上海實業醫藥科技(集團)有限公司*

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

(Incorporated in the Cayman Islands with limited liability)

Annual Results Announcement
for the year ended 31st December 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 in order to obtain up-to-date information on GEM-listed issuers.

The Directors collectively and individually accept full responsibility for this announcement, which is given in compliance with the requirements (Rules Governing the Listing of Securities on the Growth Enterprise Market) of the Stock Exchange. The Directors confirm, having made all reasonable enquires, that to the best of their knowledge and belief, (i) the information contained in the announcement are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this announcement have been arrived at after due and careful consideration on the basis and assumptions of reasonableness and fairness.

HIGHLIGHTS

Persistent Profit Growth

- Profits after tax up 2.2 times at approximately HK$233 million.
- Turnover up approximately 35.7% to HK$724 million.

Sound Asset Base

- Net cash on hand over HK$420 million.
- The ratio of current assets to current liabilities is more than 3.

Substantial Business Improvement

- The Group has maintained rapid growth rate since it listed in 1999. The compound growth rate of turnover was 30.5% per annum.
- The research and development infrastructure will continue to provide the Company with quality products and further business development.

Increased Shareholder Value

- Net asset value per share up 40.7% and average Return on Capital Employed increased to 36.9% during the year.
- The Board of Directors will recommend a final dividend of HK3 cents per share and a special final dividend of HK1.5 cents per share.

CONSOLIDATED INCOME STATEMENT

The Board of Directors of SIIC Medical Science and Technology (Group) Limited (the "Company") is pleased to announce that the audited consolidated results for the year ended 31st December 2001 of the Company and its subsidiaries (the "Group") and the comparative figures for the last year are set out below:

	Notes	**2001** *HK$'000*	2000 *HK$'000*
Turnover	2	**723,911**	533,434
Cost of sales		**(283,900)**	(166,886)
Gross profit		**440,011**	366,548
Investment income		**8,496**	15,428
Other income		**208**	578
Distribution costs		**(205,853)**	(181,156)
Administration expenses		**(85,286)**	(75,915)
Profit from operations	3	**157,576**	125,483
Finance costs		**(4)**	(1,526)
Gain on deemed disposal of interests in a jointly controlled entity	4	**155,694**	-
Share of profit of an associated company	5	**27,577**	-
Share of profit of jointly controlled entities		**259**	23,490
Profit from ordinary activities before taxation		**341,102**	147,447
Taxation	6	**(52,831)**	(20,215)
Profit before minority interests		**288,271**	127,232
Minority interests		**(55,586)**	(54,914)
Profit for the year	1	**232,685**	72,318
Dividend	7	**18,600**	-
Earnings per share – Basic	8	**37.5 cents**	11.7 cents

Notes:

1. Basis of preparation

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

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

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

<u>Dividends proposed or declared after the balance sheet date</u>

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

2. Turnover

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

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

3. Profit from operations

During the year, the profit from operations was principally come from Chia Tai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司) ("Hangzhou Qingchunbao").

4. Gain on deemed disposal of interests in a jointly controlled entity

Gain on deemed disposal of interests in a jointly controlled entity represented the exceptional gain on deemed disposal by the Group's interest in Shanghai Jahwa United Co., Ltd. (上海家化聯合股份有限公司) ("Shanghai Jahwa") diluted from 40% to 28.15% after the listing of Shanghai Jahwa's shares on the Shanghai Stock Exchange A Shares Market.

5. Share of profit of an associated company

Shanghai Jahwa previously a jointly controlled entity of the Group, was listed on the Shanghai Stock Exchange A Shares Market on 15th March 2001 and became an associate since then.

Share of profit of an associated company of the Group included the sharing of results of Shanghai Jahwa for the ten months period from 1st March 2001 to 31st December 2001.

