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 2002

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 Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of the issuer 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 for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group was HK$842 million, representing an increase of 16.4% of the previous year.
- Profit from operations for the year rose 47.1% to HK$232 million – helping us an excellent track record of 26.3% average compound annual growth since the Group was listed in 1999.
- Profit for the year was HK$87.5 million. Excluding one-off exceptional items*, profits attributable to shareholders grew by 33.5% compared with the previous year.
- Proposed final dividend of HK4 cents per share.
- Sales of “Qingchunbao Anti-ageing Tablets” increased by 37.0%, to a total of HK$328 million.
- Sales of “Shen Mai Injection”, “Dan Shen Injection”, “Herba Houttuyniae Injection” and “Huang Qi Injection” rose by 7.5%, 10.3%, 40.1% and 21.1% respectively.
- “Qingchunbao Beauty Capsule” was launched in mid-August in last year. It quickly achieved widespread consumer recognition, with sales in the first four months nearing RMB15 million.

*****_For details, please refer to the Financial Review._

CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements for the year ended 31st December 2002 of the Company and its subsidiaries (the "Group") are set out below:

Consolidated Income Statement

For the year ended 31st December 2002

	Note	**2002** *HK$'000*	2001 *HK$'000*
Turnover	2	**842,386**	723,911
Cost of sales		**(320,084)**	(283,900)
Gross profit		**522,302**	440,011
Investment income		**6,075**	8,496
Other operating income		**3,972**	208
Distribution costs		**(219,059)**	(205,853)
Administrative expenses		**(81,446)**	(85,286)
Profit from operations	3	**231,844**	157,576
Finance costs		**(154)**	(4)
Gain on disposal of interest in a jointly controlled entity		**1,799**	-
Gain on deemed disposal of interest in a jointly controlled entity		**-**	155,694
Share of results of an associate		**24,161**	27,577
Share of results of jointly controlled entities		**669**	259
Amortisation of goodwill on acquisition of jointly controlled entities		**(1,077)**	-
Impairment loss on interest in a jointly controlled entity	4	**(15,300)**	-
Profit from ordinary activities before taxation		**241,942**	341,102
Taxation	5	**(74,448)**	(52,831)
Profit before minority interests		**167,494**	288,271
Minority interests		**(79,973)**	(55,586)
Profit for the year		**87,521**	232,685
Dividends	6	**27,900**	18,600
Earnings per share	7		
– Basic		**HK14.1 cents**	HK37.5 cents
– Diluted		**HK14.1 cents**	N/A

Statement of Changes in Equity

For the year ended 31st December 2002

	Share capital	Share premium	Contributed surplus	Goodwill reserve	PRC statutory reserve	Translation reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
As at 1st January 2001	62,000	192,130	194,649	(20,725)	14,040	(12)	82,633	524,715
Realised on deemed disposal of interest in a jointly controlled entity	-	-	-	-	(757)	-	-	(757)
Transfer	-	-	-	-	10,595	-	(10,595)	-
Profit for the year	-	-	-	-	-	-	232,685	232,685
Dividends (Note 6)	-	-	-	-	-	-	(18,600)	(18,600)
As at 31st December 2001	62,000	192,130	194,649	(20,725)	23,878	(12)	286,123	738,043
Impairment loss on goodwill reserve	-	-	-	12,855	-	-	-	12,855
Realised on disposal of interest in a jointly controlled entity	-	-	-	(360)	-	-	-	(360)
Profit for the year	-	-	-	-	-	-	87,521	87,521
Dividends (Note 6)	-	-	-	-	-	-	(27,900)	(27,900)
As at 31st December 2002	62,000	192,130	194,649	(8,230)	23,878	(12)	345,744	810,159

Notes :

1. Basis of preparation

The financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties and in accordance with accounting principles generally accepted 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 ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Turnover

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

For the years ended 31st December, 2002 and 2001, 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 attributable to this business segment and located in the PRC.

