderly. Its principal products include Diammonii Glycyrrhizinatis (甘利欣) for treating hepatitis and Zegui Longshuang (澤桂癃爽) capsules for prostate problems affecting the elderly. According to a study conducted by the China Medicines Economic Information on the medicines used in the major cities of the country for treating hepatitis, Diammonii Glycyrrhizinatis (甘利欣) has become the top choice among drugs for hepatitis. During the year under review, JCTT received certification and production approvals for Diammonil Glycyrrhizinatis Glucose injection (甘草酸二銨葡萄糖輸液) and Diammonil Glycyrrhizinatis Sodium injection (甘草酸二銨氯化鈉輸液), which will enable the Group to capitalize on the Diammonii Glycyrrhizinatis (甘利欣) brand and further expand in the hepatitis medicine market. Another hepatitis medicine of JCTT, Oxymatrine (苦參素) glucose injection and capsules, have been well received since their launch in December, 2001.

During the year under review, the JCTT enhanced its marketing efforts for its brands, Diammonii Glycyrrhizinatis (甘利欣) and Zegui Longshuang (澤桂癃爽), including placing advertisements during peak hours at CCTV, China's state television channel. This move improved the understanding amongst doctors and users of the two brands and the publicity of JCTT, which in turn boosted sales of other products of JCTT. With improvement in commercial sales and end-user sales, the Group was able to collect its receivables quickly and to reduce the debtors' turnover period. JCTT increased its sales for the year ended 31 December, 2001 by approximately 31.7%, as compared with last year. Of that, the sales of Zegui Longshuang (澤桂癃爽) capsules for diseases of the elderly rose by approximately 125.5% from last year and Carnet (可耐) injection increased by approximately 94.3% as compared with that of last year.

In 2001, Diammonii Glycyrrhizinatis (甘利欣) series of product was accredited as a famous brand by the Famous Brand Recognition Committee of Jiangsu Province and JCTT was accredited a key high and new technology enterprise under the State Torch Plan by the Ministry of Science and Technology of China. JCTT strengthened its quality control and received the "National Quality Efficiency Leading Enterprise" award from the China Quality Control Association.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (NJCTT)

NJCTT was set up on 31 August, 2001. It is located in the Nanjing High Technology Zone covering an area of approximately 32.2 mu. The construction of the core part of this plant has been completed, with the supplementary interior pipeline and circuit installation and interior decoration are now in progress. It is expected the US-made production facilities for intravenous injection packed in PVC-free soft bags will be delivered in May 2002 and will be installed and tested in June. Completion of the project will enhance the Group's profit source and at the same time, improve the level of its technology in the production of intravenous injection to international standards.

Research and Development

During the year under review the Group obtained medicine certification and production approvals for six medicines, namely Diammonil Glycyrrhizinatis Glucose injections (甘草酸二銨葡萄糖輸液), Diammonil Glycyrrhizinatis Sodium Chloride injections (甘草酸二銨氯化鈉輸液), Oxymatrine (苦參素) glucose injections, Oxymatrine (苦參素) capsules, Jing Da (靜達) eyedrops and Shpke (施沛克) injections. Also, there were various new products under research in addition to those which had been mentioned in the prospectus of the Company dated 22 September 2000. They included modernized Chinese medicines and that have not been biopharmaceutical products for treating ophthalmic, hepatitis, diseases of the elderly, cardiovascular and cerebralvascular diseases, dermatitis, osteoarthritis, and nose and ear drops.

The Group has strengthened its research and development capacity and enhanced its corporate information communications to attract and retain talents. Basing on the prevailing trend of combining replication and innovation in the pharmaceutical industry in China, JCTT invested approximately RMB4 million to set up the Jiangsu Chia Tai Tianqing Nanjing Research and Development Centre in the Nanjing High and New Technology Zone in October 2001. The research and development center is currently under construction and will soon become operational. The move demonstrates that product research has become an integral part of the continuing growth of the Group and that it has well prepared itself for the anticipated competitions following China's entry into the World Trade Organization.

In order to attract talents and to seek co-operation with independent research centers in Beijing and in other cities on the development of new drugs with market potential, CTF also plans to set up its research and development center in Beijing in 2002. This will contribute to the continuing development of the Group.

Development of Internet Sales Management

With the improvement in living standards, people start to be conscious on their health. In view of this, the Group has provided a general introduction of its products as well as certain information on eye protection and skin diseases on CTF's website (www.cp-freda.com). Besides, the Group also provides information on the prevention and treatment of hepatitis and diseases of the elderly on JCTT's website (www.zdtqzy.com). The Group aims to develop the websites to become the top choices for on-line information relating to eye protection, skin diseases, the prevention and treatment of hepatitis and diseases of the elderly.

The Group has been making use of the internet and in-house computer network for its daily production and sales management. Currently, through internet, the sales staff can update themselves in a timely manner information on the product research status and related sales policies, and the management of the Group can obtain, in a timely manner, information on sales on the Group's country-wide sales networks. In addition, this enables the management of the Group to obtain the latest market intelligence, which can substantially enhance the Group's production and sales as well as improve communications efficiency with its customers.

In the near future, the Group will develop and build an e-commerce system as part of its efforts to upgrade its sales system.

Business Strategies

1. To adopt a technology-based business strategy with focus on the biotechnology and the technology of modernizing traditional Chinese medicines applying the approach of combining replication and innovation. In the meantime, the Group will introduce additional advanced medicine technologies from domestic and overseas markets at the right moment. With JCTT and CTF moving their research centers to Nanjing and Beijing respectively, the Group will take full advantage of the research and development capacity to conduct additional product development.

2. To adopt a human resources-based strategy and fully develop the businesses of JCTT and CTF. To strengthen the corporate management by adding an innovative approach to sales and internal management and developing staff's creativity so as to achieve better market and management efficiency.

3. To build strategic alliances through mergers and acquisitions and to adjust the product mix, improve its quality and make full use of the edge of the Group's sales networks. Building on the combined strength, the merger of companies will complement each other, increasing economic effectiveness. The implementation of both business expansion and core business consolidation is expected to bring the Group additional opportunities for business development of the biopharmaceutical and the Chinese medicine modernization business.

Outlook

In the pharmaceutical industry, biopharmaceutical medicines and modernized Chinese medicines represent increasingly sophisticated production technology and high growth. Based on its sound profit track record, its well-known brands and its stable and developing market share in the pharmaceutical industry in China, the Group will continue to develop on the basis of these two areas. The Directors believe that the relocation of the research and development centres of JCTT and CTF to Nanjing and Beijing respectively will further enhance the ability of the Group to develop new products. The advancement of production facilities and expansion of sales network and the mergers, acquisitions and the development of strategic alliances, will ensure the growth of profit and return to shareholders.

On behalf of the Board, I would like to extend my sincere gratitude to all shareholders of the Company who give us support and to all our dedicated, hard-working and innovative staff for achieving such remarkable results.

ON BEHALF OF THE BOARD

Tse Ping
Chairman

Hong Kong
14 March 2002

COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS

	Business objective up to 31 December, 2001 as stated in the prospectus	Actual business progress up to 31 December, 2001
1. Research & development		
(1) Establish a research and development centre in Beijing	a. Cooperate with scientific research organisations by entering into research and development project agreements	Negotiating with several research organisations
	b. Commence to carry out research work on development projects (a maximum of 5 projects at one time)	
(2) Plan of new product research and development of CTF		
Jingfu Eyedrops	Obtain new medicine certificate from SDA and apply for production approval	Waiting for approval from SDA to commence clinical trial
Composite Tobramycin Gel	Obtain new medicine certificate from SDA and apply for production approval	Project abandoned and the reason has been disclosed in the annual report for the year ended 31 December, 2000
Butenfine Hydrochloride Gel	Obtain approval from state level SDA to commence clinical trial	Conducting clinical trials
(3) Plan for new product research and development of JCTT		
Oxymatrine capsules and oxymatrine glucose injection	Commence commercial production	Commenced commercial production in December, 2001
Diammonii glycyrrhizinatis sodium chloride and glucose injection	Commence commercial production	Preparing for commercial production
Puerarin glucose injection	Market and promote product	As stated in the prospectus
Buyang huanwutang injection	Obtain approval from state level SDA to commence clinical trial	Suspended application for clinical trial due to technical reason
Roloxifene hydrochloride and tablets	Complete clinical trial	Conducting clinical trial
Sotaloi hydrochloride injection	Commence commercial production	As stated in the prospectus
Clindamycin phosphate powder injection	Commence commercial production	As stated in the prospectus

		Business objective up to 31 December, 2001 as stated in the prospectus	Actual business progress up to 31 December, 2001
	Sanzi kechuan capsules	Obtain approval from state level SDA to commence clinical trial	Waiting for approval from SDA to commence clinical trail
	Netimycin sulfate and sodium chloride injection	Commence commercial production	As stated in the prospectus
	Puerarin capsules	Obtain production approval documents from SDA	Waiting for approval from SDA to commence clinical trail
2.	**production of pharmaceutical products**		
	(1) Forming alliance with reputable producers of biopharmaceuticals, chinese medicine or natural herbal products	Continue to identify cooperative partners and execute cooperative agreements prior to year end	Negotiating with several potential cooperative partners
	(2) Expansion of production facilities of CTF:		
	Factory	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 10,200 sq.m.	Located in Jinan, Shandong Province, the PRC with total gross floor areas of 12,900 sq.m.
	GMP compliance	Fully complied with GMP	As stated in the prospectus
	(3) Expansion of production facilities of JCTT		
	Factory	Located in lianyungang, Jiangsu Province, the PRC with a total gross floor area of 15,800 sq.m.	As stated in the prospectus
	GMP compliance	Plant extraction workshop and synthetic drugs raw material workshop implement GMP procedures	As stated in the prospectus
3.	**Marketing and sales**		
	(1) Establishment of the Group's website with the medium-term aim of commencing e-commerce of pharmaceuticals	Design and trial run of e-commerce, strengthen website content, turn the website into the leading website for doctors and patients for eye and liver health care information	Established a website to provide information related to eye and liver health care
	(2) Expansion and consolidation of the PRC distribution network		
	The expansion plan of the sales network of CTF		
	No. of representative offices	35	35
	No. of sales staff	380	400