6. Taxation

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

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

The tax holiday for Hangzhou Qingchunbao expired in 1997. However, pursuant to an approval received from local tax authorities in September 1998, Hangzhou Qingchunbao was classified as one of the approved "High Technology entities". Accordingly, Hangzhou Qingchunbao was entitled to a preferential PRC income tax rate of 12% for the three years ended 31st December 2000. Hangzhou Qingchunbao is entitled to a PRC income tax rate of 24% for the year ended 31st December 2001 and thereafter.

The tax holiday for Shanghai Jahwa expired in 2000. However, pursuant to an approval received from local tax authorities in September 2001, Shanghai Jahwa was classified as one of the approved "High Technology entities". Accordingly, Shanghai Jahwa is entitled to a preferential PRC income tax rate of 13.5% for the three years ending 31st December 2003.

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

7. Dividend

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

8. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year ended 31st December 2001 of HK$232,685,000 (2000: HK$72,318,000) and 620,000,000 shares (2000: 620,000,000 shares) in issue during the year.

No diluted earnings per share is presented as the Company did not have any diluted potential ordinary shares.

9. Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Goodwill HK$'000	PRC statutory funds HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE GROUP							
As at 1st January 2000	192,130	194,649	-	1,500	-	22,855	411,134
Goodwill arising on acquisition of jointly controlled entities	-	-	(20,725)	-	-	-	(20,725)
Exchange differences on Translation of PRC operations	-	-	-	-	(12)	-	(12)
Transfers	-	-	-	12,540	-	(12,540)	-
Profit for the year	-	-	-	-	-	72,318	72,318
Dividends	-	-	-	-	-	(18,600)	(18,600)
As at 31st December 2000							
- as original stated	192,130	194,649	(20,725)	14,040	(12)	64,033	444,115
- as adjusted for derecognition of liability for 2000 final dividend	-	-	-	-	-	18,600	18,600
- as restated	192,130	194,649	(20,725)	14,040	(12)	82,633	462,715
Realised on deemed disposal of interest in a jointly	-	-	-	(757)	-	-	(757)
Transfer	-	-	-	10,595	-	(10,595)	-
Profit for the year	-	-	-	-	-	232,685	232,685
Dividends	-	-	-	-	-	(18,600)	(18,600)
As at 31st December 2001	192,130	194,649	(20,725)	23,878	(12)	286,123	676,043

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

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

DIVIDENDS

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

CLOSE OF REGISTER OF MEMBERS

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

In order to qualify for the final dividend and the special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by 4:00 p.m. on 1st May 2002, Wednesday.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

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

In March 2001, Shanghai Jahwa United Co., Ltd. (“Shanghai Jahwa”) was listed on the Shanghai Stock Exchange A Shares Market, providing an exceptional income of HK$155 million to the Group. Shanghai Jahwa has since maintained its strong performance and substantial business development. The company’s profit contribution to the Group rose by more than 20% compared to last year. That more than compensated for the reduction in profit contribution caused by a dilution in the Group’s shareholding in the company from 40% to 28.15% as a result of the listing. It was the results of the Group’s commitment to a strategy of focusing on industrial and asset operations in business development. In 2001, the Group devoted itself to initiating new research and development projects while dynamically developing its existing businesses in order to create favourable conditions for future growth.

Market focus and improved product mix to maintain record sales

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

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

Shanghai Jahwa succeeds in the capital markets and grows product sales

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

Launch of processing plant for fresh barbary wolfberry fruit granules

In order to guarantee the stability and efficacy of medical materials, production must be standardised from the outset. Only by using high quality raw materials, adopting modern production methods and complying with international recognised quality standards can we produce modern Chinese medicine with a competitive edge in international markets. By following this principle, the Group has successfully established a major commercial nursery for Ningxia barbary wolfberry.

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

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

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

- **Qingchunbao Beauty Capsule**

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

- **Anntiflu Capsule**

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

- **Ipriflavone Tablet**

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

- **Gelatin Suppository ("S-PPM")**

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

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

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

- **Lebekon Film Tablet ("B-TLS")**

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

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

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

Using modern technology to improve high quality traditional Chinese medicine products

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

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

Using this process, we have initiated a redevelopment plan for B-IHM, a product for the treatment of fevers, especially those caused by non-bacterial infections. Due to the effectiveness of B-IHM, the Group is developing a corresponding oral substitute, which we believe has significant market potential.

