



上海實業醫藥科技(集團)有限公司  
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

annual report  
2002

Medical Science Inspired by Nature





Medical Science Inspired by Nature

**SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.**

**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.



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## Company Information

### LEGAL NAME OF THE COMPANY

SIIC Medical Science and Technology  
(Group) Limited

### PLACE OF INCORPORATION

Cayman Islands

### DIRECTORS

#### Executive Directors

Lu Ming Fang (*Chairman*)  
Feng Gen Sheng (*Vice Chairman*)  
Li Wei Da (*Vice Chairman*)  
Zhou Jie (*Managing Director*)  
Chen Shu Zi (*Deputy Managing Director*)  
Shen Wei Jia (*Deputy Managing Director*)  
Ge Wen Yao  
Wu Jian Zhuang

#### Independent Non-Executive Directors

Kwok Chin Kung, Robert  
Li Ka Cheung, Eric  
Lee Ka Sze, Carmelo

### BOARD COMMITTEES

#### Executive Committee

Lu Ming Fang (*Committee Chairman*)  
Li Wei Da  
Zhou Jie  
Chen Shu Zi

#### Audit Committee

Li Ka Cheung, Eric (*Committee Chairman*)  
Kwok Chin Kung, Robert  
Lee Ka Sze, Carmelo

### COMPANY SECRETARY

Wong Mei Ling, Marina  
FCS, FCIS, MBA, BA (Hons) AC

### COMPLIANCE OFFICER

Zhou Jie

### QUALIFIED ACCOUNTANT

Chak Kwan, Byron  
BA, ACCA, AHKSA

### AUTHORISED REPRESENTATIVES

Zhou Jie  
Wong Mei Ling, Marina

### AUTHORISED PERSONS TO ACCEPT SERVICES OF PROCESS AND NOTICES

Zhou Jie  
Wong Mei Ling, Marina

### REGISTERED OFFICE

P.O. Box 309, Umland House  
South Church Street, George Town  
Grand Cayman, Cayman Islands  
British West Indies

### PRINCIPAL OFFICES

#### Head Office

26th Floor, Harcourt House  
39 Gloucester Road  
Wanchai, Hong Kong

#### Shanghai Office

12A, Golden Bell Plaza  
98 Huai Hai Road (M)  
Shanghai, China

### AUDITORS

Deloitte Touche Tohmatsu

### LEGAL ADVISERS

*As to Hong Kong Law*  
Woo, Kwan, Lee & Lo

*As to Cayman Islands Law*  
Maples and Calder Asia

## Information for our Investors

### SHAREHOLDER ENQUIRIES

For enquiries about share transfer and registration, please contact the Company's Hong Kong Branch Share Registrars

#### Secretaries Limited

Ground Floor, Bank of East Asia Harbour View Centre  
56 Gloucester Road, Wanchai, Hong Kong  
Telephone : (852) 2980 1888  
Facsimile : (852) 2861 0594

For enquiries from investors and securities analysts, please contact :

#### SIIC Medical Science and Technology (Group) Limited

Miss Wong Mei Ling, Marina  
Company Secretary  
26th Floor, Harcourt House  
39 Gloucester Road, Wanchai, Hong Kong  
Telephone : (852) 2876 2388  
Facsimile : (852) 2520 0128  
Email : enquiry8018@siicmst.com

### COMPANY STOCK CODE

The Stock Exchange of Hong Kong : 8018  
Bloomberg : 8018 HK

### COMPANY WEBSITE

[www.siicmst.com](http://www.siicmst.com)

### FELLOW COMPANIES WEBSITE

E-COM Technology: [www.e-comtech.com](http://www.e-comtech.com)  
Guandong Biolight: [www.blf.com.cn](http://www.blf.com.cn)  
Hangzhou Qingchunbao: [www.cnqcb.com](http://www.cnqcb.com)  
Huqingyutang Drugstore: [www.huqingyutang.com](http://www.huqingyutang.com)  
MicroPort Medical: [www.microportmedical.com](http://www.microportmedical.com)  
Shanghai Jahwa: [www.jahwa.com.cn](http://www.jahwa.com.cn)

### RESULTS

- 2002 First Quarterly Results announced on 6th May 2002
- 2002 Half-year Results announced on 8th August 2002
- 2002 Third Quarterly Results announced on 7th November 2002
- 2002 Annual Results announced on 18th March 2003

### ANNUAL REPORT

Posted to shareholders on 31st March 2003

### DIVIDEND

Proposed Final Dividend : HK4 cents

Payable Date : Thursday, 22nd May 2003

### REGISTER OF SHAREHOLDERS

To be closed from Tuesday, 6th May 2003 to Friday, 9th May 2003, during which period no transfer of shares will be effected

### ANNUAL GENERAL MEETING

To be held on Friday, 9th May 2003 at 11:00 a.m.

## Corporate Overview

## SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

Pharmaceutical Products  
and Health Food

## Medical Retailing



## Medical Equipment



## Personal Care Products



- The Group has 33 Prescription Drugs, 56 OTC Drugs and 3 Health Food.
- 17 products have been selected for the TCM Administrative Protection List, including Shen Mai Injection, Huang Qi Injection, Shen Kang Ning Tablets, Yang Yin Jiang Tang Tablets, Stomach Recuperation Granules, Sugar-free Stomach Recuperation Granules, Qing Re Ling Granules, Niao Gan Ning Granules, You Xie Ning Granules, Shen Mai Capsule, Lianyuan Eriobotryajaponica Decoction, Xinhuang Tablets, Tong Mai Jiang Zhi Tablets, Babaodan, Babaodan Capsule, Shenshu Granules and Yu Zhi Ping An Pills.
- Principal products include:

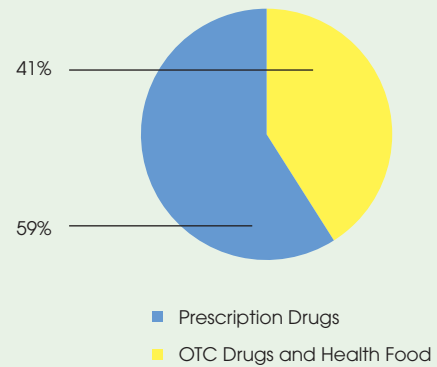
Prescription Drugs

- Shen Mai Injection
- Dan Shen Injection
- Herba Houttuyniae Injection
- Huang Qi Injection
- Xinhuang Tablets
- Babaodan Capsule
- Shenshu Granules

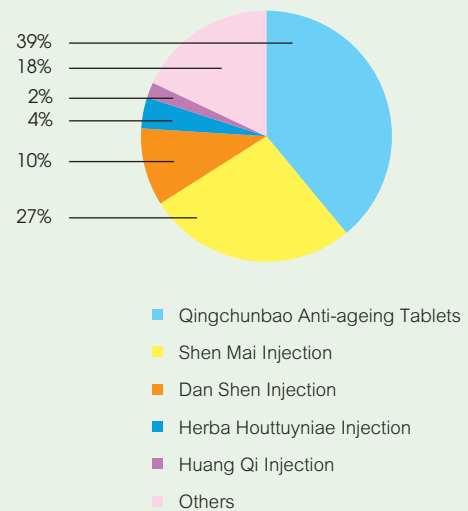
OTC Drugs and Health Food

- Qingchunbao Anti-ageing Tablets
- Qingchunbao Beauty Capsule

Sales Analysis



Sales Analysis of Principal Products



## Financial Highlights

### RESULTS

	2002 HK\$'000	2001 HK\$'000	Change
Turnover	842,386	723,911	+16.4%
Profit from Operations	231,844	157,576	+47.1%
Profit for the year before Exceptional Items*	102,821	76,991	+33.5%

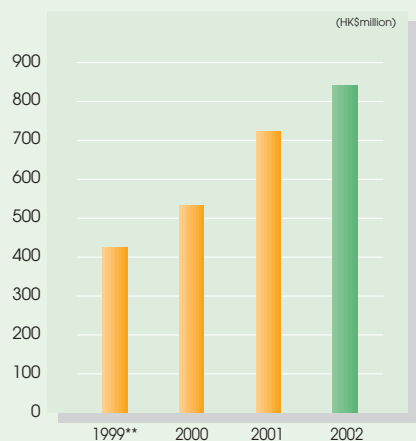
### FINANCIAL POSITION

	2002 HK\$'000	2001 HK\$'000
Total Assets	1,257,395	1,070,274
Total Liabilities	237,014	212,747
Consolidated Bank Balances and Cash	442,424	420,149
Shareholders' Fund	810,159	738,043
Earnings per Share — Basic	HK14.1 cents	HK37.5 cents
Net Assets per Share	HK\$1.31	HK\$1.19
Dividend per Share — Final	HK4 cents	HK3 cents
— Special Final	—	HK1.5 cents