	Business objective up to 31 December, 2001 as stated in the prospectus	Actual business progress up to 31 December, 2001
The expansion plan of the sales network of JCTT		
No. of representative offices	35	35
No. of sales staff	750	610

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFER

	Note	Amount to be used up to 31 December, 2001 as disclosed in the Prospectus *HK$'M*	Actual amount used up to 31 December, 2001 *HK$'M*
For the research and development activities including the establishment of a research and development center in Beijing	*1*	10.0	0.7
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products	*2*	20.0	Nil
For the expansion of the distribution networks of the Group	*3*	10.0	Nil
For the establishment of the Group's website and commencement of e-commerce	*4*	2.0	0.6
General working capital		8.0	7.4
TOTAL		50.0	8.7

Note:

1. As the Group is in the process of negotiating with several research organisations, only HK$0.7 million was used which related to feasibility studies.

2. As the Group is in the process of negotiating with several potential cooperative partners, no concrete agreements has been reached.

3. The Group is in the process of negotiating with potential cooperative partners.

4. Development of website and e-commerce are mainly financed by income generated by the principal subsidiaries.

CTF

Advanced Technique Business Enterprise of Investment Company
Shandong Province Outward Economic Trade Committee

High and New Technique Enterprise
Shandong Province
Science Technique Committee

Shandong Province Heavy Prize Technology (Hyaluronan Sodium series products)
Shandong Province Government

Shandong Province Top Ten Benefits Invest (Comfortable formulation system of Moisten)
Shandong Province Science Technique Department

Shandong Province Famous Brand (Moisten)
Shandong province Industry and Commerce Bureau

High and New Technique Enterprise
Jinan Science Technique Bureau

Jinan Advanced Enterprise 2001
Jinan Government

JCTT

Intensive Technique and Kowloon Enterprise
Jiangsu Province Science Technique Committee

High and New Technique Enterprise
Jiangsu Province Science Technology Committee

Trust-worthy Enterprise
Jiangsu Province Government

National Quality Efficiency Leading Enterprise
Chinese Quality Control Association

Jiangsu Province Quantity Management Prize
Jiangsu Province Quantity Committee

Jiangsu Province Famous Brand Diammonii Glycyrrhizinatis series product
Jiangsu Province Famous Brand Recognition Committee

High and New Focus Enterprise
Chinese Technology Department

EXECUTIVE DIRECTORS

Mr. Tse Ping (謝炳先生), aged 52, is the Founder, Chairman and President of the Company. Mr. Tse is one of the most successful foreign investors in the PRC's pharmaceutical sector. With more than 10 years of related investment and management experience. Mr. Tse was formerly the vice-chairman of 999 Pharmaceutical Co. Ltd., which he helped builded into one of the PRC's biggest pharmaceuticals companies in terms of sales. He also invested in Hainan Pharmaceutical Industrial Ltd., the first PRC-based company to develop a world-class drug for fighting cancer, and Hangzhou Chia Tai Qingchunbao Pharmaceutical Ltd. ("CTQ") – renowned for its Ginseng and Mai Dong-based intravenous drug for treating cardio-muscular systolsis. The A shares of 999 Pharmaceutical and Hainan Pharmaceutical are now listed on stock exchanges in the PRC. CTQ is now a subsidiary of SIIC Medical Science and Technology Ltd., which is listed on GEM of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Mr. Tse is also the Chairman of Xian Chia Tai Pharmaceutical Co. Ltd., and US-based ABH Nature's Products Inc., Mr. Tse is also a committee member of the Association of Pharmaceutical Biotechnology of China. Beyond the drugs and biotechnology field, Mr. Tse is the deputy chairman of Hong Kong Fortune Ltd, an investment holding company listed on the Stock Exchange, and executive chairman of TM International Bank, based in Shanghai. He is also a member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Mr. Ling Peixue (凌沛學先生), aged 39, joined the Group in October 1994 and is a Director and General Manager of CTF. Mr. Ling was graduated from the Shandong University of Medicine with a master degree. He is also a guest professor of the Shenyang University of Pharmacy and a visiting professor of the Shandong University of Medicine. Mr. Ling is an accomplished expert on the therapeutic applications of sodium hyaluronate ("HA") and has published more than 40 related research papers and 4 publications. He has won numerous awards for his work on HA-based therapeutics including special subsidies from the State Council, "Outstanding Scientist" granted by the Ministry of Domestic Trade, "Great Contributor" granted by the State Science and Technology Committee and "Top Ten Scientist" granted by the Shandong Provincial Government, among others. Mr. Ling is the deputy chairman of the Biochem Pharmaceutical Professionals Committee of the Association of Chinese Medicine, a deputy head of the Industrial Biochemistry Professionals Committee of the Association of Biochemistry and Molecular Biology of China, an executive director of the Association of Biochemical Pharmaceutical Manufacturers of China and a member of the editorial committee of the Chinese Medicine Magazine and Chinese Biochem Pharmaceutical Magazine.

Mr. Tao Huiqi (陶惠啟先生), aged 52, joined the Group in May 1997 and is the vice chairman and president of JCTT. He is a university graduate and senior economist. Mr. Tao has 30 years experience in managing pharmaceutical companies. He has been awarded the title of an "Outstanding Enterpreneur" by the China Pharmaceutical Association, China Chinese Medicine Association, the Jiangsu Economic Planning Commission and Jiangsu Pharmaceutical Administration respectively.

Mr. Wang Jinyu (王金宇先生), aged 32, joined the Group in March 1999. Prior to joining the Group, Mr. Wang worked in the corporate finance division of BNP Prime Peregrine Capital Ltd., where he gained extensive experience in corporate finance, investment management and the development and promotion of high technology. He is also a co-chairman and general manager of Dic Network Company Ltd..

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Patrick Ho Chi Ping JP. (何志平太平紳士), aged 52, was appointed independent non-executive Director on 14 September, 2000. He is a medical specialist in eye disease and surgery in Hong Kong. He further sub-specialises in the disease and surgery of the retina and vitreous, especially in the treatment of diabetic eye complications. He was a professor of surgery (Ophthalmology) at the Chinese University of Hong Kong before he began his private clinical practice in eye disease and surgery in 1994. Dr. Ho was a member of the Hong Kong SAR Preparatory Committee and is a member of the 8th and 9th Chinese People's Political Consultative Conference.

Mr. Hu Xi Ming, (胡熙明先生), aged 69, was appointed independent non-executive Director on 14 September, 2000. Mr. Hu was the former Deputy Minister of the Ministry of Public Health, where he served for more than 30 years. He has also assumed a number of other titles, including director of the State Administration of Traditional Chinese Medicine, deputy head of the Traditional Medicine Research Academy and vice chairman of the State Committee for Combating Narcotics. Mr. Hu is a member of the Chinese People's Political Consultative Conference, chief editor of the Chinese Traditional Medicine Magazine of China, president of the China Acupuncture Society and vice president of the Chinese Traditional Medical and Pharmaceutical Society of China.

SENIOR MANAGEMENT

Ms. Zhao Yanping (趙艷萍女士), aged 39, joined the Group in 1992 is the vice president of the Company. Ms. Zhao was graduated from the Shenyang University of Pharmacy with a degree in science and completed the Master of Business Administration course in Dalian Polytechnic University. Ms. Zhao was the general manager of the research and development department of the Group, the assistant to president of CTF and a visiting professor of Shenyang University of Pharmacy. Ms. Zhao is also one of the editors of the "1998 National Development Guide for New Chemical Medicine". She is a committee member of Economic report of Chinese medicine. Ms. Zhao has 19 years' experience in the pharmaceutical industry.

Stephen Tse Hsin (謝炘先生), aged 32, is the vice-president of the Company. He is in charge of the Group's audit department and is responsible for mergers and acquisitions. Mr. Tse was graduated from the University of Hong Kong with a degree in engineering. He joined the Group in 1995 as the assistant to executive vice president and served as the managing director of Xian C. P. Pharmaceutical Co., Ltd.. In 1999, he was awarded the "Outstanding Management Award for foreign-invested enterprises of Shanxi Province" by the Shanxi Provincial Government. He is also a director of ABH Nature's Products Inc. and a cousin of Mr. Tse Ping.

Mr. Zhang Baowen (張寶文先生), aged 45, is a vice president of the Company. He is a graduate of the Shenyang University of Phamacy with a bachelor's degree in science. Mr. Zhang, joined the Group in 1995 and has nearly 20 years of experience in the pharmaceutical industry. He is an expert in microbiological pharmaceuticals production. Mr. Zhang's research papers on the use of computer software programs in the biosynthesis of spiramycin, done in conjunction with the Chinese Academy of Sciences, have been published in international academic journals. Mr. Zhang is a committee member of the Association of Chinese Medicine of China.