Exploring ways to promote Chinese medicine overseas

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

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

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

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

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

In December 2000, the Group acquired 38% of the equity of Guangdong Biolight, which specialises in the manufacture of high-tech medicare equipment for a consideration of RMB18.86 million. Guangdong Biolight developed many products in 2001, including an electronic colposcope and a portable multi-parameter monitor. It has applied to the State Software Centre to patent the software used in these two products. Approval is expected in mid-2002.

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

Acquisition of 24% equity in Hangzhou Huqingyutang

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

FINANCIAL POSITION

Turnover

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

Earnings

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

Debt-equity structure

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

Financial liquidity, resources and capital structure

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

Return on Capital Employed

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

Foreign exchange policy

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

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

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

Contingent liabilities

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

PROSPECTS

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

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

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

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

Lu Ming Fang
Chairman

Hong Kong, 18th March 2002

COMPARISON OF BUSINESS PROGRESS

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

Business objective of the second half of 2001 as disclosed in the Prospectus			Actual business progress up to the second half of 2001
Hangzhou Qingchunbao			
• ***Sale of principal products***			The product mix of Hangzhou Qingchunbao has been revised to meet the market demand. Hence, the allocation of resources was adjusted in order to obtain higher economic value. The ranking of the top five products was changed. "Dan Shen Injection" and "Huang Qi Injection" have become two of the major products of Hangzhou Qingchunbao. Their turnover were approximately 29% and 71% higher than in the year 2000 respectively.
Shen Mai Injection	:	7,847,000 vials	7,555,000 vials
Stomach Recuperation Granules	:	3,260,000 boxes	1,894,000 boxes
Granules Niaoganning	:	914,000 boxes	909,000 boxes
Granules Qingreling	:	578,000 boxes	404,000 boxes
Qingchunbao Anti-ageing Tablet	:	1,773,000 bottles	10,288,000 bottles
			Except Stomach Recuperation Granules, the sales volume of each of the above products was higher than in the year 2000. The sales volume of Stomach Recuperation Granules decreased by 8%.

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
• ***Development of marketing channels***	
Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. Retail distribution outlets, including those with supermarket chains and other over-the-counter outlets, will increase to about 13 to 15.	Hospital, clinics and drug distributors are the principal marketing channels for pharmaceutical products. A change in the marketing strategy of health supplement products redirect the marketing effort to large-scale distributors and hypermarkets. Higher sales turnover was recorded. In addition, the increase in the number of sales outlets of Luen Wah Supermarket, etc. indirectly extended the sales network of Hangzhou Qingchunbao.
The marketing team will have a total staff number of about 665.	The marketing team has a total staff number of about 680.
• ***Production and facilities***	
Premises located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Consistent with the business objective specified in the Prospectus.
Granule workshop in full compliance with GMP standards.	Modification of the Granule workshop is now in progress. There is no material impact on the production of granule products of Hangzhou Qingchunbao.
• ***Research & Development***	
Project No: 202X-99-02	
Production permit obtained from State Drug Administration.	As the Government of the People's Republic of China (the "PRC Government") has upgraded the technology standards for new Category 4 medicines, this project was therefore unable to proceed further.
Stomach Recuperation Capsule	
Review completed by provincial level State Drug Administration.	As new technology was used in the production of Stomach Recuperation Capsule. However, the PRC Government has still yet to announce standards for such technology. This project is then pending.