3. Profit from operations

	2002	2001
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging :		
Amortisation of goodwill (included in administrative expenses)	**149**	-
Depreciation and amortisation of property, plant and equipment	**14,363**	12,711

4. Impairment loss on interest in a jointly controlled entity

The directors considered that in the light of the recurring operating losses of a jointly controlled entity and unfavourable market conditions, the interest in this jointly controlled entity is considered to be irrecoverable. Accordingly, an impairment loss of HK$15,300,000 in respect of the whole interest in this jointly controlled entity was recognized in the income statement for the year in which HK$2,445,000 has been credited to interests in jointly controlled entities and the remaining of HK$12,855,000 has been credited to goodwill reserve.

5. Taxation

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
PRC income tax		
- current year	**66,862**	40,794
- underprovision in prior year	**7,186**	2,696
	74,048	43,490
Deferred taxation		
- current year	**(4,000)**	3,824
- effect of change in tax rate	**-**	2,100
	(4,000)	5,924
Share of PRC income tax of an associate	**4,369**	3,280
Share of PRC income tax of jointly controlled entities	**31**	137
	74,448	52,831

Chai Tai Qingchunbao Pharmaceutical Co. Ltd., the major subsidiary of the Company having an assessable profit, is subject to a PRC income tax rate of 24% (2001 : 24%).

Pursuant to an approval received from local tax authorities in September 2001, Shanghai Jahwa United Co. Ltd. ("Shanghai Jahwa"), an associate of the Group, 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.

Taxation on profits of other subsidiaries and jointly controlled entities of the Group has been provided on the estimated assessable profits for the year at the rates applicable to those enterprises.

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

6. Dividends

	2002	2001
	HK$'000	*HK$'000*
2001 final dividend of HK3 cents (2000 final dividend : HK3 cents) per share	**18,600**	18,600
2001 special dividend HK1.5 cents per share (2000 : nil)	**9,300**	-
	27,900	18,600

7. Earnings per share

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2002	2001
Earnings：		
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	**HK$87,521,000**	HK$232,685,000
Number of shares：		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**620,000,000**	620,000,000
Effect of dilutive potential ordinary shares - share option	**230,382**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**620,230,382**	620,000,000

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence in 2001.

BUSINESS REVIEW AND PROSPECTS

RESULTS

Far-reaching government reforms of China's pharmaceutical and medical industries during 2002 continued to impact our markets. Amid substantial opportunities, we faced increasing competition and other challenges. In response, the Group redoubled its efforts to drive our business forward, seizing opportunities and working together towards our goals. As a result, we achieved encouraging results.

For the year ended 31st December 2002, Group turnover was HK$842 million, representing an increase of 16.4% over the previous year. Profit from operations for the year rose 47.1% to HK$232 million – helping us an excellent track record of 26.3% average compound annual growth since the Group was listed in 1999. Earnings per share was HK14.1 cents. Excluding one-off exceptional items (for details, please refer to the Financial Review in Management Discussion and Analysis), adjusted profits attributable to shareholders grew by 33.5% compared with the previous year. Operating margin reached 27.5%, up by 5.7 percentage points over the previous year; and adjusted net profit margin increased to 12.2%, up by 1.6 percentage points over the previous year.

In 2002, the Group continued to reinforce and expand the earnings base of existing business, and completed a series of mergers and acquisitions, including Hangzhou Huqingyutang Drugstore Co. Ltd. (“Huqingyutang Drugstore”), Xiamen Traditional Chinese Medicine Co. Ltd. (“Xiamen TCM”), MicroPort Medical (Shanghai) Co. Ltd. (“MicroPort”), and E-COM Technology Limited (“E-COM Technology”). These have given us a firm base for profits growth.

Pharmaceutical Products and Health Food

With the widespread implementation of China’s central bidding system for hospital medicine purchases, the Group confronted new challenges in selling pharmaceutical products. Facing a highly competitive market, we drew on all our strengths to meet the challenges of the fast-changing market. We adopted the principle of establishing our business by proceeding steadily and surely: we are committed to building our brand name through product excellence, and we will maintain our market share by offering outstanding, considerate customer service. In 2002, the sales of our four principal injection products – “Shen Mai Injection”, “Dan Shen Injection”, “Herba Houttuyniae Injection” and “Huang Qi Injection”– achieved strong growth rates of 7.5%, 10.3%, 40.1% and 21.1%, respectively, over the previous year. Currently, we can charge favourable retail prices for these four products, according to the principle of “Good prices for good products”. These factors have helped maintain solid pharmaceutical sales revenues.