SENIOR MANAGEMENET (CONT'D)

Ms. Wong Pui Shan (黃佩珊小姐), aged 31, is the financial controller and company secretary of the Company. Ms. Wong was graduated from the Hong Kong Polytechnic University with a degree in accountancy. She is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Ms. Wong worked in an international accounting firm prior to joining the Company in August 2000.

Ms. Chen Xiaofung (陳曉楓女士), aged 48, is the deputy financial controller of the Company. Ms. Chen joined the Group in 1993 and was the manager of the investment division, deputy controller of the accounting division, officer of the audit division and controller of the finance and accounting division. Ms. Chen is a certified accountant in the PRC and has over 20 years' experience in accounting and finance.

Mr. Shun Jian (孫建先生), aged 41, Mr. Shun is the vice president and senior engineer of JCTT. He was graduated from Nanjing Polytechnic with a degree in engineering. He has nearly 20 years experience in pharmaceutical industry and has extensive experience in management and marketing.

Mr. Cheng Bo (程波先生), aged 41, vice general manager of CTF. Mr. Cheng was graduated from Sichuen University and completed EMBA course organised by Sichuan Technology University. He joined the Group in October 1994 and actively participated in sales and marketing section has been appointed as sales office representative in Chengdu, regional sales manager and marketing director. He has extensive experience in sales management.

Ms. Ho Yan Li (賀艷麗女士), aged 38, Chief engineer of CTF. Ms. Ho was graduated from Shangdong University of Medicine with a master degree. Ms. Ho is now studying a Ph D. She has 18 years' experience in the research and development of pharmaceutical products and has published around 20 academic papers. Ms. Ho worked in Shandong Provincial Pharmaceutical Research Centre as the head of research and development and the assistant to the general manager of CTF. She has been rewarded the title of a "Superior Working Lady" from the Nature Labour Union in 1999.

Mr. Zhang Xi Gian (張喜全先生), aged 33, chief engineer of JCTT. Mr. Zhang has a master degree in science, He is one of the top management of JCTT and has extensive experience in development of new pharmaceutical products.

Tian Zhou Shan (田舟山先生), aged 38, general manager of NJCTT. Mr. Tian is studying for a MBA course organised by Nanjing University. He was the production manager, assistant to the president and vice-president of Lianyungang Chia Tai Tianqing Pharmaceutical Co., Ltd. prior to his transfer to NJCTT. Mr. Tian has twenty years experience in the pharmaceutical industry.

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 23 to the financial statements.

There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities by principal activities for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 70.

An interim dividend at HK4 cents per ordinary share totalling HK$12,000,000 was paid during 2001.

The directors recommend the payment of a final dividend of HK10 cents per ordinary share in respect of the year ended 31 December 2001 to shareholders of the Company whose names appear on the register of members of the Company on 26 April 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in the note 12 to the financial statements.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange in September 2000, after deduction of related issuance expenses, amounted to approximately HK$61,973,000. Application of proceeds up to 31 December 2001 and comparison with the proposed applications set out in the Company's listing prospectus, is set out on page 14 of this report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last three financial years, prepared on the basis set out in note 1 below and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	*(restated)*
RESULTS			
TURNOVER	**539,910**	392,726	301,570
Cost of sales	**(101,436)**	(83,222)	(82,161)
Gross profit	**438,474**	309,504	219,409
Selling and distribution costs	**(237,601)**	(163,740)	(112,838)
Administrative expenses	**(78,610)**	(54,987)	(41,547)
Other operating income	**5,092**	2,314	881
Other operating expenses	**(7,793)**	(5,400)	(4,976)
PROFIT FROM OPERATING ACTIVITIES	**119,562**	87,691	60,929
Finance costs	**(1,913)**	(2,483)	(3,721)
PROFIT BEFORE TAX	**117,649**	85,208	57,208
Tax	**(8,184)**	(6,767)	(2,611)
PROFIT BEFORE MINORITY INTERESTS	**109,465**	78,441	54,597
Minority interests	**(47,730)**	(33,428)	(22,969)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**61,735**	45,013	31,628
ASSETS AND LIABILITIES			
TOTAL ASSETS	**433,129**	377,232	288,386
TOTAL LIABILITIES	**91,800**	98,609	106,425
MINORITY INTERESTS	**96,790**	68,819	57,342
NET ASSETS	**244,539**	209,804	124,619

SUMMARY FINANCIAL INFORMATION (CONT'D)

Notes:

(1) The summary of the Group's results for the year ended 31 December 1999 have been extracted from the accountants report as included in the Company's prospectus dated 22 September 2000, after making appropriate adjustments due to revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") 9, "Events after the balance sheet date" and 18, "Revenue". Details of the restatements are set out in note 2 to the financial statements. The Group's results for the year ended 31 December 1999 was prepared on a combined basis to reflect the Group Reorganisation, as if the current structure of the Group had been in existence throughout the financial years, details of which are set out in the Company's prospectus. The consolidated results of the Group for each of the two years ended 31 December 2001 are extracted from the audited financial statements as set out on page 31 of the financial statements.

(2) As the Company was incorporated on 2 February 2000, the only published consolidated profit and loss account and balance sheet of the Group, after making appropriate adjustments due to revised SSAP 9 and 18, are set out on pages 31 and 33 of the financial statements, respectively.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 14 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group as at 31 December 2001 are set out in note 33 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options, are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves, including the share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, and after taking into account of the proposed final dividend of HK$30,000,000, amounted to HK$136,366,000 (2000 (restated): HK$145,138,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% (2000: less than 30%) of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% (2000: less than 30%) of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Tse Ping
Mr. Wang Jinyu
Mr. Ling Peixue
Mr. Tao Huiqi

Independent non-executive directors:

Dr. Patrick Ho Chi Ping JP.
Mr. Hu Xi Ming

In accordance with article 87 of the Company's articles of association, Mr. Wang Jinyu and Mr. Hu Xi Ming will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 16 and 18 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 September 2000 which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the continuing tenancy agreement with a company beneficially owned by Mr. Tse Ping, which is entered at arm's length and on normal commercial term (see note 34c), no other director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its holding company or its fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or otherwise notified to the Stock Exchange or the Company as required by Chapter 5.40 of the Growth Enterprise Market ("GEM") Listing Rules were as follows:

		Number of shares held and nature of interest				
Name of director	*Notes*	Personal	Family	Corporate	Other	Total
Mr. Tse Ping	*(1)*	–	–	231,120,000	–	231,120,000
Mr. Wang Jinyu	*(2)*	–	–	8,880,000	–	8,880,000
		–	–	240,000,000	–	240,000,000

The interests of directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

Notes:

(1) The shares held by Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited, companies beneficially owned by Mr. Tse Ping.

(2) The shares held by Discover Profits Limited, a company beneficially owned by Mr. Wang Jinyu.

Save as disclosed above, at 31 December 2001, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, as further detailed in note 29 to the financial statements, the Company has granted to certain directors of the Company the rights to subscribe for ordinary shares in the Company's share capital. Details of the movements in the share options granted to the directors of the Company during the year are set out below. All of the share options are exercisable during the period from 2 January 2003 to 1 January 2007 (both days inclusive) at an exercise price of HK$0.74 per share.

Name of directors	Number of options outstanding as at 31 December 2000	Number of options granted during the year	Number of option exercised during the year	Number of options outstanding as at 31 December 2001
Mr. Tse Ping	–	7,500,000	–	7,500,000
Mr. Wang Jinyu	–	1,000,000	–	1,000,000
Mr. Ling Pei Xue	–	1,000,000	–	1,000,000
Mr. Tao Huiqi	–	1,000,000	–	1,000,000

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive directors and employees of the Group. The Scheme became effective on 19 September 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue for a period of 10 consecutive years. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 30,000,000, which represented 10% of the Company's shares in issue as at that date.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine but in any event not exceeding 10 years from the date of grant of such share option.

SHARE OPTION SCHEME (CONT'D)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheet of the Stock Exchange.

The following share options were outstanding under the Scheme during the year:

		Number of share options								Price of Company's shares***	
Name or category of participant	At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	At exercise date of options HK$
Directors											
Mr. Tse Ping	–	7,500,000	–	–	–	7,500,000	02-01-2001	02-01-03 to 01-01-07	0.74	0.74	–
Mr. Wang Jinyu	–	1,000,000	–	–	–	1,000,000	02-01-2001	02-01-03 to 01-01-07	0.74	0.74	–
Mr. Ling Peixue	–	1,000,000	–	–	–	1,000,000	02-01-2001	02-01-03 to 01-01-07	0.74	0.74	–
Mr. Tao Huiqo	–	1,000,000	–	–	–	1,000,000	02-01-2001	02-01-03 to 01-01-07	0.74	0.74	–
	–	10,500,000	–	–	–	10,500,000					
Other employees											
In aggregate	–	19,500,000	–	–	–	19,500,000	02-01-2001	02-01-03 to 01-01-07	0.74	0.74	–
	–	19,500,000	–	–	–	19,500,000					
	–	30,000,000	–	–	–	30,000,000					

SHARE OPTION SCHEME (CONT'D)

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date of the grant of the options.

Summary details of the Company's share option scheme are also set out in note 29 to the financial statements.