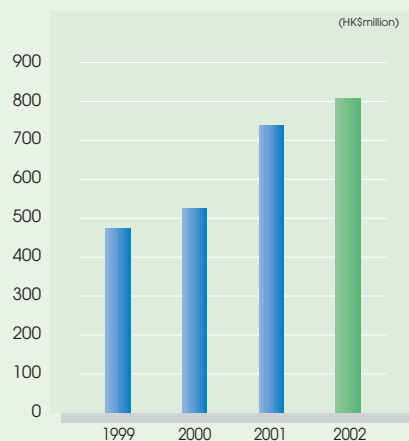
### SALES OF PRINCIPAL PRODUCTS

	2002 HK\$'000	2001 HK\$'000	Change
Qingchunbao Anti-ageing Tablets	328,213	239,644	+37.0%
Shen Mai Injection	227,774	211,921	+7.5%
Dan Shen Injection	84,992	77,023	+10.3%
Herba Houttuyniae Injection	29,614	21,132	+40.1%
Huang Qi Injection	18,158	14,998	+21.1%

#### Turnover



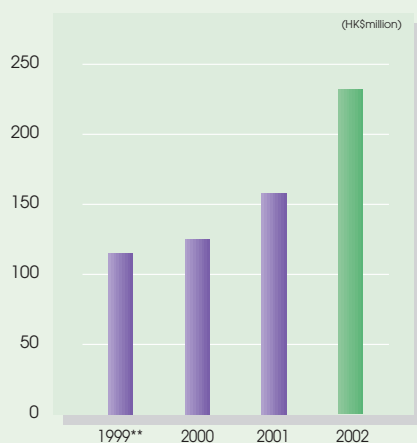
#### Shareholders' Fund





- Turnover of the Group was HK\$842 million, representing an increase of 16.4%.
- Profit from operations for the year rose 47.1% to HK\$232 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, representing an increase of 33%.
- Sales of “Qingchunbao Anti-ageing Tablets” increased by 37%, 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 2002. Sales in the first four months were nearing RMB15 million.

Profit from Operations



Net Assets per Share



\* for details, please refer to the Financial Review in Management Discussion and Analysis

\*\* proforma combined

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.



LU MING FANG  
Chairman

# Chairman's Statement



## 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.

## DIVIDENDS

At the Annual General Meeting of the Company to be held on 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 22nd May 2003 to shareholders whose names appear on the Register of Shareholders of the Company on 9th May 2003.

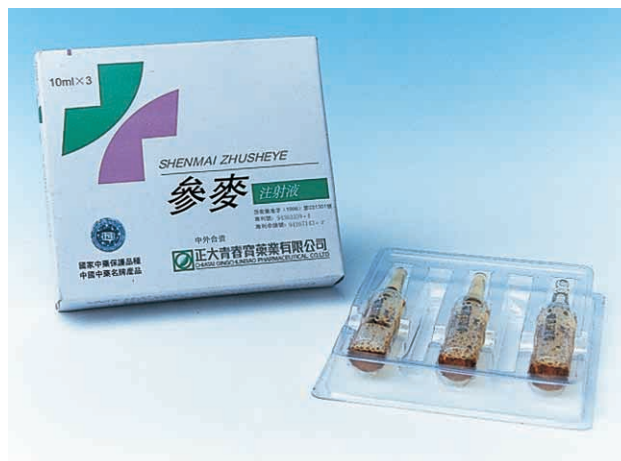
## REVIEW

### Pharmaceutical Products and Health Food

The Group focuses on prescription drugs for the treatment of cardio-vascular diseases. We also produce analgesic-antipyretic drugs and antiphlogistics. To date, 17 products have been selected for the TCM Administrative Protection List and over 50 have been listed in the Reimbursement Drug List for Basic Health Insurance. The highest sales of prescription drug in 2002 were for "Shen Mai Injection", accounting for 27% of Group turnover, and the second highest for "Dan Shen Injection", accounting for 10% of turnover; their sales were up by 7.5%, and 10.3%, respectively over the previous year. Sales of two other key injection products — "Herba Houத்துyniae Injection" and "Huang Qi Injection" — increased by 40.1% and 21.1%, respectively.

During 2002, the Group acquired Xiamen TCM, consolidating its results into the Group's accounts from September 2002. Its key prescription product is "Xinhuang Tablets", which in terms of annual pro forma sales revenues is now one of the Group's top five pharmaceutical products. The tablets relieve internal heat, kill germs, promote blood circulation, remove blood stasis and relieve pain. This product has been selected for the 2nd Grade of TCM Administrative Protection List and is listed in the Reimbursement Drugs List for Basic Health Insurance. Fujian is now its major market, and the Group is committed to introducing "Xinhuang Tablets" to other provincial markets, and to boosting its market share.

Of all mainland China's medical reforms, the central bidding system for hospital medicine purchases most directly impacted the pharmaceutical industry. In response to the state policy changes, the Group consolidated its resources to ensure success, founded on its quality brand-name products. Our market share is supported by quality service; and by charging favourable prices for our four principal



injection products — "Shen Mai Injection", "Dan Shen Injection", "Herba Houத்துyniae Injection" and "Huang Qi Injection" — through the principle of "Good prices for good products". These factors have helped maintain solid pharmaceutical sales revenues. The Group will continue to monitor market conditions and seize appropriate opportunities to participate in and capitalise on projects in various regions. We aim for steady sales growth, through expansion of our markets.

As the mainland's classification system for medical products evolves, the Group is changing accordingly. In 2002, we successfully applied to change the product certificates of certain of our health supplement products — "Qingchunbao Anti-ageing Tablets", "Qingchunbao Oral Tonic", and "Manly Energy Capsule" (currently named "Rong Shen Kidney Enhancement Capsules — Young Pilose Antler and Ginseng") — from health supplement products to drugs. This year, "Qingchunbao Anti-ageing Tablets" once again broke sales records, achieving breakthrough revenue of over HK\$328 million, a 37% increase over 2001.

To maintain rapid growth in health food sales, the Group accelerated development of "Qingchunbao Beauty Capsule", and prepared the marketing promotion ahead of schedule. As a result, the new product was launched in mid-August 2002. It quickly achieved widespread consumer recognition, with sales in the first four months nearing RMB15 million. The Group has a leading position in the health food market in Jiangsu, Zhejiang and Shanghai, and we will expand in this market, partly through reinforcing our position in Zhejiang and expanding in Shanghai. Also, upholding the principle of "Continuous development, innovation and

consolidation," we are putting more effort into developing both the Suzhou market in Jiangsu, and the Shenzhen market in Guangdong.

As part of our drive to boost overall competitiveness, one of our targets for 2002 was to accelerate Good Manufacturing Practice ("GMP") certification applications for accredited medication production quality and management practices. Our production facilities in Hangzhou for products including injections, granules, tablets, capsules, mixtures (include oral tonics), decoctions, and syrups have been certified as passing national GMP standard; and another in Xiamen for the production of tablets, capsules, granules and pills has passed national GMP certification.

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 manufacturing process employs high technology quality control. We are undertaking 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 — is progressing well, and should help with identifying new substitutes with more precisely targeted actions for treating cardiovascular diseases and cancer. This will create a solid foundation for developing more new medicines.

#### Medical Equipment

Currently, total investment in medical equipment accounts for less than 10% of Group's net assets. The medical equipment business is in the early stage of gaining significant market share. The growth rate of sales of interventional surgical equipment far outperformed those of other products, with total sales in the second half of 2002 3.6 times those in the first half of the year. Also, sales of digital angiographic systems and information systems for medical applications increased 1.3 times over the previous year. We are committed to facilitating development of existing projects, and to generating higher returns from each project.

#### Personal Care Products

The Group is also engaged in personal care products, through a 28.15% holding in Shanghai Jahwa United Co. Ltd ("Shanghai Jahwa"). Shanghai Jahwa has several brand-

name products in the mainland market, including "Liushen", "Clinf de Clinf", "Maxam", and "Herborist", with sales networks throughout mainland China. Amid intensified market competition, the company's sales were higher than the previous year, and it contributed profit before tax of HK\$24 million to the Group.

#### 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



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.