“Xinhuang Tablets” is one of the prescription drugs from Xiamen TCM, which we acquired last year; we have consolidated the company’s results into the Group accounts since September 2002. In terms of annual pro forma sales revenue, “Xinhuang Tablets” is one of the Group’s top five pharmaceutical products. Additionally, as demand in the domestic OTC drug market was rising sharply, the Group strengthened the advertising programme for OTC drugs and the promotion of retail outlets, to lay a solid foundation for the long-term development of a diverse product range.

Our flagship product, “Qingchunbao Anti-Ageing Tablets”, achieved another record high, with sales totalling HK$328 million, 37.0% up on the previous year. To enhance brand awareness, we intensified advertising through all media channels and organised special promotional events and themed programmes. We applied scientific methods when conducting market research and focusing on different market segments. We strengthened the sales force in our outlets, reallocated human resources and ensured our staff are fully trained and equipped, unified the design of product displays and advertising boards, streamlined sales channels and conducted a series of promotions. Through these measures we achieved record sales of the product.

In response to the policy on classification of medical products, in 2002 we applied to change the product certificates of certain of our health supplement products from health supplement products to drugs – “Qingchunbao Anti-ageing Tablets”, “Qingchunbao Oral Tonic” and “Manly Energy Capsules” (currently named “Rong Shen Kidney Enhancement Capsule – Young Pilose Antler and Ginseng”). The applications were successful, in further recognition of the products’ quality and medicinal effects.

To maintain rapid growth of health food sales, the Group accelerated development of “Qingchunbao Beauty Capsule”, preparing a promotion ahead of schedule. The product was launched in mid-August 2002, and achieved widespread consumer recognition, with sales in the first four months nearing RMB15 million. The Group will continue to efficiently market this product, and anticipates it will be one of the key products underpinning profits growth in 2003. Another new product, “Lycium Barbarum Granule” was introduced to the market at the end of November 2002. Made from quality raw materials from traditional Chinese medicine, and produced using internationally accredited quality standards, this is a modern health food with a strong competitive edge that fully meets modern standards for safety, effectiveness, and stability. The Group also plans to develop products with Lycium Barbarum as the main raw material and will explore ways to sell our products overseas.

Medical Retailing

In recent years, a wave of industry reforms has greatly stimulated sales of medical products. The reforms include a new domestic medical insurance infrastructure, the separation of medical and pharmaceutical services, the implementation of OTC regulations, and the designation of medications for which reimbursements are possible. In 2002, many enterprises in the mainland’s medical retail market sought to quickly expand their market share by dramatically increasing the number of pharmacies. This caused market saturation in some regions. To make matters worse, the aggressive price competition brought financial difficulties to some pharmacies. However, Huqingyutang Drugstore did not seek to follow the trend, but focused on cost effectiveness. As a result, Huqingyutang Drugstore contributed profits to the Group even as many other pharmacies suffered losses in the medical retail market. The Huqingyutang Drugstore chain currently has 21 pharmacies, most of which are in Hangzhou. The Group will make the most of its unique brand advantages to maximise business development in response to the market conditions. Huqingyutang Drugstore will accelerate development of its sales outlets, and ensure its sales efforts have more vitality to enhance profits growth.