The directors have obtained the following theoretical valuations of the share options granted during the year, calculated using the Black Scholes option pricing model (the "Black Scholes Model") as at 2 January 2001 (the date of the grant of the options):

Grantee	**Number of options granted during the year**	**Theoretical value of share options**
		HK$
Mr. Tse Ping	7,500,000	2,400,000
Mr. Wang Jinyu	1,000,000	320,000
Mr. Ling Peixue	1,000,000	320,000
Mr. Tao Huiqo	1,000,000	320,000
Other employees	19,500,000	6,240,000

The Black Scholes Model is one of the most generally accepted methodology to calculate the value of options and one of the recommended options pricing models as set out in Rule 23.08 of the GEM Listing Rules. The significant valuables and assumptions used in the calculation of the theoretical values of the share options were as follows:

-Risk free rate:	5.77%, being the approximate yield 5-year Exchange Fund Note traded on 2 January 2001
-Expected volatility:	89.6%, being the annualised volatility of the closing price of the share of the Company from 29 September 2000 (date of listing of the Company) to 2 January 2001
-Expected life of the options:	6 years
-Expected dividend yield:	8%, being 2001 prospective dividend yield of the shares of the Company

SHARE OPTION SCHEME (CONT'D)

-Assumptions:

(i) There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over a period of September 2000 to 2 January 2001.

(ii) There is no material difference between the expected dividend yield rate over the whole life of the option and the historical dividend yield rate of the Company for the year 2001.

The values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of future performance input to the model, and certain inherent limitations of the model itself.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
Mr. Tse Ping	231,120,000	77.04
Conspicuous Group Limited	108,000,000	36.00
Remarkable Industries Limited	57,317,760	19.11
Validated Profits Limited	65,802,240	21.93

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group are set out in note 34 to the financial statements.

COMPETING INTERESTS

During the year and up to the date of this report, the following director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC") and ABH Nature's Products Inc. ("ABH").

COMPETING INTERESTS (CONT'D)

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of medicine reducing blood-fat level, gynaecomastia medicines and other chemical medicines. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group. Currently, the above enterprises do not conduct any business which competes, whether directly or indirectly, with the Group's business.

Mr. Tse Ping has signed a deed of non-competition undertaking in favour of the Company dated 19 September 2000 under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 35% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature ("Mr. Tse Ping's Companies") (excluding for this purpose the Group) will:

(a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping's interest in the Company), directly or indirectly, in any business activities involving the business of the Company ; and

(b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC (save through Mr. Tse Ping's interest in the Company), become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the business of the Company, if to do so would result in competition with any part of the business of the Company already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping's Companies (excluding for this purpose the Group) propose to invest in such business activities.

Save as disclosed above, 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.

SPONSORS' INTERESTS

Pursuant to the agreement dated 21 September 2000 entered with the Company, DBS Asia Capital Limited ("DBS") received, and will receive fees for acting as the Company's retained sponsor for the period from the date on which dealing in the Company's shares commence on the GEM of the Stock Exchange to 31 December 2002.

As updated and notified by DBS, as at 31 December 2001, neither DBS nor its directors or employees, had any interest in the share capital of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the code of best practice as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2001.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of directors. The audit committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Group's financial statements for the year ended 31 December 2001 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee has two members comprising the two independent non-executive directors, Dr. Patrick Ho Chi Ping JP. and Mr. Hu Xi Ming. The audit committee has held two meetings since the committee was established and has performed the functions specified in the GEM Listing Rules.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse Ping
Chairman

Hong Kong
14 March 2002

ERNST & YOUNG
安永會計師事務所

To the members
SINO BIOPHARMACEUTICAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 31 to 70 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 an 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 Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. 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 of the Group as at 31 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.

Ernst & Young
Certified Public Accountants
Hong Kong

14 March 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (restated)
TURNOVER	5	**539,910**	392,726
Cost of sales		**(101,436)**	(83,222)
Gross profit		**438,474**	309,504
Other operating income	5	**5,092**	2,314
Selling and distribution costs		**(237,601)**	(163,740)
Administrative expenses		**(78,610)**	(54,987)
Other operating expenses		**(7,793)**	(5,400)
PROFIT FROM OPERATING ACTIVITIES	6	**119,562**	87,691
Finance costs	7	**(1,913)**	(2,483)
PROFIT BEFORE TAX		**117,649**	85,208
Tax	10	**(8,184)**	(6,767)
PROFIT BEFORE MINORITY INTERESTS		**109,465**	78,441
Minority interests		**(47,730)**	(33,428)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**61,735**	45,013
Dividends	12		
Interim		**12,000**	–
Proposed final		**30,000**	15,000
		42,000	15,000
EARNINGS PER SHARE	13		
Basic		**HK$20.6 cents**	HK$17.6 cents
Diluted		**HK$19.4 cents**	N/A

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (restated)
Surplus on revaluation of leasehold buildings	*14 & 30*	–	2,546
Exchange differences on translation of the financial statements of foreign entities	*30*	–	383
Net gains not recognised in the profit and loss account		–	2,929
Net profit for the year attributable to shareholders:			
Current year/prior year (as previously reported)		**61,735**	45,522
Effect of retrospective changes in accounting policies	*30(d)(i) & (ii)*	–	(509)
Total recognised gains		**61,735**	47,942

CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000 (restated)
NON-CURRENT ASSETS			
Fixed assets	14	**122,079**	110,800
Intangible assets	15	**548**	–
Goodwill	16	**3,120**	3,852
Long term investment	17	**29,820**	29,820
		155,567	144,472
CURRENT ASSETS			
Inventories	18	**37,558**	34,671
Trade receivables	19	**56,371**	47,080
Other receivables	20	**11,657**	17,120
Amounts due from related companies	21	**16**	8,834
Cash and cash equivalents	22	**171,960**	125,055
		277,562	232,760
CURRENT LIABILITIES			
Trade payables	24	**16,385**	12,811
Profit tax payable		**1,557**	1,824
Taxes payable other than profit tax	25	**10,592**	10,297
Other payables and accruals	26	**63,153**	49,456
Bank and other borrowings	27	**–**	24,091
Amounts due to related companies	28	**113**	130
		91,800	98,609
NET CURRENT ASSETS		**185,762**	134,151
TOTAL ASSETS LESS CURRENT LIABILITIES		**341,329**	278,623
Minority interests		**(96,790)**	(68,819)
		244,539	209,804
CAPITAL AND RESERVES			
Issued capital	29	**30,000**	30,000
Reserves	30	**184,539**	164,804
Proposed final dividend	12	**30,000**	15,000
		244,539	209,804

Tao Huiqi
Director

Ling Peixue
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Notes	2001 *HK$'000*	2000 *HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	*31(a)*	**135,976**	102,967
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**3,603**	2,206
Interest paid		**(1,770)**	(2,199)
Dividend received from an unlisted investment		**4,715**	4,206
Dividends paid to minority shareholders		**(30,749)**	(15,998)
Dividends paid		**(27,000)**	(10,200)
Net cash outflow from returns on investments and servicing of finance		**(51,201)**	(21,985)
TAX			
PRC profit tax paid		**(8,451)**	(5,804)
INVESTING ACTIVITIES			
Purchases of fixed assets and construction in progress		**(28,798)**	(30,294)
Proceeds from disposal of fixed assets		**33**	855
Net cash outflow from investing activities		**(28,765)**	(29,439)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		**47,559**	45,739
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		**47,559**	45,739
FINANCING ACTIVITIES	*31(b)*		
Proceeds from issue of share capital		**–**	72,000
Share issue expenses		**–**	(10,027)
Increase in minority interests		**14,951**	–
Repayments/(advances) to a minority shareholder		**8,486**	(8,486)
New short term bank loans		**78,732**	52,944
Repayment of bank loans		**(99,051)**	(55,301)
Repayment of loans from minority shareholders		**(3,772)**	(22,781)
Repayment of other loans		**–**	(3,526)
Net cash inflow/(outflow) from financing activities		**(654)**	24,823

CONSOLIDATED CASH FLOW STATEMENT cont'd

Year ended 31 December 2001

	2001	2000
	HK$'000	*HK$'000*
INCREASE IN CASH AND CASH EQUIVALENTS	**46,905**	70,562
Cash and cash equivalents at beginning of year	**125,055**	54,213
Effect of foreign exchange rate changes, net	**–**	280
CASH AND CASH EQUIVALENTS AT END OF YEAR	**171,960**	125,055
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**99,730**	125,055
Time deposits with original maturity of less than three months when acquired	**72,230**	–
	171,960	125,055

BALANCE SHEET

31 December 2001

	Notes	2001 *HK$'000*	2000 *HK$'000* *(restated)*
NON-CURRENT ASSETS			
Fixed assets	*14*	699	144
Interests in subsidiaries	*23*	130,220	129,910
		130,919	130,054
CURRENT ASSETS			
Other receivables	*20*	20,532	163
Cash and cash equivalents	*22*	46,054	60,521
		66,586	60,684
CURRENT LIABILITIES			
Taxes payable		36	–
Other payables and accruals	*26*	1,103	600
		1,139	600
NET CURRENT ASSETS		65,447	60,084
TOTAL ASSETS LESS CURRENT LIABILITIES		196,366	190,138
CAPITAL AND RESERVES			
Issued capital	*29*	30,000	30,000
Reserves	*30*	136,366	145,138
Proposed final dividend	*12*	30,000	15,000
		196,366	190,138

Tao Huiqi
Director

Ling Peixue
Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February 2000 under the Companies Law (2000 Revision) of the Cayman Islands.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group has continued to be principally engaged in the research and development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic diseases and a series of modernised Chinese medicines and chemical medicines for the treatment of hepatitis; and the investment in a sino-joint venture enterprise, whose principal activities are manufacturing, distribution and sale of pharmaceutical products.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised below.