# Management Discussion and Analysis



## BUSINESS REVIEW

In 2002, China strengthened administration of and tightened regulations governing the pharmaceutical industry. As well as consolidating and developing our profit base, the Group has sought acquisition opportunities. Results have been highly satisfactory: compared with 2001, turnover grew by approximately 16.4% to HK\$842 million and profitability rose dramatically, with profit from operations up by over 47.1%, reaching HK\$232 million. Excluding exceptional items (please refer to the Financial Review), adjusted profit attributable to shareholders increased by 33.5% over the previous year. Adjusted earnings before interest, tax, depreciation and amortisation reached HK\$273 million, an increase of 37.8% over the previous year. Operating margin climbed to 27.5%, a rise of 5.7 percentage points; and adjusted net profit margin rose by 1.6 percentage points, to 12.2%.

### 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% 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.

“ **We are committed to building our brand name through product excellence.** ”

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.

**“ We will secure our market share by offering outstanding and considerate customer service. ”**

### 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 before tax to the Group.

#### Research and Development

Our research centres at Xiamen TCM and Hangzhou Qingchunbao were certified as city-level enterprise research centres, and the Hangzhou Qingchunbao research centre was certified at provincial level in early 2003.

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 and build a solid foundation for further development of new medicines.

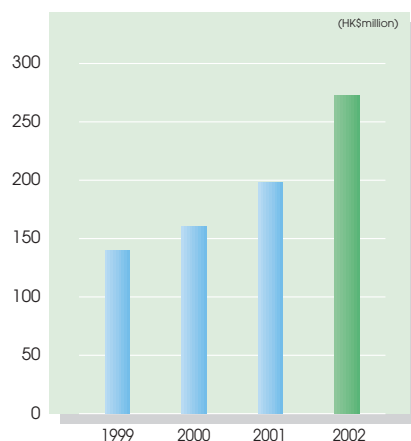
As regards new research and development projects, apart from "Qingchunbao Beauty Capsule" and "Lycium Barbarum Granule", "Ipriflavone Tablets" were launched at the end of 2002. In addition, we planned to launch "Antiflu Capsule" in 2003. We have also submitted an application to the SDA for clinical trials 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**

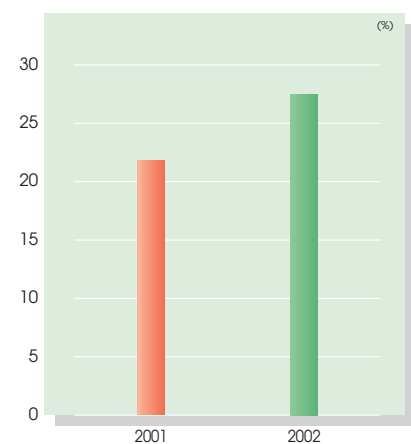
The Group's capital expenditure in 2002 totalled HK\$134 million, an increase of 4.6 times over the previous year. Around HK\$32 million were used to upgrade and modify manufacturing facilities in Hangzhou and Xiamen. One of our key targets for 2002 was accelerating the GMP certification process. We 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.

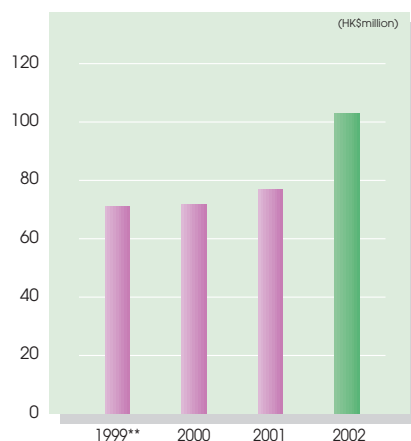
**EBITDA Excluding Exceptional Items**



**Operating Margin**



**Net Profit Excluding Exceptional Items**



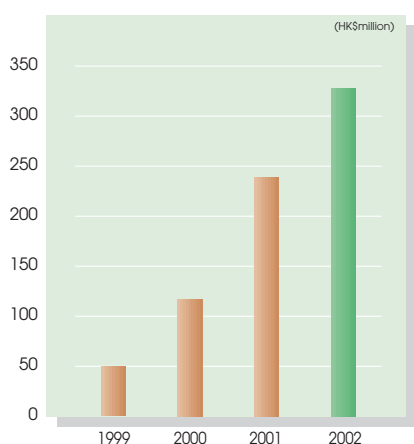
\*\* proforma combined

## FINANCIAL REVIEW

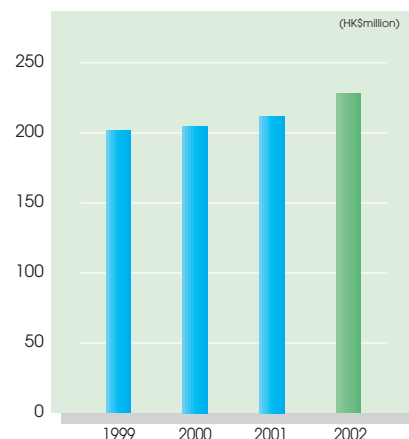
### Turnover

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 manufacture 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.

### Turnover of Qingchunbao Anti-ageing Tablets



### Turnover of Shen Mai Injection



### 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 internet pharmaceutical 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 Structure

By the end of 2002, the Group had total bank balances and cash of HK\$442 million. Net assets reached HK\$810 million, a 9.8% increase over the previous year. Debt ratio was 18.8%. The strong and solid debt 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\$223 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.

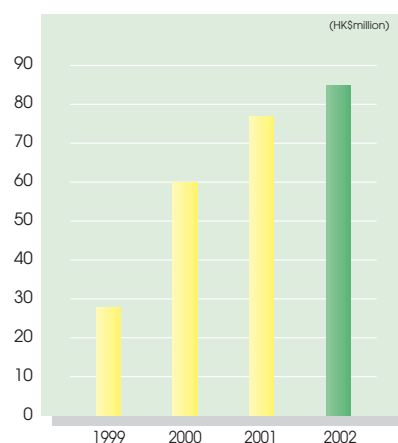
#### Foreign Exchange Policy

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

#### Turnover of Dan Shen Injection



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 thoracic 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 Annual Report under the section headed "Chairman's Statement". 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.

## CORPORATE GOVERNANCE

Corporate governance is the systems by which companies are directed and controlled. A good, solid and sensible framework of corporate governance is the bedrock of good management. The principles and standards of corporate governance adopted by the Company are set up with reference to the applicable rules and regulations and tailored to the needs of the Group. The Board of Directors of the Company and its senior management endeavour to follow and adhere to the principles and standards of corporate governance in order to protect and enhance the interests of our shareholders.

### Group Structure and Shareholders

The Group's businesses can be divided into three divisions. They are pharmaceutical and health supplement products; medical equipment; and personal care products. The business operations of the Group are conducted through its fellow companies. Details of the Company's subsidiaries, jointly controlled entities and associated companies at 31st December 2002 are set out in notes 34, 17 and 16 to the financial statements respectively.

Shanghai Industrial Holdings Limited is an intermediate holding company of the Group. As at 31st December 2002, it beneficially held 398,618,000 shares of the Company. Details of the substantial shareholders of the Group are set out on page 37 of the annual report.



### Board of Directors

The Board of Directors of the Company has 11 members, three of them are independent non-executive directors. Their average age is 48. In accordance with the Company's Articles of Association, new appointments to the Board are subject to re-election by shareholders at the next following annual general meeting. Besides, in accordance with the Articles of Association, at each annual general meeting about one-third of the directors (other than the Managing Director) shall retire from office by rotation and shall be eligible for re-election thereat. Nevertheless, the Company has adopted a stricter policy on rotation of directors. In the last annual general meeting, 5 out of 10 directors were subject to rotation. They are Mr. Lu Ming Fang, Mr. Li Wei Da, Mr. Zhou Jie, Mr. Kwok Chin Kung, Robert and Mr. Lee Ka Sze, Carmelo. In the forthcoming annual general meeting, 6 out of 11 directors, including Mr. Feng Gen Sheng, Mr. Chen Shu Zi, Mr. Shen Wei Jia, Mr. Ge Wen Yao, Mr. Wu Jian Zhuang and Mr. Li Ka Cheung, Eric will be subject to rotation.

Mr. Lu Ming Fang and Mr. Zhou Jie have been elected as the Chairman and the Managing Director of the Company respectively. Full Board meeting will be held at least four times a year to approve quarterly and annual results. Currently, the Board of Directors has set up two Board Committees, namely Executive Committee and Audit Committee.

### Executive Committee

Executive Committee is the execution body of the Board of Directors. It will perform all acts within the areas of responsibility as delegated by the Board of Directors. Presently, the members of Executive Committee include Mr.