Medical Equipment

The Group's total investment in the medical equipment business accounts for less than 10% of the Group's net assets. There are currently three main product groups: modern monitoring and diagnostic equipment, digital angiographic systems and information systems for medical applications, and apparatus for vascular and interventional surgery. Among the products, "MicroPort" brand products, vascular and interventional surgery apparatus achieved the sharpest sales growth. Sales in the second half of 2002 was 3.6 times higher than that of the first half of the year. Major products include coronary stent systems, PTCA balloon dilation catheter, vascular angiographic catheter, guiding catheter and adjunct, abdomen aortic aneurysm stent and cardioaortic aneurysm stent. MicroPort also manufactures different kinds of non-vascular stent and stent delivery systems, plus a range of instruments such as surgical bypass stretch and cervical vertebra prosthetics. In the third quarter of 2002, new generations of coronary stent systems and PTCA balloon dilation catheters were officially launched. Additionally, arteria renalis stent was granted approval from the State Drug Administration ("SDA"). MicroPort is the first domestic enterprise allow to market such a product.

Currently, imported products dominate the domestic market for apparatus employed in cardio-vascular and related surgery. Hence, we foresee considerable potential for MicroPort to develop through introducing new products, localising production and achieving economies of scale. MicroPort will also study the feasibility of entering the international market and will expand sales networks.

With regard to sales of medical angiographic equipment and information systems for medical applications: "E-COM" brand products have been adopted by several renowned hospitals in mainland China, including the General Hospital of PLA (301 Hospital), Beijing Hospital, and the Affiliated One Hospital of Peking University First Hospital, Xijing Hospital – which is the leading affiliated hospital of the Fourth Military Medical University, Tangdu Hospital and the Affiliated Hospital of Zhong Shan University. This has greatly helped with expanding E-COM Technology's customer base, and will provide favourable conditions for marketing products in 2003. Additionally, E-COM Technology will strengthen its marketing and sales forces, and perfect the rewards and penalty system. The company will also build market share by improving communications with the frontline salespeople about the latest products, new techniques and customer feedback.

The Group remains committed to developing its existing projects, especially to boosting sales performance and raising returns on its projects.

Personal Care Products

The Group is also engaged in personal care products, through a 28.15% holding in Shanghai Jahwa. In 2002, Shanghai Jahwa encountered a series of market challenges, with slower growth in sales of some major products. “Liushen” brand products accounts for approximately 45% of the turnover of the company’s core operation. The sales revenues of “Liushen” in 2002 maintained whereas the sales of the product brands “Clinf de Clinf”, “Maxam” and “Herborist” were up by 6%, 13% and 42% respectively. Though the sales revenue was higher than that of the previous year, Shanghai Jahwa is under pressure from falling prices, which are impacting profit margins. To overcome the difficult market conditions, Shanghai Jahwa has initiated new measures to control operation costs, integrate logistics processes, obtain raw materials at lower cost and improve production techniques. As a result, it lowered major operation costs and increased gross profit margin, and in 2002, Shanghai Jahwa contributed HK$24 million profit to the Group.

Research and Development

Our research centres at Xiamen TCM and Chia Tai Qingchunbao Pharmaceutical Co. Ltd. (“Hangzhou Qingchunbao”) were certified as city-level enterprise research centres, and the Hangzhou Qingchunbao research centre was certified at provincial level.

In addition, the Group achieved national accreditation for both the composition of “Shen Mai Injection”, and quality control techniques for research and development in modern traditional Chinese medicine. “Shen Mai Injection” is an innovative product of modern traditional Chinese medicine: the ingredients are traditional, whilst the manufacturing process employs high technology for quality control. We are conducting a HKSAR Government funded joint research project with the University of Hong Kong – Identifying the Bioactive Components of Shen Mai Injection and Their Mechanisms of Action. This is making good progress. We aim to discover substitutes with more precise effects for treating cardiovascular diseases and cancer. This will create a solid foundation for further development of new medicines.

As regards new research and development projects, apart from “Qingchunbao Beauty Capsule” and “Lycium Barbarum Granule”, “Ipriflavone Tablets” were launched at the end of 2002. In addition, we planned to launch “Antiflu Capsule” in 2003. We have also submitted an application to the SDA for clinical trials of pharmaceuticals to help osteoporosis sufferers. Application for clinical trial, on childhood asthma, will be submitted to the SDA in 2003. These two projects are progressing well.