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. Further, since the appropriation of certain statutory fund is approved by the board of directors after the balance sheet date but before the approval date of the financial statements, they are no longer recognised as a liability at the balance sheet date. The prior year adjustment arising from the adoption of this new SSAP are detailed in notes 12 and 30(c) to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (CONT'D)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have no effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment is required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 33(b) to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11 and 30(d) to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of the SSAP and the required additional disclosures have no significant effect on the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The SSAP also requires that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill to be amortised to the profit and loss account over its estimated useful life. The adoption of the SSAP and Interpretation has no significant impact on the preparation of these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year's financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (CONT'D)

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 17: "Property, plant and equipment"
- SSAP 21: "Accounting for interests in joint ventures"

There is no significant effect on the financial statements arising from the revised SSAP 17 and SSAP 21.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained in note 14.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation and presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year. The results of subsidiaries acquired or disposed of during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively.

The comparative consolidated financial statements have been prepared from the financial statements of the Company and its subsidiaries using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of the subsidiaries acquired through the Group's reorganisation (the "Reorganisation") on 19 September 2000. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2000 include the results of the Company and its subsidiaries with effect from 2 February 2000 or since their respective dates of incorporation, where this is a shorter period.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company, other than a jointly controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Goodwill

Goodwill arising on the consolidation of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on consolidation is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life, not exceeding a period of 10 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the value of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss accounts. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued fixed asset, the relevant portion of the revaluation reserve realised in respect of a previous valuation is transferred to retained earnings as a movement in reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fixed assets and depreciation (cont'd)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation and is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Patent

Purchased patent is stated at cost and amortised on the straight-line basis over its estimated useful life not exceeding 10 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects in developing new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised on the straight-line basis over the shorter of the commercial lives of the underlying products or not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Long term investments

Long term investment are non-trading investments in unlisted equity securities intended to be held on a long term basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a securities are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. This prior scheme operated in a similar way to the MPF Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1 December 2000, the prior scheme was terminated.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute 20-25% of its payroll costs to the central pension scheme.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(iii) dividends, when the shareholders' right to receive payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within reserves, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles grant the directors authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatment for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 11, 12 and 30(d) to the financial statements.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common influence. Related parties may be individuals or corporate entities.

Cash equivalents

For purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represents assets similar to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Over 90% of the Group's revenue results, assets and liabilities are accounted by the pharmaceutical business segment which is predominantly undertaken in the PRC. Accordingly, geographical segment information is not shown.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the pharmaceutical products segment comprise manufacture, sale and distribution of pharmaceutical products; and

(b) the investment segment is engaged in long term investments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format.

4. SEGMENT INFORMATION (CONT'D)

Business Segments

	Pharmaceutical Products		Investment		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		*(restated)*		*(restated)*
Segment revenue:						
Sales to external customers	**530,006**	388,520	**–**	–	**530,006**	388,520
Dividend income	**–**	–	**9,904**	4,206	**9,904**	4,206
Total	**530,006**	388,520	**9,904**	4,206	**539,910**	392,726
Segment results	**118,608**	85,137	**7,634**	3,374	**126,242**	88,511
Unallocated expenses					**(11,772)**	(3,134)
Interest and other income					**5,092**	2,314
Profit from operating activities					**119,562**	87,691
Finance costs					**(1,913)**	(2,483)
Profit before tax					**117,649**	85,208
Tax					**(8,184)**	(6,767)
Profit before minority interests					**109,465**	78,441
Minority interests					**(47,730)**	(33,428)
Net profit from ordinary activities attributable to shareholders					**61,735**	45,013
Segment assets	**352,408**	287,971	**80,721**	89,261	**433,129**	377,232
Total assets	**352,408**	287,971	**80,721**	89,261	**433,129**	377,232
Segment liabilities	**90,661**	98,009	**1,139**	600	**91,800**	98,609
Total liabilities	**90,661**	98,009	**1,139**	600	**91,800**	98,609
Other segment information:						
Depreciation and amortisation	**13,751**	10,086	**77**	7	**13,828**	10,093
Other non-cash expenses	**1,323**	–	**–**	–	**1,323**	–

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for sales returns and discounts, and dividend income.

An analysis of turnover and revenue is as follows:

	2001	2000
	HK$'000	*HK$'000*
		(restated)
Turnover		
Sale of goods	530,006	388,520
Dividend income from an unlisted investment	9,904	4,206
	539,910	392,726
Other revenue		
Interest income	3,603	2,206
Subsidy income	1,489	–
Sale of scrap materials	–	108
	5,092	2,314

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2001	2000
	HK$'000	*HK$'000*
Cost of inventories sold	101,436	83,222
Depreciation	13,075	9,497
Amortisation of intangible assets*	21	–
Amortisation of goodwill*	732	596
Minimum lease payments under operating leases:		
Land and buildings	4,763	2,566
Plant and machinery	1,604	1,834
	6,367	4,400
Loss on disposal of fixed assets	1,323	–
Research and development costs	6,470	5,400
Auditors' remuneration	480	480
Staff costs (including directors' remuneration, *note 8*):		
Wages and salaries	56,895	49,899
Pension contributions**	6,395	5,105
Total	63,290	55,004

6. PROFIT FROM OPERATING ACTIVITIES (CONT'D)

and after crediting:

	2001	2000
	HK$'000	*HK$'000*
		(restated)
Gain on disposal of fixed assets	–	72
Sales of scrap materials	–	108
Exchange gains, net	76	42
Dividend income from unlisted investment	9,904	4,206
Interest income	3,603	2,206

* The amortisation of intangible assets (i.e. patent) and goodwill for the year are included in "Other operating expenses" and "Cost of sales", respectively, on the face of the profit and loss account.

** During the year, certain of the Company's subsidiaries were members of a pension contribution scheme managed by the respective local governments. Contributions made were based on 20% – 25% (2000: 25%) of the employees' salaries and were charged to the profit and loss account as they became payable.

According to the existing PRC regulations, no forfeited contributions may be used by the employer to reduce the existing level of contributions.

7. FINANCE COSTS

	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within one year	1,770	2,136
Interest on other loans	–	39
Interest on loans from minority shareholders	–	24
Total interest	1,770	2,199
Others	143	284
	1,913	2,483

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	2001	2000
	HK$'000	*HK$'000*
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	2,799	958
Pension contributions	45	10
Discretionary bonuses	1,263	650
	4,107	1,618

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil to HK$1,000,000	4	6
HK$1,000,001 to HK$1,500,000	1	–
HK$2,000,001 to HK$2,500,000	1	–
	6	6

Four (2000: four) executive directors received emoluments of approximately HK$2,012,000 (2000: HK$622,000), HK$1,074,000 (2000: HK$584,000), HK$666,400 (2000: HK$317,000) and HK$210,000 (2000: HK$59,000), respectively, for the year ended 31 December 2001.

Two (2000: two) independent non-executive directors received emoluments of approximately HK$113,000 (2000: HK$27,000) and HK$36,000 (2000: HK$9,000), respectively, for the year ended 31 December 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

During the year, 10,500,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 24. The estimated value of such options, which was not charged to the profit and loss account, was HK$3,360,000 as at the date of the grant. This was determined by reference to the theoretical value as computed by the Black Scholes Model.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Company during the year included three (2000: two) directors, details of whose remuneration are set out in note 8 above.

The details of the remuneration of the remaining two (2000: three) non-directors and highest paid employee are as follows:

	2001	2000
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**384**	555
Pension scheme contributions	**17**	13
Discretionary bonuses	**975**	638
	1,376	1,206

The remuneration of all the non-directors and highest paid employees fell within the range of HK$Nil to HK$1,000,000.

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as inducement to join the Group, or as compensation for loss of office.

During the year, no share option was granted to the two non-director, highest paid employees.

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2001	2000
	HK$'000	*HK$'000*
Provision for the year		
PRC income tax	**8,184**	6,767

10. TAX (CONT'D)

Pursuant to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory income tax rate of 33% (30% state income tax plus 3% local income tax) unless the enterprise is qualified as an "Advanced Technology Enterprise" or located in specially designated regions or cities for which more favorable effective tax rates apply. The Group's principal operating subsidiaries are all qualified "Advanced Technology Enterprise" for which a preferential tax rate of 15% applies and are entitled to an income tax exemption for the two years commencing from the first profitable year (after deducting losses carried forward) and a 50% reduction for the succeeding three years.

As of 31 December 2001, the Group's principal operating subsidiaries are subject to an income tax rate of 7.5% (2000: 7.5%).

There are no significant potential deferred tax liabilities for which provision has not been made.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 is HK$33,228,000 (2000 (restated): net loss of HK$3,134,000.

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a decrease by HK$45,000,000 to the Company's net profit for that year, and a decrease of the same amount to dividend receivable in the Company's balance sheet. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in a reduction of HK$45,000,000 to the opening balance of retained profits as at 1 January 2001. This change in accounting policy which arose from the adoption of revised SSAP 18, are further detailed in notes 2 and 30(d)(ii) to the financial statements.