Lu Ming Fang, Mr. Li Wei Da, Mr. Zhou Jie and Mr. Chen Shu Zi.  
The primary functions of the Committee are:

- Overall supervisions of the Group's business operations;
- Coordination of the day-to-day businesses of the Company including administration, personnel, finance and compliance etc.
- Allocation of resources in accordance with the predetermined development and investment directions of the Company; and
- Study and procure new business projects and initiate acquisition projects etc.

At each quarterly plenary Board meeting, the Executive Committee will report to the Board of Directors and circulate relevant minutes.

#### **Audit Committee**

Audit Committee is the consultation body of the Board of Directors. It consists of three Independent Non-Executive Directors: Mr. Li Ka Cheung, Eric, Mr. Kwok Chin Kung, Robert and Mr. Lee Ka Sze, Carmelo. The Committee shall meet at least twice a year. Its primary responsibilities are:

- Review the nature and scope of the audit with auditors before the commencement of the auditing procedure;
- Review the Group's financial reporting procedures and internal monitoring procedures;
- Examine and approve the Group's annual report, half year report, quarterly report and accounting items; and
- Examine and verify the internal audit plan to ensure co-ordination between auditors and internal audit staff.

The seventh and eighth Audit Committee Meeting were held in July 2002 and March 2003 respectively. At the meetings,



the Committee focused on examining and approving the interim results for the period ended 30th June 2002, the final results for the year ended 31st December 2002, and internal auditing issues.

#### **System of Internal Control**

The Group has adopted an established and sophisticated internal management and process control system covering financial information management and investment decision-making processes. The system of internal control is designed to provide reasonable assurance that assets are safeguarded against losses from misapplication, transactions are properly executed under management authorisation; information disclosed is accurate and reliable; and financial statements show a true and fair view of the business.

#### **Fair Disclosure**

The Company endeavours to distribute material information about the Group simultaneously to all interested parties. When announcements are made through the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, the same information will also be published in the Company website and will be dispatched to investors, journalists and securities analysts via e-mail or facsimile if an e-mail address or fax number is known.



## INVESTOR RELATIONS

The Group attaches great importance to interactive communication with investors. To further increase the Group's transparency, during the year, the Company has nominated the Company Secretary to focus also on serving the information needs of our shareholders and investors. The Company will disseminate information about the Group's business and developments to the investors through various channels to facilitate their understanding of the Group's position. This will help to enhance the communication with investors.

Apart from disclosing the Group's business in our annual report, half-year report and quarterly report, the Group also, from time to time, informs the market in a timely fashion of the latest significant developments of the Company through press releases, announcement and publications on its web site. All this information together with our company's different business highlights and all press releases and reports from the date of incorporation are available on the Company's web site, [www.siicmst.com](http://www.siicmst.com). Press conferences and analysts' meetings chaired by the senior management will be held immediately after annual and quarterly results are announced.

In addition to hold press conferences and analysts' meetings, the Company also has regular meetings with securities analysts and investors and participated in a number of large-scale conferences and seminars organised by different institutes during the year. These measures help investors to better understand the Group's business strategy and the Chinese medicine business in general.



## HUMAN RESOURCES MANAGEMENT

We strongly believe that the success of a company depends on the collaborative efforts of all staff and their continual pursuit of value and innovation. Staff relationships are the priority in human resources management. Consistency and fairness are the keys to strike a balance between the interest of the Group and our employees. Presently, 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. An analysis by functions is as follows:

	No. of employees
Company Offices	13
Sales and Marketing	881
Production	731
Administration and Procurement	243
Quality Control	125
Research and Development	32
Others	285

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.



### Welfare Policy

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.

Total remuneration including contributions to retirement benefit schemes for the year ended 31st December 2002 was HK\$108 million, of which HK\$6.28 million was directors' remuneration. Compared with the previous year, directors' remuneration decreased by HK\$1.82 million. Details of directors' emoluments and benefits are set out in note 8 to the financial statements.

### Share Options

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.

Particulars of the Company's share option scheme are set out in note 24 to the financial statements.

#### Staff Training

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 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. 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.

#### Staff Relationships

In order to strengthen communication between the Company and our staff and to improve the sense of community, the Company will share the latest information with our staff concerning the Group's business and market information through the intranet of the Company regularly. Furthermore, in order to enhance the staff's understanding of the Group's management culture, its subordinate enterprises and their business operations, we have arranged the second inspection tour in Shanghai and Hangzhou for the Hong Kong staff to promote communication and interaction between staff from different regions. To allow our employees to appreciate the business operation of different companies, visits to our parent company's Hong Kong subsidiary were arranged during the year.



# Directors and Senior Management Profile



From Left to Right:

Front row:

**Li Ka Cheung, Eric, Lu Ming Fang  
Kwok Chin Kung, Robert**

Back row:

**Zhou Jie, Li Wei Da  
Lee Ka Sze, Carmelo, Chen Shu Zi**

## DIRECTORS

### Executive Director

#### Mr. Lu Ming Fang

Mr. Lu, aged 46, is an executive director and the chairman of the Group, the vice president of Shanghai Industrial (Holdings) Company Limited ("SIIC") and the chief executive officer of Shanghai Industrial Holdings Limited ("SIHL"). Mr. Lu graduated from Shanghai Fudan University with a master's degree in economics and holds the designation of senior economist. Prior to joining SIIC in July 1995, Mr. Lu had worked for Shanghai Medicinal Materials Company, Shanghai Municipal Drug Administration, Shanghai Wen Hui Bao and Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co. Ltd.). Mr. Lu had been actively involved in the flotation of SIHL, and the subsequent asset injection exercises. Management positions he had held within the SIIC group include deputy general manager of asset management department at SIIC; executive deputy managing director of S.I. Capital Management Co. Ltd., a subsidiary of SIIC; managing director of Shanghai Industrial United Holdings Company Limited, a company listed on the Shanghai Stock Exchange A Shares Market and assistant president and general manager of planning and finance department of SIIC.

#### Mr. Feng Gen Sheng

Mr. Feng, aged 68, is an executive director and the vice chairman of the Group, the vice chairman and the chief executive of Chia Tai Qingchunbao Pharmaceutical Co. Ltd., the chairman of China (Hangzhou) Qingchunbao Group Co. Ltd. and the chairman of Hangzhou Huqingyutang Co. Ltd. Mr. Feng was accredited as senior economist and certified pharmacist. He began to assume office as the factory manager of Hangzhou No. 2 Chinese Medicine Factory in 1972. He has over 54 years of experience in enterprises operation management in pharmaceutical business and was awarded as Excellent Entrepreneur of the State (全國首屆優秀企業家).

**Mr. Li Wei Da**

Mr. Li, aged 55, is an executive director and the vice chairman of the Group, the vice president of Shanghai Industrial (Holdings) Company Limited and the deputy chief executive officer of Shanghai Industrial Holdings Limited. He is also the chairman of Chia Tai Qingchunbao Pharmaceutical Co. Ltd. and vice chairman of Shanghai Jahwa United Co. Ltd. He graduated from Shanghai Second Polytechnical University with a degree in auto control. Mr. Li was previously the deputy general manager of Shanghai Bearing Limited. He was over 33 years of experience in industrial enterprise management.

**Mr. Zhou Jie**

Mr. Zhou, aged 35, is an executive director and the managing director of the Group, the deputy chief executive officer of Shanghai Industrial Holdings Limited, the vice chairman of Shanghai Bright Dairy and Food Co. Ltd., a director of Chia Tai Qingchunbao Pharmaceutical Co. Ltd., a director of Xiamen Traditional Chinese Medicine Co. Ltd., the chairman of Ningxia SIIC Viopes Nutraceuticals Co. Limited and the chairman of Beijing SIIC Phytopharmaceuticals Co. Ltd. He is graduated from Shanghai Jiaotong University with a master's degree in management engineering. He had been a deputy general manager of investment banking at head office of Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co. Ltd.) before joining Shanghai Industrial Investment (Holdings) Co. Ltd. in 1996. Mr. Zhou was previously chairman and general manager of S.I. Capital Co. Ltd.

**Mr. Chen Shu Zi**

Mr. Chen, aged 55, is an executive director and the deputy managing director of the Group, the chairman of Xiamen Traditional Chinese Medicine Co. Ltd., the vice chairman of Guangdong Biolight Medical Technology Co. Ltd. and a director of E-COM Technology Limited. Mr. Chen joined SIIC Shanghai Holdings Co. Ltd. as general manager of the enterprise management department in October 1998. He graduated from Shanghai Fudan University with a master degree in economics and management. Mr. Chen was previously a director and deputy general manager of 上海輪胎橡膠(集團)股份有限公司 (Shanghai Rubber Tyre (Group) Limited). He has extensive working experience in corporate management.