Production Technology

The Group’s capital expenditure in 2002 totalled HK$134 million, an increase of 4.6 times over the previous year. Around HK$32 million were used to upgrade and modify manufacturing facilities in Hangzhou and Xiamen. One of our key targets for 2002 was accelerating the GMP certification process. We not only applied for certification for non-certified workshops, but also re-built and modified the facilities of ancillary departments in Hangzhou, including the crude herbs preparation, quality inspection complex and warehouses. To date, the production facilities in Hangzhou for injection products, granules, tablets, capsules, mixtures include oral tonics, decoctions, and syrups have been certified as passing national GMP standard. And those in Xiamen for production of granules, tablets, capsules and pills have passed national GMP certification. Furthermore, an automatic extraction facility in full compliance with GMP standards in Hangzhou will be built. The two facilities in Xiamen for the production of powders and lozenges underwent structural modification in 2002; the work was completed.

GMP certification will become a routine task as the Group develops. Therefore, we have made daily supervision of the facilities a top priority. We firmly believe we can continually improve our products and advance our competitiveness through technology upgrades and modifications.

PROSPECTS

With China's rapid economic development and entry into the World Trade Organisation, Chinese medicine and the medical industry will continue growing quickly, and will undergo unprecedented consolidation in the face of competition with overseas medical companies. The continuous changes in the mainland medical industry during 2002 were a clear signal that market competition will be fiercer in 2003. To meet the new challenges, the Group will draw on its collective knowledge while remaining open to new ideas. We will systematically analyse markets, and act decisively and effectively to bolster competitiveness, working towards greater cooperation and integration within the industry, as we secure the opportunities that will position us at the head of each of our markets. Through new initiatives and new ideas, we will open an exciting new chapter in our history, and make breakthroughs to ensure a bright future for the Group.

On behalf of the Board of Directors, I would like to take this opportunity to thank our shareholders for their continued and invaluable support, and all the staff of the Group for their continued hard work and strong commitment.

Lu Ming Fang
Chairman

Hong Kong, 18th March 2003

FINANCIAL POSITION

Turnover

The Group was engaged in the manufacture and sale of Chinese medicine and health supplement products, medical equipment, and personal care products. More than 90% of the Group's turnover and contribution to operating profit was derived from the manufacturing and sale of Chinese medicine and health supplement products in the PRC. The audited consolidated turnover of the Group for the year ended 31st December 2002 reached HK$842 million, a 16.4% increase over that of last year. The main contributors were strong growth in sales of healthcare products and steady growth in sales of pharmaceutical products. "Qingchunbao Anti-ageing Tablets" set a sales record of HK$328 million, a 37.0% increase over the previous year. Sales of our major injection products, "Shen Mai Injection", "Dan Shen Injection", "Herba Houttuyniae Injection" and "Huang Qi Injection", were up 7.5%, 10.3%, 40.1% and 21.1% respectively. The acquisition of Xiamen TCM was completed in September 2002. The results of its operation were consolidated in the accounts of the Group since the completion date. "Xinhuang Tablets" is one of Xiamen TCM's products. If its pro forma turnover for the year was taken into account, "Xinhuang Tablets" is one of the top five pharmaceutical products of the Group.

Earnings

The audited profit from operations for the year ended 31st December 2002 was HK$232 million, representing a 47.1% increase over that of last year. Since there was an exceptional income of over HK$155 million in 2001, profit attributable to shareholders of the Group this year comparatively declined. However, if we exclude all exception items (details below), adjusted profit attributable to shareholders this year increased by 33.5%. Operating margin climbed 5.7 percentage points to 27.5%; and adjusted net profit margin improved 1.6 percentage points to 12.2%. It is the results of the cost control measures adopted by the Group in purchasing of raw materials and production.

Exceptional Items

During the year, the Group has fully provided for diminution in the investment value of Shanghai Pharmaceutical Business Network Co. Ltd. ("Shanghai Pharmaceutical Network") in accordance with the Hong Kong accounting standards resulted an exceptional loss of HK$15.30 million. Shanghai Pharmaceutical Network is one of the few e-commerce companies granted approval for engaging in pharmaceutical internet sales. Nevertheless, pharmaceutical e-commerce business is still not popular in the PRC. Although Shanghai Pharmaceutical Network's performance for this year was improving, the progress was beyond our expectation. It is expected that the poor operation condition is irreversible in the foreseeable future.