The effect of this change in accounting policy on the Company's net profit for the current year, was to reduce the net loss by HK$45,000,000 to give rise to a net profit of HK$33,228,000, as disclosed above.

12. DIVIDENDS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interim dividend		
– HK$0.04 (2000: Nil) per ordinary share	**12,000**	–
Proposed final dividend		
– HK$0.10 (2000: HK$0.05) per ordinary share	**30,000**	15,000
	42,000	15,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend of HK$15,000,000 for the year ended 31 December 2000, which was recognised as a current liability at 31 December 2000, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000, by HK$15,000,000.

The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividend of HK$30,000,000 was included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on net profit from ordinary activities attributable to shareholders for the year of HK$61,735,000 (2000 (restated): HK$45,013,000) and 300,000,000 ordinary shares in issue during the year (2000: 255,737,705 ordinary shares on the assumption that the Group Reorganisation was completed on 2 February 2000).

Diluted earnings per share for the year ended 31 December 2001 is based on 300,000,000 ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighted average number of 17,714,535 ordinary shares deemed to be issued at average fair value if all outstanding options was exercised during the year.

Diluted earnings per share for the year ended 31 December 2000 were not calculated because no dilutive events existed during that year.

14. FIXED ASSETS

Group

	Leasehold Buildings	Leasehold Improve-ments	Plant and Machinery	Motor Vehicles	Furniture and Fixtures	Construction In Progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:							
At beginning of year	33,023	14,935	66,868	8,421	9,655	9,601	142,503
Additions	–	170	1,745	1,553	3,045	19,197	25,710
Disposals	–	(20)	(2,772)	(507)	(542)	–	(3,841)
Transfers	–	822	10,646	–	2,359	(13,827)	–
At 31 December 2001	**33,023**	**15,907**	**76,487**	**9,467**	**14,517**	**14,971**	**164,372**
Analysis of cost or valuation:							
At cost	623	15,907	76,487	9,467	14,517	14,971	131,972
At valuation	32,400	–	–	–	–	–	32,400
	33,023	15,907	76,487	9,467	14,517	14,971	164,372
Accumulated depreciation:							
At beginning of year	888	6,336	17,966	2,810	3,703	–	31,703
Provided during the year	1,488	1,889	5,989	1,356	2,353	–	13,075
Disposals	–	–	(1,711)	(330)	(444)	–	(2,485)
At 31 December 2001	**2,376**	**8,225**	**22,244**	**3,836**	**5,612**	–	**42,293**
Net book value:							
At 31 December 2001	**30,647**	**7,682**	**54,243**	**5,631**	**8,905**	**14,971**	**122,079**
At 31 December 2000	32,135	8,599	48,902	5,611	5,952	9,601	110,800

14. FIXED ASSETS

Company

	Motor Vehicles *HK$'000*	Furniture and Fixtures *HK$'000*	Total *HK$'000*
Cost:			
At beginning of the year	–	151	151
Additions	566	66	632
At 31 December 2001	**566**	**217**	**783**
Accumulated depreciation:			
At beginning of the year	–	7	7
Provided during the year	34	43	77
At 31 December 2001	**34**	**50**	**84**
Net book value:			
At 31 December 2001	**532**	**167**	**699**
At 31 December 2000	–	144	144

The Group's leasehold buildings are all situated in the PRC and are held under long term leases.

The Group's leasehold buildings were revalued on 31 July 2000 by DTZ Debenham Tie Leung Limited ("DTZ"), independent professional valuers at an aggregate open market value of HK$32,400,000 based on their existing use. The surplus arising from the above revaluation attributable to the Group amounted to HK$2,546,000 was credited to the revaluation reserve in 2000. There is no material variance from the valuation of the Group's leasehold buildings as at 31 July 2000 and 31 December 2001.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$26,646,000 (2000: HK$28,133,000).

The relevant title certificates of certain leasehold buildings (the "Property") at cost of approximately HK$623,000 and net book value of approximately HK$514,000 as at 31 December 2001 (2000: HK$545,000) have not yet been obtained. The directors have continued their efforts to obtain the relevant title certificates. As the relevant title has not been obtained, no commercial value was assigned to these buildings by DTZ. For the purposes of these consolidated financial statements, these buildings are stated at their net book value as at 31 December 2001 as in the opinion of the directors, no impairment to the value of these buildings to the Group has occurred. In the opinion of the Group's PRC legal advisers, there is no legal impediment for the Group to obtain good title to the Property after compliance with outstanding requisite procedures and the Group would be entitled to transfer, dispose of, let or mortgage the Property after such compliance. The major shareholders of the Company have given an indemnity to the Company against any financial loss to the Group arising from the failure of securing the transfer of the titles to the Group.

14. FIXED ASSETS (CONT'D)

As at 31 December 2000, the Group's leasehold buildings with net book value amounting to HK$28,133,000 were pledged to secure bank loans. The pledge was released upon the full repayment of the bank loans during the year.

15. INTANGIBLE ASSETS

	Patent
	2001
	HK$'000
Cost:	
Additions and balance at end of year	**569**
Accumulated amortisation:	
Provided during the year and balance at 31 December 2001	**21**
Net book value	**548**

16. GOODWILL

	Group	
	2001	2000
	HK$'000	*HK$'000*
Cost:		
At beginning and end of year	**6,781**	6,781
Accumulated amortisation:		
At beginning of year	**2,929**	2,333
Provided during the year	**732**	596
At end of year	**3,661**	2,929
Net book value	**3,120**	3,852

17. LONG TERM INVESTMENT

	Group	
	2001	2000
	HK$'000	*HK$'000*
Unlisted equity investment, at fair value	**29,820**	29,820

18. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**15,160**	11,535
Work in progress	**7,527**	8,825
Finished goods	**13,670**	13,298
Spare parts and consumables	**1,201**	1,013
	37,558	34,671

No inventories were carried at net realisable value at the balance sheet dates.

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	2001	2000
	HK$'000	*HK$'000*
Current to 90 days	**52,752**	39,232
91 days to 180 days	**3,619**	6,657
Over 180 days	**–**	1,191
	56,371	47,080

20. OTHER RECEIVABLES

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		*(restated)*
Advances to suppliers	**1,626**	1,397	**–**	–
Other receivables	**4,453**	4,774	**332**	124
Prepaid expenses	**389**	10,949	**–**	39
Dividends receivable	**5,189**	–	**20,200**	–
	11,657	17,120	**20,532**	163

21. AMOUNTS DUE FROM RELATED COMPANIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Advance to a Chinese joint venture partner of a subsidiary	**–**	8,486
Amounts due from related companies	**16**	348
	16	8,834

The unsecured advance to a Chinese joint venture partner of a subsidiary at 31 December 2000 bore interest at 6.138% per annum and was fully repaid in March 2001. The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		*(restated)*
Cash and bank balances	**99,730**	125,055	**482**	60,521
Time deposits	**72,230**	–	**45,572**	–
	171,960	125,055	**46,054**	60,521

23. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**131,299**	131,299
Due to subsidiaries	**(1,079)**	(1,389)
	130,220	129,910

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

23. INTERESTS IN SUBSIDIARIES (CONT'D)

Particulars of the subsidiaries are as follows:

Company	Place and date of incorporation/ registration	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chia Tai Pharmaceutical (Lianyungang) Co., Limited	British Virgin Islands 2 July 1998	US$3 Ordinary	100	–	Investment holding
Sino Concept Technology Limited	Hong Kong 21 February 1991	HK$10,100 Ordinary	100	–	Investment holding and provision of management services
Champion First Investments Limited ("Champion First")	British Virgin Islands 22 September 1998	US$2 Ordinary	100	–	Investment holding
Shangdong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF")	PRC 31 March 1992	RMB28,000,000	–	55	Development, manufacture and distribution of pharmaceutical products
Jiangsu Chia Tai-Tiangqing Pharmaceutical Co., Ltd. ("JCTT")	PRC 16 April 1997	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP")	PRC 27 December 2000	RMB8,000,000	–	55	Production and sale of packaging materials
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")	PRC 31 August 2001	US$5,050,000	–	51	Manufacture and sale of healthcare products

During the year, JCTT's registered capital was increased from RMB68,000,000 to RMB99,000,000, details of which are set out in note 30(b) to the financial statements.

24. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on invoice date, is as follows:

	2001	2000
	HK$'000	*HK$'000*
Current to 90 days	**15,864**	11,401
91 days to 180 days	**51**	420
Over 180 days	**470**	990
	16,385	12,811

25. TAXES PAYABLE OTHER THAN PROFIT TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Value added tax	**9,274**	9,967
Individual income tax	**996**	44
Property tax	**322**	286
	10,592	10,297

26. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		*(restated)*
Advances from customers	**591**	2,069	**–**	–
Accrued payroll	**20,772**	13,796	**–**	281
Other payables	**11,422**	10,999	**53**	–
Accrued expenses	**12,837**	10,898	**1,050**	319
Housing fund	**2,421**	2,449	**–**	–
Staff welfare and bonus fund	**11,149**	9,245	**–**	–
Interim dividend payable to minority interests	**3,961**	–	**–**	–
	63,153	49,456	**1,103**	600

27. BANK AND OTHER BORROWINGS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest-bearing bank loans repayable within one year:		
– secured	–	10,843
– unsecured	–	9,476
	–	20,319
Interest-free borrowings repayable within one year:		
Other loans, unsecured	–	3,772
	–	24,091

At 31 December 2000, the Group's secured bank loans were pledged by the Group's leasehold buildings with aggregate net book value of approximately HK$28,133,000. The unsecured bank loans were guaranteed by a Chinese joint venture partner of a subsidiary. All pledges were released during 2001 upon full repayment of bank loan and other loans.

28. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

29. SHARE CAPITAL

	Group and Company	
	2001	2000
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
300,000,000 ordinary shares of HK$0.1 each	**30,000**	30,000

During the period from 2 February 2000 (date of incorporation) to 31 December 2000, the following movements in the Company's share capital took place:

(a) as at the date of incorporation, the authorised share capital of the Company was HK$380,000 divided into 3,800,000 shares of HK$0.10 each, of which one share was allotted and issued to a subscriber at par on 2 February 2000;

29. SHARE CAPITAL (CONT'D)

(b) pursuant to written resolutions of the sole shareholder of the Company passed on 19 September 2000, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of 996,200,000 shares of HK$0.10 each;

(c) on 19 September 2000, the Company allotted and issued an aggregate of 239,999,999 shares of HK$0.10 each, credited as fully paid in exchange and as consideration for the acquisition of the entire issued share capital of Chia Tai Pharmaceutical (Lianyungang) Company Limited, Champion First and Sino Concept Technology Limited to Conspicuous Group Limited, Remarkable Industries Limited, Validated Profits Limited and Discover Profits Limited;

(d) on 19 September 2000, following the allotment of the shares as referred to in (c) above, the one issued share referred to in (a) above was transferred to Conspicuous Group Limited at its nominal value of HK$0.10; and

(e) on 27 September 2000, 60,000,000 shares of HK$0.10 each were issued at HK$1.20 each to the public by way of placing for a total cash consideration before expenses of HK$72,000,000.

Save as aforesaid, there was no alteration in the share capital of the Company since the date of its incorporation.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 24.

During the year, the Company granted a total of 30,000,000 share options which entitled certain executive directors and employees to subscribe for ordinary shares in the capital of the Company during the period from 2 January 2003 to 1 January 2007 (both days inclusive) at an exercise price of HK$0.74 each. The aggregate consideration paid by each grantee for each lot of share options granted is HK$1.00.

No share option was exercised during the year and at the balance sheet date. The Company had 30,000,000 share options outstanding under the Scheme, with exercise periods ranging from 2 January 2003 to 1 January 2007 (both days inclusive) at an exercise price of HK$0.74 each. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 30,000,000 additional ordinary shares and would generate cash proceeds, before the related issue expenses, of approximately HK$22,200,000.

30. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Leasehold building revaluation reserve HK$'000	Statutory reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2000								
As previously reported	–	52,605	–	–	8,339	115	18,946	80,005
Prior year adjustments								
SSAP 9 – *note 30(c)(i)*	–	–	–	–	(2,595)	–	2,595	–
SSAP 18 – *note 30(d)(i)*	–	–	–	–	–	–	(4,206)	(4,206)
As restated	–	52,605	–	–	5,744	115	17,335	75,799
Issue of shares	66,000	–	–	–	–	–	–	66,000
Share issue expenses	(10,027)	–	–	–	–	–	–	(10,027)
Net profit for the year *(as restated)*	–	–	–	–	–	–	45,013	45,013
Transfer from statutory reserve fund *(note 30(a))*	–	–	4,149	–	(4,149)	–	–	–
Surplus on revaluation	–	–	–	2,546	–	–	–	2,546
Transfer from retained profits	–	–	–	–	2,595	–	(2,595)	–
Exchange realignment	–	–	–	–	90	383	–	473
Proposed final dividend 2000	–	–	–	–	–	–	(15,000)	(15,000)
At 31 December 2000	55,973	52,605	4,149	2,546	4,280	498	44,753	164,804
At 1 January 2001								
As previously reported	55,973	52,605	4,149	2,546	8,993	498	44,755	169,519
Prior year adjustments								
SSAP 9 – *note 30(c)(ii)*	–	–	–	–	(4,713)	–	4,713	–
SSAP 18 – *note 30(d)(ii)*	–	–	–	–	–	–	(4,715)	(4,715)
As restated	55,973	52,605	4,149	2,546	4,280	498	44,753	164,804
Interim dividend for 2001	–	–	–	–	–	–	(12,000)	(12,000)
Net profit for the year	–	–	–	–	–	–	61,735	61,735
Transfer from statutory reserve fund *(note 30(b))*	–	–	7,642	–	(7,642)	–	–	–
Transfer from retained profits	–	–	9,896	–	6,774	–	(16,670)	–
Proposed final dividend 2001	–	–	–	–	–	–	(30,000)	(30,000)
At 31 December 2001	**55,973**	**52,605**	**21,687**	**2,546**	**3,412**	**498**	**47,818**	**184,539**
Reserves retained by Company and subsidiaries:								
31 December 2001	**55,973**	**52,605**	**21,687**	**2,546**	**3,412**	**498**	**47,818**	**184,539**
31 December 2000	55,973	52,605	4,149	2,546	4,280	498	44,753	164,804

30. RESERVES (CONT'D)

The contributed surplus of the Group represents the difference between the nominal value of the shares and the share premium account of the former holding companies acquired pursuant to the Group Reorganisation as stated in the Company's prospectus dated 22 September 2000, over the nominal value of the Company's shares issued in exchange therefor.

According to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the PRC on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's PRC joint venture, profits of the Group's PRC joint ventures as determined in accordance with the accounting rules and regulations in the PRC are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including general reserve fund, enterprise expansion fund and staff welfare and bonus fund. The appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures in the PRC.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonus or collective welfare to the employees of the joint venture.

Capital reserve is non-distributable and arose from capitalisation of statutory funds upon approval for increase in the registered capital of the PRC joint ventures.

(a) On 21 November 2000, CTF's registered capital was increased from RMB20,000,000 to RMB28,000,000 by way of capitalisation of the statutory reserve fund (comprising the general reserve fund and enterprise expansion fund) at an aggregate amount of RMB8,000,000. Accordingly, an amount attributable to the Group of RMB4,400,000, equivalent to HK$4,149,000, was transferred to capital reserve on consolidation.

(b) On 12 November 2001, JCTT's registered capital was increased from RMB68,000,000 to RMB99,000,000 by way of capitalisation of the statutory reserve fund (comprising the general reserve fund and enterprise expansion fund) at an aggregate amount of RMB13,508,000 and retained profits of RMB17,492,000, respectively. Accordingly, amounts attributable to the Group of RMB8,104,800 and RMB10,495,200, equivalent to HK$7,642,000 and HK$9,896,000, respectively, were transferred to capital reserve on consolidation.

(c) Amounts to be appropriated from retained profits to the statutory funds of the PRC joint ventures for the financial year are declared in the respective board of directors' meeting after the balance sheet date. In the prior years, these were recognised in the financial year to which the appropriations relate.

30. RESERVES (CONT'D)

To conform with the revised SSAP 9 as detailed in note 2 to the financial statements, a summary of the restatements to the financial statements is as follows:

i) as at 1 January 2000, the Group's statutory reserve funds have decreased by HK$2,595,000 and retained profits have increased by the same amount, minority interests have increased by HK$23,843,000 and dividends payable to minority interests (as included in other payables and accruals) have decreased by HK$23,843,000; and

ii) as at 31 December 2000, the Group's statutory reserve funds have decreased by HK$4,713,000 and retained profits has increased by the same amount, minority interests has increased by HK$30,688,000 and dividends payable to minority interests (as included in other payables and accruals) has decreased by the same amount.

(d) To conform with the revised SSAP 18 as detailed in note 2 to the financial statements, the following restatements were made:

i) for a dividend of HK$4,206,000 which was declared by CTQ after 31 December 1999 and previously recognised as income in the Group's financial statements in that year, a prior year adjustment was made to reduce dividends receivable and the opening balance of retained profits both by HK$4,206,000 as at 1 January 2000;

ii) for a dividend income of HK$4,715,000 which was declared after 31 December 2000 and previously recognised as income in the Group's financial statements in that year, a prior year adjustment was made to reduce dividend receivable and the opening balance of retained profits both by HK$4,715,000 as at 1 January 2001; and

iii) for a dividend of HK$45,000,000 declared by subsidiaries after 31 December 2000 and previously recognised as income in the Company's financial statements in that year, a prior year adjustment was made to reduce dividend receivable and retained profits both by HK$45,000,000 as at 1 January 2001.

30. RESERVES (CONT'D)

Company

	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Arising from the issue of shares for the acquisition of subsidiaries	–	107,299	–	107,299
Issue of shares on public listing	66,000	–	–	66,000
Share issue expenses	(10,027)	–	–	(10,027)
Net profit for the year *(as restated)*	–	–	(3,134)	(3,134)
Proposed final dividend for 2000	–	–	(15,000)	(15,000)
At 31 December 2000	55,973	107,299	(18,134)	145,138
At 1 January 2001				
As previously reported	55,973	107,299	26,866	190,138
Prior year adjustments				
SSAP 18 – *note 30(d)(iii)*	–	–	(45,000)	(45,000)
As restated	55,973	107,299	(18,134)	145,138
Interim dividend for 2001	–	–	(12,000)	(12,000)
Net profit for the year	–	–	33,228	33,228
Proposed final dividend for 2001	–	–	(30,000)	(30,000)
At 31 December 2001	**55,973**	**107,299**	**(26,906)**	**136,366**

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation as set out in the Company's prospectus dated 22 September 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2000 Revision) of Cayman Islands, the share premium account may be distributed to shareholders under certain circumstances.