**Mr. Shen Wei Jia**

Mr. Shen, aged 49, is an executive director and the deputy managing director of the Group, a director of Shanghai Jahwa United Co. Ltd., a director of Shanghai Bright Dairy and Food Co. Ltd. and a director of Shanghai Sunve Pharmaceutical Co. Ltd. ("Sunve Pharmaceutical"). He graduated from Shanghai Fudan University with a bachelor degree in mathematics and was then conferred a doctoral degree in economics. He also holds a master's degree in business administration awarded by the Catholic University of Leuven (Belgium). Mr. Shen has been a MBA project supervisor in Shanghai Fudan University, the managing director of Shanghai Waigaoqiao Free Trade Zone 3U-Development Co. Ltd. and the general vice president of Sunve Pharmaceutical.

**Mr. Ge Wen Yao**

Mr. Ge, aged 56, is an executive director of the Group, an executive director of Shanghai Industrial Holdings Limited and the chairman of Shanghai Jahwa United Co. Ltd. He graduated from Shanghai Finance and Economics University with a major in economics, and a master's degree in enterprise management. He holds the designation of senior economist. He is also the chairman of Shanghai Jahwa (Holdings) Co. Ltd. Mr. Ge has over 25 years of experience in cosmetics business management.

**Mr. Wu Jian Zhuang**

Mr. Wu, aged 56, is an executive director of the Group, a director of Chia Tai Qingchunbao Pharmaceutical Co. Ltd. and a director of Ningxia SIIC Viopes Nutraceuticals Co. Limited. Mr. Wu graduated from Hua Tung Normal University with a master degree of economics. He was previously the general manager of Shanghai Dairy Farm Company and Shanghai Agriculture Investment Corporation. He has more than 28 years of experience in corporate administration and management.

### Independent Non-Executive Director

#### Mr. Kwok Chin Kung, Robert

Mr. Kwok, aged 64, is a Chartered Accountant and joined the Jardine Matheson Group in 1964. He is a director of Jardine Matheson Ltd., Dairy Farm International Holdings Ltd., Hongkong Land Holdings Ltd., Jardine Matheson Holdings Ltd., Jardine Strategic Holdings Ltd. and Mandarin Oriental International Ltd.

#### Mr. Li Ka Cheung, Eric

Mr. Li, aged 49, LLD, Hon. DSocSc, B.A. (Econ) Hon., FHKSA, FCA, FCIS, Hon. HKAT, OBE, JP. Mr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants and an independent non-executive director of SmarTone Telecommunications Holdings Ltd., The Kowloon Motor Bus Holdings Ltd., Wong's International (Holdings) Ltd., CATIC International Holdings Ltd., Hang Seng Bank Limited, China Vanke Co. Ltd. and China Resources Enterprise, Limited. Mr. Li is a member of the Legislative Council of Hong Kong, chairman of its Public Accounts Committee and member of National Committee of Chinese People's Political Consultative Conference. He was also a past president of the Hong Kong Society of Accountants.

#### Mr. Lee Ka Sze, Carmelo

Mr. Lee, aged 42, is a partner of Woo, Kwan, Lee & Lo. Mr. Lee received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Lee is an independent non-executive director of several listed public companies in Hong Kong, namely China Everbright International Ltd., China Pharmaceutical Enterprise & Investment Corporation Ltd., Hopewell Holdings Limited, Pak Fah Yeow International Ltd., Safety Godown Company Limited, Ternbray Industries International (Holdings) Ltd., Tern Properties Company Ltd., The Cross-Harbour (Holdings) Limited, Yugang International Ltd., Yunnan Enterprises Holdings Ltd. and Y.T. Realty Group Limited. Mr. Lee is also a listing committee member of the Main Board of the Stock Exchange of Hong Kong Limited.

### SENIOR MANAGEMENT

#### Ms. Li Yu Hang

Ms. Li, aged 51, is a director and the deputy chief executive of Chia Tai Qingchunbao Pharmaceutical Co. Ltd. and the deputy chairman of China Hangzhou Qingchunbao Group Co. Ltd. She was appointed the deputy factory manager of Hangzhou No. 2 Chinese Medicine Factory in 1989. She has over 28 years of experience in the management of pharmaceutical enterprise. Ms. Li was a committee member of the 8th Standing Committee of Zhejiang Political Consultative Conference. She is now a committee member of the 9th Standing Committee of Zhejiang Political Consultative Conference and executive of the standing committee of Hangzhou Women Association.

#### Mr. Xu Zheng Yu

Mr. Xu, aged 46, is a director and the deputy chief executive of Chia Tai Qingchunbao Pharmaceutical Co. Ltd. and general manager of a pharmaceutical factory. Mr. Xu graduated from Xian Medical University with a bachelor degree in medical. He is a senior medical officer and has about 22 years of experience in medical research and management in pharmaceutical enterprise. He has extensive experience in sales of pharmaceutical products.

#### Mr. Gao Zhong Jian

Mr. Gao, aged 60, is a director of Xiamen Traditional Chinese Medicine Co. Ltd. He graduated from Fujian Normal University, Faculty of Chemistry. He holds the designation of senior economist and is a practising pharmacist. Mr. Gao has been the chairman of Xiamen Dinglu Ind. Corp. since 1999 and had worked for Xiamen Development Planning Division, Branch office of Rural Commerce of Xiamen 廈門郊區商業分局, Xiamen No. 2 Pharmaceutical Factory 廈門第二製藥廠, Xiamen Chemistry Company 廈門化學工業公司 and Xiamen electrochemistry Factory 廈門電化廠. He has more than 26 years experience in enterprise management in pharmaceutical industry.

**Mr. Qiang Shi Fa**

Mr. Qiang, aged 36, is the general manager of Xiamen Traditional Chinese Medicine Co. Ltd. He graduated from Xiamen University, Faculty of Chemistry. He also holds a master's degree in Science. Mr. Qiang joined Xiamen Traditional Chinese Medicine Factory in 1990. He was the general manager of Xiamen Dinglu Ind. Corp. and the factory manager of Xiamen Traditional Chinese Medicine Factory. He has extensive experience in enterprise management in pharmaceutical industry.

**Mr. Zhou Jun Bi**

Mr. Zhou, aged 44, is a director and the general manager of Ningxia SIIC Viopes Nutraceuticals Co. Limited. Mr. Zhou graduated from Shanghai Medical Industrial College major in medical synthesis. He was accredited as engineer. Mr. Zhou completed his MBA training in 2000. He worked in Shanghai HuaiHai Pharmaceutical Co. Ltd. since September 1981 in various capacities of technician, factory supervisor, deputy factory manager and general deputy factory manager. He has over 21 years experience in corporate administration, enterprise management and operational management in pharmaceutical industry.

**Mr. Liu Yong**

Mr. Liu, aged 39, is a director and the general manager of Beijing SIIC Phytopharmaceuticals Co. Ltd. ("Beijing SIIC"). He graduated from Munich University of Germany with a doctoral degree in Pharmacy in 1996. Mr. Liu has been worked in pharmaceutical industry in Germany. He joined Beijing SIIC in 2000.

**Mr. Liu Yu Liang**

Mr. Liu, aged 41, is a director and the general manager of Shanghai Jahwa United Co. Ltd. Mr. Li graduated from Shanghai No. 2 Military Medical University (上海第二軍醫大學) with a doctoral degree. Mr. Liu has extensive experience in research and development.

**Mr. Zhou Qi Ying**

Mr. Zhou, aged 55, is a director of Shanghai Jahwa United Co. Ltd.. He holds the designation of senior economist and has a master's degree in industrial economics from Shanghai Finance and Economics University. He has been the deputy general manager of Shanghai Jahwa (Holdings) Co. Ltd. since August 1982. He has over 29 years of experience in industrial enterprise manager.

**Ms. Luo Ping**

Ms. Luo, aged 38, is assistant managing director of the Group, joined the Group in September 2002. She holds master degrees in Medicine (Claude-Bernard de-Lyon University, France and Xian-Ya Medical University, China), in Business Administration (Asian Institute of Management, the Philippines) and in Intellectual Property (Franklin-Pierce Law School, USA). Prior joining the Group, she worked for Bayer AG, Sanofi S.A. International, in Asia-Pacific Region, Canada and Germany, was responsible for medical and scientific affairs, national marketing and corporate business planning. Prior to her industry experience, she was a research doctor and a physician in Broussais Hospital, Paris, France; and Beijing Union Hospital, Beijing, China. She was a member of Association of French Pharmacologist, a member of Licensing Executive Society (LES) North America and a current member of LES China. She has 15 years experience in healthcare and pharmaceutical industry.