The aforesaid provision was amounted to HK$15.30 million, HK$12.86 million of which has been deducted from the reserve of the Group in previous years. Hence, shareholders' equity this year was accordingly reduced by HK$2.44 million as a result of such provision. The provision did not have any impact on turnover, profit from operations and cash flow of the Group. After such provision, the investment cost of Shanghai Pharmaceutical Network in our books was nil. The Group does not have any loans, guarantee or other commitments to Shanghai Pharmaceutical Network.

In 2001, after the listing of the shares of Shanghai Jahwa, a jointly controlled entity of the Group, on the Shanghai Stock Exchange A Shares Market, the Group's interest in it diluted from 40% to 28.15% resulting an exceptional income of over HK$155 million on deemed disposal of interests.

Debt-equity Structure

By the end of 2002, the Group had total bank balances and cash of HK$453 million. Net assets reached HK$810 million, a 9.8% increase over the previous year. Debt-equity ratio was 18.8%. The strong and solid debt-equity position has greatly supported the development of the Group's business. However, the Group endeavours to optimise its capital structure to meet its business development progress with an aim to lower overall capital costs.

Financial Liquidity, Resources and Capital Structure

The Group's main source of funds in 2002 was cash generated from 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 2002, the Group's total assets reached HK$1.26 billion, of which HK$684 million was current assets. The ratio of current assets to current liabilities is more than 2.9 times. Net cash inflow from operating activities amounted to HK$195 million. In 2002, there was no change in the Company's share capital. The Group has ample liquid capital and its financial position is sound.

Return on Capital Employed

The average Return on Capital Employed of the Group for the year was 11.3%. It was lower than that of last year because the exceptional income of over HK$155 million generated in 2001 boosted the average Return on Capital Employed of the Group last year. Furthermore, in 2002, the provision HK$15.30 million made by the Group in respect of the diminution in the investment value of Shanghai Pharmaceutical Network also adversely affected the Group's average Return on Capital Employed this year. However, as such provision is an one-off item, it will not adversely affect the average Return on Capital Employed of the Group in the coming years.

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 year. In 2002, 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 reviews the situation and if appropriate, to carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

Charge on Assets

As at 31st December 2002, a bank deposit of HK$10.22 million was charged to a bank as security for certain banking facilities granted by the bank to one of our jointly controlled entities. The other shareholders of such jointly controlled entity have pledged their shares to the Group as counter indemnity respectively. Furthermore, certain plant and machinery of the Group valued at HK$3.8 million was mortgaged to an independent third party as security for certain banking facilities.

Contingent Liabilities

The Group had no significant contingent liabilities at 31st December 2002.

Material Acquisitions and Disposals during the year and Future Plans for Material Investments

During the year ended 31st December 2002, the Company's material investments are as follows:

- In December 2001, the Group reached agreement regarding the acquisition of a 24% interest in Huqingyutang Drugstore for a consideration of RMB12 million. The acquisition was completed in March 2002. 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 SDA to open drugstore chain outlets across China.

- In May 2002, the Group acquired a 13.35% stake in E-COM Technology from our parent company for a consideration of RMB9.5 million. After that, the Group increased its holding in E-COM Technology to 24.35% and is now the company's largest shareholder. E-COM Technology's digital imaging system has been adopted by a number of renowned hospitals including General Hospital of PLA (301 Hospital), Beijing Hospital, the Affiliated One Hospital of Peking University First Hospital, Xijing Hospital – which is the leading affiliated hospital of the Fourth Military Medical University, Tangdu Hospital and the Affiliated Hospital of Zhong Shan University.