Business objective of the second half of 2001 as disclosed in the Prospectus	**Actual business progress up to the second half of 2001**
Shuangbaosu Oral Tonic (Low-sugar formula)	
Commence commercial production.	Shuangbaosu Oral Tonic (Low-sugar formula) was suspended at the end of 2000 after marketing research revealed that domestic and overseas completion was very keen, and that quality and price of competitor products varied greatly.
Research and development base	
• ***Shanghai research and development base***	
Continue research and development projects transferred from Shanghai University of Traditional Chinese Medicine ("SUTCM").	The two products acquired from SUTCM, S-PPM and S-COM have begun long-virulence tests, which are progressing well.
Anticipated commencement of up to about 5 additional new projects, if available. Anticipated commencement of clinical trial on newly developed drugs and/or health supplement products.	The Company selected four products from the technology transfer catalogue provided every six months by the SUTCM. The examination of products' features and efficacy has been completed at the end of 2001.
Amount to be incurred : HK$5 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.
• ***Beijing research and development base***	
Continue existing research and development projects. Commence new projects if available. Coordinate the application for product approval of the Group's new products.	The first achievement of the Group's research and development afford, the Anntiflu Capsule, has obtained production approval from the State of Ministry of Health. The product's production and sales distribution will be organized by Hangzhou Qingchunbao.

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

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
Production of pharmaceutical products	
• ***Establishment of a production base in Hong Kong***	
Continue to expand operation as appropriate.	The establishment of a production base in Hong Kong is pending and is subject to the type of products developed by the Group and the development progress of the overseas market.
• ***Joint ventures with reputable Chinese medicine enterprises***	
Continue to locate suitable joint venture candidates and enter into joint venture agreements if appropriate.	Consistent with the business objective specified in the Prospectus.
• ***Alliance with international pharmaceutical companies***	
Gradually expand the market coverage to other markets.	The Group and a German herbal medicine manufacturer in November 2001 reached a preliminary agreement to introduce barbary wolfberry fruit products into the European market. A marketing channel between China and European countries was formed preliminary.
Marketing and sales	
• ***Expand and strengthen its distribution network in the PRC***	
Continue the operation of the acquired PRC Company.	The Group reached agreement in December 2001 with Hangzhou Huqingyutang Drugstore Co., Ltd to acquire 24% of its shares. The company has obtained licence approval by the National Drug Supervision and Management Bureau to open drugstore chain outlets in other provinces. It is also one of the key medical retailers to benefit from extra support from the state.

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
• ***E-commerce***	
Form alliance with other pharmaceutical websites through mergers and acquisitions and links. Full implementation of e-commerce function. Expected daily hit rate on the website is about 8,000 times.	The PRC Government has approved the agreement signed in 2000 for the acquisition of a 20% interest in Shanghai Pharmaceutical Network. The company runs a website, www.e135.com, which has been authorised by the relevant Government authorities. Business operation was commenced. It is an application service provider rendering technical support to the Chinese medicines exchange platform. The Group considered that the foundation and the prospect of such website are among the best in the PRC. The investment in this website has already materialised the Company's objective of engaging in e-commence business.
Amount to be incurred : HK$1 million.	Since the plan was changed strategically, a variance resulted between the actual amount and the planned amount. The shortage was financed by the Company general working capital.
• ***Over-the-counter sales***	
Entered into agreement with overseas chain stores to expand the over-the-counter distribution network of the Group	During the period, there was another chain stores approached the Group in respect of expanding the Group's over-the-counter distribution network. The potential partner was under evaluation. Therefore, there was a delay in finalizing the agreement.
Amount to be incurred : HK$2.5 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.

Business objective of the second half of 2001 as disclosed in the Prospectus	Actual business progress up to the second half of 2001
Chinese medicine clinical center	
Continue to expand the number of clinics if appropriate.	The project will proceed further upon the announcement of the policies and regulations relating to Chinese medicine clinical centre by the Government of the Hong Kong Special Administrative Region.
Amount to be incurred : HK$1.5 million	There was no funding requirement during the period. The balance of the proceeds was held as short-term deposits and re-allocated to finance the research and development projects or the acquisition of other projects in pharmaceutical industry or other related areas and/or as general working capital.