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to net cash inflow from operating activities

	2001	2000
	HK$'000	*HK$'000*
		(restated)
Profit before tax	**117,649**	85,208
Interest income	**(3,603)**	(2,206)
Interest expenses	**1,770**	2,199
Investment income	**(9,904)**	(4,206)
Depreciation	**13,075**	9,497
Goodwill amortisation	**732**	596
Patent and license amortisation	**21**	–
(Gain)/loss on disposal of fixed assets	**1,323**	(72)
Increase in inventories	**(2,887)**	(6,433)
(Increase)/decrease in trade receivables	**(9,291)**	10,901
(Increase)/decrease in other receivables	**10,838**	(10,740)
Decrease in amounts due from related companies	**332**	2,257
(Decrease)/increase in trade payables	**3,519**	(686)
Increase in taxes payable other than corporate income tax	**295**	4,231
Increase in other payables and accruals	**12,124**	13,887
Decrease in amounts due to related companies	**(17)**	(1,466)
Net cash inflow from operating activities	**135,976**	102,967

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(b) Analysis of changes in financing during the year

	Issued capital (including share premium) *HK$'000*	Bank and other loans *HK$'000*	Minority interests *HK$'000* *(restated)*
Balance at 1 January 2000	24,000	52,532	33,499
Cash outflow from financing activities, net	–	(28,664)	–
Issue of shares	61,973	–	–
Share of profit after tax	–	–	33,428
Share of surplus on revaluation	–	–	1,721
Reclassified as dividend payable to minority interests	–	–	(30,688)
Exchange realignment	–	223	171
Balance at 31 December 2000			
As previously stated	85,973	24,091	38,131
Prior year adjustment SSAP 9 – *note 30(c)(ii)*	–	–	30,688
As restated	85,973	24,091	68,819
Cash outflow from financing activities, net	–	(24,091)	–
Share of profit after tax	–	–	47,730
Share of dividend	–	–	(30,749)
Increase in minority interests	–	–	14,951
Reclassified as dividend payable to minority interests	–	–	(3,961)
Balance at 31 December 2001	**85,973**	**–**	**96,790**

(c) Major non-cash transactions

During the year, the registered capital of JCTT was increased from Rmb68,000,000 to RMB99,000,000. The increase in registered capital was satisfied by capitalisation of the general reserve fund, enterprise expansion fund and retained profits for an aggregate amount of RMB31,000,000, equivalent to approximately HK$29,229,900.

In the prior year, the consideration for the acquisitions of subsidiaries pursuant to the Group Reorganisation as set out in the Company's prospectus dated 22 September 2000 were satisfied by the issuance of the Company's shares.

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(c) **Major non-cash transactions** (cont'd)

Additionally, in the prior year, the registered capital of CTF was increased from RMB20,000,000 to Rmb28,000,000. The increase in registered capital was satisfied by capitalisation of the general reserve fund and enterprise expansion fund for an aggregate amount of Rmb8,000,000, equivalent to HK$7,543,200.

32. CONTINGENT LIABILITIES

At the balance sheet dates, neither the Group nor the Company had any significant contingent liabilities.

33. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) **Capital commitments**

	Group	
	2001	2000
	HK$'000	*HK$'000*
Contracted, but not provided for	**2,921**	9,134
Authorised, but not contracted for	**28,018**	6,129
	30,939	15,263

The Company did not have any capital commitments at the balance sheet dates.

(b) **Commitments under operating leases**

Total future minimum lease payments under non-cancellable operating lease agreements falling due as follows:

	Group 2001		
	Land and buildings	**Plant and machinery**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Within one year	**1,436**	**1,835**	**3,271**
In the second to fifth years, inclusive	**2,287**	**–**	**2,287**
After five years	**22,912**	**–**	**22,912**
	26,635	**1,835**	**28,470**

33. COMMITMENTS (CONT'D)

(b) **Commitments under operating leases** (cont'd)

	Group 2000 *(restated)* Land and buildings *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
Within one year	4,528	1,860	6,388
In the second to fifth years, inclusive	2,288	–	2,288
After five years	23,478	–	23,478
	30,294	1,860	32,154

The Group's operating leases for land and buildings are entered for a term of 50 years. Operating lease for plant and machinery is entered for a term of one year.

	Company **2001** ***HK$'000***	2000 *HK$'000* *(restated)*
In respect of land and buildings expiring:		
within one year	**336**	808
in the second to fifth years, inclusive	**–**	336
	336	1,144

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, were restated to accord with the current year's presentation.

34. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	2001	2000
	HK$'000	*HK$'000*
Bank loan guaranteed by a Chinese joint venture partner of a subsidiary	**–**	9,476
Sales of goods to a Chinese joint venture partner of a subsidiary *(note a)*	**1,159**	2,270
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner *(note b)*	**3,111**	2,952
– a Chinese joint venture partner of a subsidiary *(note b)*	**562**	562
– a company beneficially owned by a director *(note c)*	**660**	385

Notes:

(a) Sales of goods to a Chinese joint venture partner of a subsidiary were conducted at market prices.

(b) Operating lease rentals payable to a fellow subsidiary of a subsidiary's Chinese joint venture partner and a subsidiary's Chinese joint venture partner were determined at an agreed rate in accordance with the relevant lease contracts.

(c) Tenancy agreement entered between the Company and a company beneficially owned by a director. The rental is based on market price.

In addition, the Group's unsecured interest-free loan of HK$3,772,000 obtained from the Chinese joint venture partner of a subsidiary was fully repaid in March 2001.

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised by the board of directors on 14 March 2002.

CORPORATE INFORMATION

Legal name of the Company	Sino Biopharmaceutical Limited
Stock code (ordinary shares)	8027
Place of incorporation	Cayman Islands
Date of initial listing on GEM	29 September, 2000
Directors	*Executive Directors* Mr. Tse Ping *(Chairman)* Mr. Wang Jinyu Mr. Ling Peixue Mr. Tao Huiqi *Independent non-executive Directors* Dr. Patrick Ho Chi Ping JP Mr. Hu Xi Ming
Compliance officer	Mr. Tse Ping
Qualified accountant and Company secretary	Ms. Wong Pui Shan, ACCA, AHKSA
Audit committee	Dr. Patrick Ho Chi Ping JP *(Chairman)* Mr. Hu Xi Ming
Authorised representatives	Mr. Tse Ping Ms. Wong Pui Shan
Authorised persons to accept services of process and notices	Ms. Tse Wun
Principal bankers	CITIC Ka Wah Bank Limited 166 Hennessy Road Wanchai Hong Kong Agricultural Bank of China, Lianyungang Branch No. 43 North Tong-guan Road, Xinpu, Lianyungang, Jiangsu Province PRC Bank of China, Jinan Branch 22 Luoyuan Street, Jinan Province, PRC

Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Registered office	Codan Trust Company (Cayman) Limited Century Yard Cricket Square Hutchins Drive P.O.Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	Unit 09, 41st Floor, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
Web-site address	www.sinobiopharm.com
Sponsor	DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Central Hong Kong
Auditors	Ernst & Young *Certified Public Accountants* 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong

Legal advisers

As to Hong Kong Law:–
Chao and Chung
26th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

As to Cayman Islands Law:–
Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
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P.O. Box 2681GT
George Town
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British West Indies

As to PRC Law:–
Tianping Law Office
Unit 1107/08, CNT Manhattan Building
6 Chaoyangmen Beidajie
Beijing
PRC

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Sino Biopharmaceutical Limited (the "Company") will be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 26th April, 2002, Friday, at 11:00 a.m. for the following purposes:–

1. To receive, consider and adopt the audited consolidated financial statements of the Company and the reports of the Directors and the auditors of the Company for the year ended 31st December, 2001;

2. To approve the payment of a final dividend for the year ended 31st December, 2001;

3. To re-elect the Directors and to authorize the Board of Directors to fix the remuneration of the directors of the Company;

4. To re-appoint the auditors of the Company and to authorize the Board of Directors to fix the remuneration of the auditors of the Company; and

5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:–

A. "THAT

(a) subject to paragraph (c) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval of paragraph (a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares of the Company, which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal value of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the time of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares whose names on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "THAT

(a) subject to paragraph (b) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase securities of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal value of securities authorized to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company at the date of the passing this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

"Relevant Period" means the period from the time of the passing of this resolution until whichever is the earliest of :

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; and

(iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution."

C. **"THAT**, conditional upon the resolutions set out in paragraphs 5A and 5B of the notice convening this meeting being duly passed, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares in the capital of the Company pursuant to the resolution set out in paragraph 5A of the notice convening this meeting be and is hereby extended by the addition thereon of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5B of the notice convening this meeting provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of the said resolution."

By Order of the Board
Wong Pui Shan
Company Secretary

Hong Kong, 28th March, 2002

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not to be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.

3. The registrar of members of the Company will be closed from 23rd April, 2002 (Tuesday) to 26th April, 2002 (Friday) (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on 22nd April, 2002 (Monday) for registration.

4. Concerning resolution 5B above, the explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, will be set out in a separate letter from the Company to be enclosed with the annual report 2001.