- In July 2002, the Group allocated HK$38.87 million to acquire a 56% stake in Xiamen TCM. The relevant business registration procedures were finalised in September 2002. With over thirty years' experience in the field, Xiamen TCM produces over 40 traditional Chinese medicine-based drugs. Leading products include "Xinhuang Tablets", "Haizhu

Chuanxiding Tablets", "Liuwei Dihuang Pills" and "Shenshu Granule". All of the above products are sold under "Dinglu 鼎爐" brand name. The major markets for these products are in eastern China. Xiamen TCM has a network of sales offices covering the major provinces of China. The company has been granted GMP certificate for its tablets, capsules, granules and pills production plants.

- In July 2002, the Group acquired a 21.31% stake in MicroPort Medical comprised of newly issued shares for a consideration of HK$23.4 million. It is a China-based company that specialises in the development, production, sale and servicing of advanced medical instruments for micro wounds. MicroPort Medical's major products include coronary stent systems, PTCA balloon dilation catheter, vascular angiographic catheter, guiding catheter and adjunct, abdomen aortic aneurysm stent and therotic aortic aneurysm stent. MicroPort Medical also manufactures different kinds of non-vascular stent and stent delivery systems, plus a range of instruments such as surgical bypass stretch and cervical vertebra prosthetics.

Save as disclosed above, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies during the year 2002. Details of future investment plan of the Group are disclosed in this Announcement under the section headed "Business Review and Prospects". Internal resources 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 and acquisition projects.

OTHER INFORMATION

DIVIDENDS

At the Annual General Meeting of the Company to be held on Friday, 9th May 2003, the Board of Directors will recommend a final dividend for the year ended 31st December 2002 of HK4 cents per share to shareholders. This amounts to an increase of 33.3% over the previous year; the dividend payout ratio is 28%. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be payable on Thursday, 22nd May 2003 to shareholders whose names appear on the Register of Shareholders of the Company on Friday, 9th May 2003.

CLOSE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6th May 2003 to Friday, 9th May 2003, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on Monday, 5th May 2003.

STAFF

As at 31st December 2002, the Group has 2,310 full-time employees, increased by 563 employees compared with the previous year. Most of them are the employees of Xiamen Chinese Medicine Co. Ltd. Total remuneration including contributions to retirement benefit schemes for the year ended 31st December 2002 was HK$108 million (2001: HK$102 million), of which HK$6.28 million (2001: HK$8.1 million) was directors' remuneration.

The Group has established a set of 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.

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

During the year, the Group has held many in-house training programmes, including seminars on "Changes in Regulatory Framework Governing the Administration of Pharmaceutical Products", "Marketing Techniques" and "Compliance with the GMP Standards for manufacturing of Pharmaceutical Products" etc.

SHARE OPTION

In January 2000, the Company offered the first batch of 39,200,000 share options to its staff and executive directors in accordance with the share option scheme adopted by the Company on 11th November 1999 ("Initial Share Option Scheme"). The share options granted are exercisable from 21st January 2003 to 20th January 2006 at a price of HK$1.69. As at 31st December 2002, 1,000,000 share options granted were lapsed. The Company did not grant any share option in 2002.

To be in line with the changes of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited in relation to share option schemes and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and for such other purposes as the Board of Directors of the Company may approve from time to time, the shareholders of the Company and Shanghai Industrial Holdings Limited, an intermediate holding company of the Company, have on 6th May 2002 and 31st May 2002 respectively approved the termination of the Initial Share Option Scheme and adopted a new share option scheme at their respective extraordinary general meetings. The new share option scheme will remain in force for a period of 10 years commencing on the date on which it is adopted by resolution of the Company in extraordinary general meeting.

According to the new share option scheme, the Board of Directors of the Company may grant options to any participants, to subscribe for shares in the Company for a consideration of HK$1.00 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant. The Board may at its absolute discretion determine the period during which an option may be exercised, such period to expire not later than 10 years from the date of grant of the option. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised. The exercise price is determined by the Board of Directors of the Company, and shall be at least the highest of: the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and the nominal value of the share.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 2002, Mr. Shen Wei Jia held 225,000 shares of the Company and certain Directors of the Company have personal interests in Shanghai Industrial Holdings Limited, an intermediate holding company of the Company ("SIHL"). Save as disclosed hereinabove, 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").