**Mr. Wang Shun Long,**

Mr. Wang, aged 38, is a director of Xiamen Traditional Chinese Medicine Co. Ltd., a director of Beijing-SIIC Phytopharmaceuticals Co. Ltd. and the head of strategic department of the Group. Mr. Wang joined Shanghai Industrial Holdings Limited ("SIHL") in May 1997. He graduated from Tsinghua University with a doctoral degree in engineering. Prior to joining SIHL, Mr. Wang was employed at the Eindhoven University of Technology in the Netherlands as a researcher for three years.



**Miss Wong Mei Ling, Marina**

Miss Wong, aged 36, is the company secretary and the head of the company secretarial department of the Group, mainly responsible for the Group's company secretarial matters and investor relations issues. Miss Wong graduated with honours from the City University of Hong Kong with a bachelor of arts degree in accountancy. She also holds a master's degree in business administration awarded by the University of Wales and the University of Manchester in United Kingdom jointly. Miss Wong is a Fellow of the Institute of Chartered Secretaries and Administrators. Prior to joining Shanghai Industrial Holdings Limited in March 1997, she has worked for a Hong Kong listed group and an international accountancy firm. Miss Wong has over ten years of experience in company secretarial practice.

**Mr. Chak Kwan, Byron**

Mr. Chak, aged 36, is the qualified accountant and the deputy head of finance department of the Group. Mr. Chak graduated from Shanghai Fudan University with Bachelor of Arts degree. He is associated member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountant. Mr. Chak joined the Group in December 1999.

# Financial Section

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## Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements of SIIC Medical Science and Technology (Group) Limited ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31st December 2002.

### PRINCIPAL ACTIVITIES

The Company is a holding company. The principal activities of its subsidiaries are the manufacture and sale of Chinese medicine and health supplement products.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2002 are set out in the consolidated income statement on page 41 of the annual report.

The directors recommend a final dividend of HK4 cents per share, amounting to HK\$24,800,000, and the retention of the remaining profit for the year of HK\$62,721,000.

### FINANCIAL SUMMARY

A summary of the results of the Group for the year ended 31st December 2002 and the results of the Group for the previous four years is set out on page 81 of the annual report.

### SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the financial statements.

### RESERVES

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 44. Movement in the reserves of the Company during the year are set out in note 25 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately HK\$44 million on the acquisition of property, plant and equipment for the purpose of expanding the Group's business. Property, plant and equipment with an aggregate net book value of approximately HK\$23 million were acquired as a result of the acquisition of a subsidiary. These and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

### SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2002 are set out in note 34 to the financial statements.

### ASSOCIATE

Details of the Group's associate at 31st December 2002 is set out in note 16 to the financial statements.

### JOINTLY CONTROLLED ENTITIES

Details of the Group's jointly controlled entities at 31st December 2002 is set out in note 17 to the financial statements.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive directors:

Lu Ming Fang ( <i>Chairman</i> )	(appointed on 25th January 2002)
Feng Gen Sheng ( <i>Vice Chairman</i> )	
Li Wei Da ( <i>Vice Chairman</i> )	
Zhou Jie ( <i>Managing Director</i> )	(appointed on 25th January 2002)
Chen Shu Zi ( <i>Deputy Managing Director</i> )	
Shen Wei Jia ( <i>Deputy Managing Director</i> )	(appointed on 20th December 2002)
Ge Wen Yao	
Wu Jian Zhuang	
Zhuo Fu Min	(resigned on 25th January 2002)

### Independent non-executive directors:

Kwok Chin Kung, Robert  
Li Ka Cheung, Eric  
Lee Ka Sze, Carmelo

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Feng Gen Sheng, Mr. Chen Shu Zi, Mr. Shen Wei Jia, Mr. Ge Wen Yao, Mr. Wu Jian Zhuang and Mr. Li Ka Cheung, Eric retire and, being eligible, offer themselves for re-election.

Mr. Li Wei Da and Mr. Chen Shu Zi have entered into service agreements with the Company for an initial period of three years commencing 15th October 1999, which continue thereafter until terminated by either party by six months' prior written notice.

Mr. Zhou Jie has entered into a service agreement with the Company for an initial period of three years commencing 1st February 2002, which continue thereafter until terminated by either party by six months' prior written notice.

The term of office of each of the independent non-executive directors is the period up to 31st December 2003.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**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").

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

**SHARE OPTIONS**

Particulars of the Company's share option scheme are set out in note 24 to the financial statements.

- (a) Pursuant to the share option scheme adopted by the Company on 11th November 1999, certain directors and employees of the Company have interests in share options to subscribe for shares in the Company which were granted to them in January 2000 at an exercise price of HK\$1.69 per share. The following table discloses movements in the Company's share options during the year:

	<b>Outstanding at 1.1.2002</b>	<b>Reclassification during the year</b>	<b>Lapsed during the year</b>	<b>Outstanding at 31.12.2002</b>
<i>Directors:</i>				
Feng Gen Sheng	6,000,000	—	—	6,000,000
Li Wei Da	6,000,000	—	—	6,000,000
Chen Shu Zi	4,000,000	—	—	4,000,000
Ge Wen Yao	2,500,000	—	—	2,500,000
Wu Jian Zhuang	2,500,000	—	—	2,500,000
Zhuo Fu Min (note)	8,000,000	(8,000,000)	—	—
	29,000,000	(8,000,000)	—	21,000,000
<i>Employees:</i>				
	9,700,000	8,000,000	(500,000)	17,200,000
	38,700,000	—	(500,000)	38,200,000

The aforesaid options are exercisable during the period from 21st January 2003 to 20th January 2006.

Note: No share options was exercised by Mr. Zhuo Fu Min during the period prior to his resignation as a director of the Company on 25th January 2002.

- (b) Pursuant to the share option scheme of Shanghai Industrial Holdings Limited ("SIHL"), an intermediate holding company, certain directors 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	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Outstanding at 31.12.2002
		HK\$				
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
			9,600,000	1,150,000	(6,600,000)	4,150,000

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.

The weighted average closing price of the SIHL's shares immediately before the dates on which the options were exercised was HK\$14.84.

Save as disclosed above, at no time during the year was the Company or any of 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 for such services.

Except as disclosed above, there were no contracts of significance to which the Company or any of its holding companies, 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 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
SIHL	398,618,000
Central Force Investments Limited ("CFI")	372,000,000

Note: S.I. Infrastructure Holdings Limited ("SIH") and SIHL Treasury Limited ("SIHL Treasury") are the beneficial owners of 4,261,000 and 3,238,000 ordinary shares of the Company respectively. SIH, 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, SIH, 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.

## CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 33(l) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 33(l)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;

- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### COMPETING INTERESTS

The ultimate holding company of the Company, SIIC has interest in SIIC Investment (Shanghai) Co., Ltd. ("SIICI") and Shanghai Industrial United Holdings Co., Ltd. ("Shanghai United"). SIHL, 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. ("SSIIC 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 infarction. 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 engaged in medical and pharmaceutical related operations which included Shanghai Medical Instruments Co., Ltd. ("SMIC"), Shanghai Industrial United Holdings Pharmaceutical Research Co., Ltd. ("SIUPR"), Zhejiang Jolly Pharmaceutical Co., Ltd. ("Jolly"), Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. ("SIUHP") 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. SIUPR is engaged in research and development of Chinese and Western pharmaceutical products, bio-pharmaceutical, medical bioengineering and medical equipment. SIUHP is engaged in research and development of Chinese and Western pharmaceutical products, bio-pharmaceutical, medical bioengineering and medical equipment. Jolly and SIUHP 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 an 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.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

### 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.



### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 32 to the financial statements.

### BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the year ended 31st December 2002 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 17th September 1999. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board



**Lu Ming Fang**  
*Chairman*

Hong Kong, 18th March 2003

## Auditors' Report

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

TO THE SHAREHOLDERS OF

**SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED**

上海實業醫藥科技(集團)有限公司

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 41 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

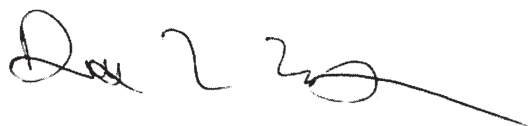
#### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



**Deloitte Touche Tohmatsu**

Hong Kong, 18th March 2003

# Consolidated Income Statement

For the year ended 31st December 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Turnover		842,386	723,911
Cost of sales		(320,084)	(283,900)
Gross profit		522,302	440,011
Investment income	5	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	6	231,844	157,576
Finance costs	7	(154)	(4)
Gain on disposal of interest in a jointly controlled entity		1,799	—
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	17	(15,300)	—
Gain on deemed disposal of interest in a jointly controlled entity		—	155,694
Profit from ordinary activities before taxation		241,942	341,102
Taxation	9	(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	10	27,900	18,600
Earnings per share	11		
— Basic		14.1 cents	37.5 cents
— Diluted		14.1 cents	N/A

## Consolidated Balance Sheet

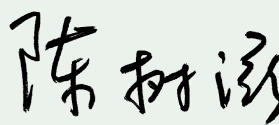
At 31st December 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
<b>Non-Current Assets</b>			
Investment property	12	3,300	12,000
Property, plant and equipment	13	185,472	125,438
Goodwill	14	8,790	—
Interest in an associate	16	296,700	284,012
Interests in jointly controlled entities	17	66,883	15,360
Investment securities	18	3,806	11,700
Loans receivable	19	8,703	—
		<b>573,654</b>	<b>448,510</b>
<b>Current Assets</b>			
Inventories	20	70,263	49,919
Trade and other receivables	21	124,679	147,588
Amount due from an associate		8,120	4,108
Placement of deposit with a financial institution		28,037	—
Pledged bank deposit		10,218	—
Bank balances and cash		442,424	420,149
		<b>683,741</b>	<b>621,764</b>
<b>Current Liabilities</b>			
Trade and other payables	22	192,452	139,506
Taxation payable		37,120	15,217
Dividend payable to minority interests		1,549	50,000
Short-term bank loan		1,869	—
		<b>232,990</b>	<b>204,723</b>
<b>Net Current Assets</b>		<b>450,751</b>	<b>417,041</b>
		<b>1,024,405</b>	<b>865,551</b>
<b>Capital and Reserves</b>			
Share capital	23	62,000	62,000
Reserves		748,159	676,043
		<b>810,159</b>	<b>738,043</b>
<b>Minority Interests</b>		<b>210,222</b>	<b>119,484</b>
<b>Non-Current Liability</b>			
Deferred taxation	26	4,024	8,024
		<b>1,024,405</b>	<b>865,551</b>

The financial statements on pages 41 to 80 were approved and authorised for issue by the Board of Directors on 18th March 2003 and are signed on its behalf by:



Zhou Jie  
DIRECTOR



Chen Shu Zi  
DIRECTOR

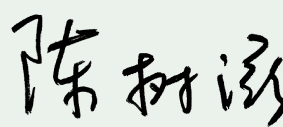
## Balance Sheet

At 31st December 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
<b>Non-Current Assets</b>			
Plant and equipment	13	503	1,910
Interests in subsidiaries	15	353,863	322,920
Investment securities	18	3,806	—
Loans receivable	19	8,703	—
		<b>366,875</b>	<b>324,830</b>
<b>Current Assets</b>			
Trade and other receivables		612	747
Dividends receivable		131,590	71,590
Pledged bank deposit		10,218	—
Bank balances and cash		28,151	123,201
		<b>170,571</b>	<b>195,538</b>
<b>Current Liabilities</b>			
Trade and other payables		7,912	11,184
		<b>162,659</b>	<b>184,354</b>
<b>Net Current Assets</b>			
		<b>529,534</b>	<b>509,184</b>
<b>Capital and Reserves</b>			
Share capital	23	62,000	62,000
Reserves	25	467,534	447,184
		<b>529,534</b>	<b>509,184</b>



Zhou Jie  
DIRECTOR



Chen Shu Zi  
DIRECTOR

## Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	PRC statutory funds HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
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)
Transfers	—	—	—	—	10,595	—	(10,595)	—
Profit for the year	—	—	—	—	—	—	232,685	232,685
Dividends (note 10)	—	—	—	—	—	—	(18,600)	(18,600)
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 10)	—	—	—	—	—	—	(27,900)	(27,900)
At 31st December 2002	62,000	192,130	194,649	(8,230)	23,878	(12)	345,744	810,159
Attributable to:								
— the Company and subsidiaries	62,000	192,130	194,649	(8,230)	19,345	(12)	296,069	755,951
— an associate	—	—	—	—	2,734	—	34,251	36,985
— jointly controlled entities	—	—	—	—	1,799	—	15,424	17,223
	62,000	192,130	194,649	(8,230)	23,878	(12)	345,744	810,159

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 group reorganisation.

PRC statutory funds are reserves required by the relevant laws in the mainland People's Republic of China (the "PRC") applicable to the Group's PRC subsidiaries, associate and jointly controlled entities.

## Consolidated Cash Flow Statement

For the year ended 31st December 2002

	2002 HK\$'000	2001 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit from ordinary activities before taxation	241,942	341,102
Adjustments for:		
Interest income	(5,702)	(7,463)
Rental income	(345)	(1,033)
Interest expense	144	—
Share of results of an associate	(24,161)	(27,577)
Share of results of jointly controlled entities	(669)	(259)
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)
Amortisation of goodwill	1,226	—
Depreciation and amortisation of property, plant and equipment	14,363	12,711
Loss on disposal of property, plant and equipment	1,090	354
Gain on disposal of investment securities	(28)	—
Impairment loss on interest in a jointly controlled entity	15,300	—
Operating cash flows before movements in working capital	241,361	162,141
Increase in inventories	(13,720)	(3,039)
Decrease (increase) in trade and other receivables	41,085	(18,993)
Increase in trade and other payables	7,915	27,246
Cash generated from operations	276,641	167,355
Taxation paid	(53,605)	(34,148)
Interest paid	(144)	—
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>222,892</b>	<b>133,207</b>

	NOTE	2002 HK\$'000	2001 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Increase in bank deposits		(68,899)	(10,353)
Capital contributions to jointly controlled entities		(44,497)	—
Purchase of property, plant and equipment		(43,978)	(11,962)
Increase in placement of deposit with a financial institution		(28,037)	—
Advance to minority shareholders of a subsidiary		(8,703)	—
Purchase of investment securities		(4,301)	(11,700)
Advance to an associate		(4,000)	(4,000)
Acquisition of a subsidiary	27	10,427	—
Repayment from minority shareholders		9,708	—
Dividend received from an associate		7,104	6,107
Interest received		5,690	7,355
Proceeds from disposal of a jointly controlled entity		2,803	—
Proceeds from disposal of investment securities		523	—
Rental income received		345	1,430
Proceeds from disposal of property, plant and equipment		175	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(165,640)</b>	<b>(23,123)</b>
<b>FINANCING ACTIVITIES</b>			
Dividend paid to minority shareholders of subsidiaries		(62,393)	(45,731)
Dividend paid		(27,900)	(18,600)
Repayment of bank loan		(5,234)	—
New bank loan raised		1,869	—
Capital contributed by minority shareholders		—	2,759
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(93,658)</b>	<b>(61,572)</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(36,406)</b>	<b>48,512</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>359,680</b>	<b>311,168</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>323,274</b>	<b>359,680</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalent as previously reported			420,149
Effect of reclassification of bank deposits with more than three months of maturity			(60,469)
			359,680
<b>Being:</b>			
Bank balances and cash		442,424	420,149
Less: Bank deposits with more than three months of maturity		(119,150)	(60,469)
		<b>323,274</b>	<b>359,680</b>



# Notes to the Financial Statements

For the year ended 31st December 2002

## 1. GENERAL

The Company is a listed public limited company incorporated in the 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.

The Company is a holding company. The principal activities of its subsidiaries are set out in note 34.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

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 resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest paid and dividends paid, which were previously presented under a separate heading, are classified as operating cash flows and financing cash flows respectively, while interest received and dividends received are classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

### Employee benefits

In the current year, the Group has adopted SSAP 34 Employee Benefits, which introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of this SSAP has not had any material effect on the results for the current or prior accounting periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES — Continued

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition after 1st January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisition prior to 1st January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

#### Interests in joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill paid on acquisition in so far as it has not already been written off or amortised less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

#### Turnover

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

### 3. SIGNIFICANT ACCOUNTING POLICIES — Continued

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from letting of properties under operating leases, is recognised on a straight line basis over the period of the respective leases.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and any accumulated impairment losses.

Properties in the course of construction for production are carried at cost less any identified impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The cost of land use rights is amortised over the period of the rights using the straight line method.