USE OF PROCEEDS

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

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

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

OTHER INFORMATION

STAFF AND DEVELOPMENT

As at 31st December 2001, the Group has 1,747 employees. Due to the increase in number of employee and bonus payment, total remuneration including contributions to retirement benefit schemes for the year ended 31st December 2001 rose to HK$102 million (2000: HK$83.4 million), of which HK$8.1 million (2000: HK$7.96 million) was directors remuneration. The Group has formulated human-resource and internal policies to define employee service requirements, remuneration and welfare benefits. With the overall objective of providing employees with competitive salaries and welfare conditions, the salary level will be adjusted in line with the performance of each employee as well as the market situation.

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

SHARE OPTION

The primary purpose of the Company's share option scheme ("the Scheme") is providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries. Options are exercisable at any time during the three years commencing on the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

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

DIRECTORS' INTERESTS IN SECURITIES

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Pursuant to the Company's share option scheme, certain Directors of the Company have personal interests in share options to subscribe for shares in the Company which have been granted to them as follows:

Name of director	Month of grant	Exercise price per share HK$	Outstanding at 1st January 2001	Outstanding at 31st December 2001
Zhuo Fu Min	January 2000	1.69	8,000,000	8,000,000
Feng Gen Sheng	January 2000	1.69	6,000,000	6,000,000
Li Wei Da	January 2000	1.69	6,000,000	6,000,000
Chen Shu Zi	January 2000	1.69	4,000,000	4,000,000
Ge Wen Yao	January 2000	1.69	2,500,000	2,500,000
Wu Jian Zhuang	January 2000	1.69	2,500,000	2,500,000

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

(b) Pursuant to the share option scheme of SIHL certain directors and employees of the Company have interests in share options ("SIHL Options") to subscribe for shares in SIHL ("SIHL shares") which were granted to them as follows:

			Number of SIHL Shares subject to SIHL Options				
Name of director	Month of grant	Exercise price per share HK$	Outstanding at 1st January 2001	Granted during the year	Expired during the year	Lapsed during the year	Outstanding at 31st December 2001
Zhuo Fu Min	January 1999	9.568	1,400,000	-	-	-	1,400,000
Lu Ming Fang	August 1998	10.432	1,500,000	-	1,000,000	-	500,000
	February 1999	9.568	1,200,000	-	-	-	1,200,000
	July 2001	10.432	-	1,500,000	-	-	1,500,000
Li Wei Da	April 1997	30.912	2,000,000	-	-	2,000,000	-
	January 1999	9.568	1,200,000	-	-	-	1,200,000
Zhou Jie	August 1998	10.432	1,500,000	-	-	-	1,500,000
	February 1999	9.568	1,200,000	-	-	-	1,200,000
Chen Shu Zi	July 2001	10.432	-	1,500,000	-	-	1,500,000
Wu Jian Zhuang	January 1999	9.568	1,000,000	-	-	-	1,000,000

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lee Ka Sze, Carmelo, an Independent Non-Executive Director of the Company, is a partner of Messrs. Woo, Kwan, Lee & Lo, solicitors. The firm rendered professional services to the Group and received normal remuneration of such services.

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

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

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

COMPETING INTERESTS

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

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

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

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

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

SPONSOR'S INTERESTS

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

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

Mr. Leung Pak To, Francis, is an Independent Non-Executive Director of Shanghai Industrial Holdings Limited, an intermediate holding company of the Company and was the Vice Chairman of BNP Paribas Peregrine Group, the parent company of BNP Paribas Peregrine, up until 30th June 2001.

AUDIT COMMITTEE

The audit committee comprises Messrs. Li Ka Cheung, Eric, Kwok Chin Kung, Robert and Lee Ka Sze, Carmelo. The primary duties of the audit committee are to review financial reporting process and internal control systems of the Group and annual report, half-yearly report, quarterly reports and accounts of the Company. The Fifth and the Sixth audit committee meetings, held on 31st July 2001 and 7th March 2002, discussed the results, financial position, and major accounting and internal auditing issues of the Group for the period ended 30th June 2001 and the year ended 31st December 2001 respectively.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year.

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

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

** for identification purposes only*

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