Name of director	Number of shares of SIHL held as personal interest
Lu Ming Fang	2,700,000
Li Wei Da	1,200,000
Zhou Jie	2,700,000
Wu Jian Zhuang	1,000,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) As at 31st December 2002, certain Directors of the Company have personal interests in share options to subscribe for shares in the Company which have been granted to them pursuant to the Initial Share Option Scheme as follows:

Name of director	Month of grant	Exercise price per share *HK$*	Outstanding at 1st January 2002 and 31st December 2002
Feng Gen Sheng	January 2000	1.69	6,000,000
Li Wei Da	January 2000	1.69	6,000,000
Chen Shu Zi	January 2000	1.69	4,000,000
Ge Wen Yao	January 2000	1.69	2,500,000
Wu Jian Zhuang	January 2000	1.69	2,500,000

The aforesaid options are exercisable 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:

Name of director	Month of grant	Exercise Price per share HK$	Outstanding at 1st January 2002	Granted during the year	Exercised during the year	Outstanding at 31st December 2002
Lu Ming Fang	August 1998	10.432	500,000	-	500,000	-
	January 1999	9.568	1,200,000	-	1,200,000	-
	July 2001	10.432	1,500,000	-	-	1,500,000
Feng Gen Sheng	October 2002	11.710	-	400,000	-	400,000
Li Wei Da	January 1999	9.568	1,200,000	-	1,200,000	-
Zhou Jie	August 1998	10.432	1,500,000	-	1,500,000	-
	January 1999	9.568	1,200,000	-	1,200,000	-
Chen Shu Zi	July 2001	10.432	1,500,000	-	-	1,500,000
	October 2002	11.710	-	350,000	-	350,000
Shen Wei Jia	September 2002	11.710	-	200,000	-	200,000
Wu Jian Zhuang	January 1999	9.568	1,000,000	-	1,000,000	-
	October 2002	11.710	-	200,000		200,000

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 acceptance.

DIRECTORS' INTEREST IN CONTRACTS

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, 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)*	401,885,000
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. SIIC owns 100% of STC. Accordingly, SIIC are deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by STC, SIH, SIHL, SIIH, SIHL Treasury and CFI as listed above.

Nanyang Enterprises Limited ("NEL") and Nanyang Enterprises Property Limited ("NPL") are the beneficial owners of 2,843,000 and 424,000 ordinary shares of the Company respectively. SIIC owns 100% of NEL, NPL and STC. Accordingly, SIIC is deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by NEL, NPL and STC.

Save as disclosed above, as at 31st December 2002, 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 is principally engaged in research and development of EPO, which has a medical application for increasing erythrocyte.

Shanghai United is a conglomerate engaging in traditional Chinese medicine, medical equipment, e-commerce, textiles, garments and international trade etc. Certain fellow companies of Shanghai United are engaging in medical and pharmaceutical related operations which included Shanghai Medical Instruments Co., Ltd. ("SMIC"), Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. ("SIUHP"), Zhejiang Jolly Pharmaceutical

Co., Ltd. (“Jolly”), Shanghai Industrial United Holdings Pharmaceutical Research Co., Ltd. (“SIUHR”) and Changzhou Pharmaceutical Co., Ltd. (“Changzhou Pharmaceutical”). SMIC is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. SIUHR is engaged in research and development of Chinese and Western pharmaceutical products, bio-pharmaceutical, medical bioengineering and medical equipment. Jolly and SIUPR are engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products. Changzhou Pharmaceutical is engaged in chemical dosage, chemical materials, biological products, Chinese patent medicine, medicinal herbs and medical instruments. Mr. Lu Ming Fang is a director of Shanghai United and holds 15,000 shares of Shanghai United.

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

Save as disclosed above, as at 31st December 2002, 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.

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.

BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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*

This announcement will remain on the GEM website on the “Latest Company Announcements” page for a minimum period of 7 days from the date of publication.