### 3. SIGNIFICANT ACCOUNTING POLICIES — Continued

#### Property, plant and equipment — Continued

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	5%
Furniture, fixtures and equipment	20%–30%
Motor vehicles	20%
Plant and machinery	10%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Investment securities

Investment securities, which are securities held for an identified long term strategic purpose, are recognised on a trade-date basis and are measured at cost, as reduced by any impairment loss that is other than temporary.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### 3. SIGNIFICANT ACCOUNTING POLICIES — Continued

#### Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

#### Taxation

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### Foreign currencies

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.

On consolidation, the assets and liabilities of the Group's operations in the PRC are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

### 4. SEGMENT INFORMATION

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.

**5. INVESTMENT INCOME**

	2002 HK\$'000	2001 HK\$'000
Interest income	5,702	7,463
Property rental income (net of negligible outgoings)	345	1,033
Gain on disposal of investment securities	28	—
	<b>6,075</b>	<b>8,496</b>

**6. PROFIT FROM OPERATIONS**

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
Basic salaries and allowances	60,628	55,655
Bonuses	37,459	38,818
Retirement benefits scheme contributions	9,603	7,669
	<b>107,690</b>	<b>102,142</b>
Amortisation of goodwill (included in administrative expenses)	149	—
Auditors' remuneration	1,500	1,250
Depreciation and amortisation of property, plant and equipment	14,363	12,711
Loss on disposal of property, plant and equipment	1,090	354
Operating lease rentals in respect of land and buildings	3,988	3,792
Research and development costs	13,366	8,742

**7. FINANCE COSTS**

	2002 HK\$'000	2001 HK\$'000
Interest on bank borrowings wholly repayable within five years	144	—
Other finance costs	10	4
	<b>154</b>	<b>4</b>

## 8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' emoluments		
Independent non-executive directors		
Fees	597	597
Executive directors		
Fees	—	—
Basic salaries and allowances	3,297	4,245
Bonuses	2,186	3,085
Retirement benefits scheme contributions	196	169
	<b>5,679</b>	<b>7,499</b>
<b>Total directors' emoluments</b>	<b>6,276</b>	<b>8,096</b>

The emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Up to HK\$1,000,000	9	6
HK\$1,500,001 to HK\$2,000,000	3	1
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$2,500,001 to HK\$3,000,000	—	1

For the year ended 31st December 2002, the executive directors received emoluments of approximately HK\$1,721,000, HK\$1,776,000, HK\$1,504,000, HK\$362,000 and HK\$316,000 respectively and the independent non-executive directors received emoluments of approximately HK\$199,000, HK\$199,000 and HK\$199,000 respectively.

For the year ended 31st December 2001, the executive directors received emoluments of approximately HK\$2,713,000, HK\$2,098,000, HK\$1,882,000, HK\$345,000, HK\$231,000 and HK\$231,000 respectively and the independent non-executive directors received emoluments of approximately HK\$199,000, HK\$199,000 and HK\$199,000 respectively.

**8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS — Continued****Employees' emoluments**

During the year, the five highest paid individuals included three (2001 : three) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2001 : two) highest paid individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries and allowances	972	972
Bonuses	2,710	2,243
	<b>3,682</b>	3,215

The emoluments of the remaining two (2001 : two) highest paid individuals were within the following bands:

	2002 Number of individuals	2001 Number of individuals
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	—

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.



**9. TAXATION**

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
PRC income tax		
— current year provision	66,862	40,794
— underprovision in prior year	7,186	2,696
	<b>74,048</b>	43,490
Deferred taxation (note 26)		
— current year provision	(4,000)	3,824
— effect of change in tax rate	—	2,100
	<b>(4,000)</b>	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
	<b>74,448</b>	52,831

正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) (“Hangzhou Qingchunbao”), 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, 上海家化聯合股份有限公司 (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.

**10. DIVIDENDS**

	2002 HK\$'000	2001 HK\$'000
2001 final dividend of HK3 cents per share (2001: 2000 final dividend of HK3 cents per share)	18,600	18,600
2001 special dividend of HK1.5 cents per share (2001: nil)	9,300	—
	<b>27,900</b>	18,600

A final dividend of HK4 cents for the year ended 31st December 2002 (2001 final dividend: HK3 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 11. 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:		
Profit for the year and earnings for the purpose of basic and diluted earnings per share	<b>HK\$87,521,000</b>	HK\$232,685,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>620,000,000</b>	620,000,000
Effect of dilutive potential ordinary shares — share options	<b>230,382</b>	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>620,230,382</b>	620,000,000

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

## 12. INVESTMENT PROPERTY

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
VALUATION		
Balance brought forward	<b>12,000</b>	12,000
Transfer to property, plant and equipment	<b>(8,700)</b>	—
Balance carried forward	<b>3,300</b>	12,000

The investment property was revalued at 31st December 2002 by Debenham Tie Leung, an independent property valuer, on an open market existing use basis. The revaluation did not give rise to any surplus or deficit.

The Group's investment property is rented out under an operating lease.

The Group's investment property is situated in the PRC and is held under medium-term land use rights.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st January 2002	116,827	11,349	17,511	49,220	1,840	196,747
Acquired on acquisition of a subsidiary	11,899	86	—	10,310	689	22,984
Additions	13,789	1,168	2,494	5,002	21,525	43,978
Transfers	722	1,156	304	11,014	(13,196)	—
Transfer from investment property	8,700	—	—	—	—	8,700
Disposals	(81)	(2,149)	(510)	(741)	—	(3,481)
At 31st December 2002	151,856	11,610	19,799	74,805	10,858	268,928
Comprising:						
At cost	143,156	11,610	19,799	74,805	10,858	260,228
At valuation — 2001	8,700	—	—	—	—	8,700
	151,856	11,610	19,799	74,805	10,858	268,928
DEPRECIATION AND AMORTISATION						
At 1st January 2002	31,236	7,430	10,537	22,106	—	71,309
Provided for the year	5,271	1,709	1,817	5,566	—	14,363
Eliminated on disposals	(15)	(1,088)	(459)	(654)	—	(2,216)
At 31st December 2002	36,492	8,051	11,895	27,018	—	83,456
NET BOOK VALUE						
At 31st December 2002	115,364	3,559	7,904	47,787	10,858	185,472
At 31st December 2001	85,591	3,919	6,974	27,114	1,840	125,438

During the year, the Group's investment property with a carrying value of HK\$8,700,000 was transferred to land and buildings. Subsequent to the transfer, no further revaluation has been carried out.

The Group's property interests are situated in the PRC and are held under medium-term land use rights.

**13. PROPERTY, PLANT AND EQUIPMENT — Continued**

	<b>Furniture, fixtures and equipment</b>
	HK\$'000
<hr/>	
THE COMPANY	
COST	
At 1st January 2002	3,355
Additions	83
Disposals	(1,883)
	<hr/>
At 31st December 2002	1,555
	<hr/>
DEPRECIATION	
At 1st January 2002	1,445
Provided for the year	499
Eliminated on disposals	(892)
	<hr/>
At 31st December 2002	1,052
	<hr/>
NET BOOK VALUE	
At 31st December 2002	503
	<hr/> <hr/>
At 31st December 2001	1,910
	<hr/> <hr/>

**14. GOODWILL**

	<b>THE GROUP</b>
	HK\$'000
<hr/>	
COST	
Arising on acquisition of a subsidiary and balance at 31st December 2002	8,939
AMORTISATION	
Provided for the year and balance at 31st December 2002	(149)
	<hr/>
NET BOOK VALUE	
At 31st December 2002	8,790
	<hr/> <hr/>
At 31st December 2001	—
	<hr/> <hr/>

The amortisation period adopted for goodwill is 20 years.

**15. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2002</b> HK\$'000	2001 HK\$'000
Unlisted shares, at cost	<b>252,004</b>	252,004
Amounts due from subsidiaries	<b>106,072</b>	70,916
Amounts due to subsidiaries	<b>(4,213)</b>	—
	<b>353,863</b>	322,920

In the opinion of the directors, the amounts due from subsidiaries will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current.

Details of the Company's subsidiaries at 31st December 2002 are set out in note 34.

**16. INTEREST IN AN ASSOCIATE**

	<b>THE GROUP</b>	
	<b>2002</b> HK\$'000	2001 HK\$'000
Share of net asset of an associate	<b>296,700</b>	284,012
Market value of the associate	<b>773,495</b>	1,103,776

Details of the Group's associate at 31st December 2002 are as follows:

<b>Name of associate</b>	<b>Place of incorporation or establishment/ operations</b>	<b>Percentage of registered capital attributable to the Group</b>	<b>Principal activities</b>
Shanghai Jahwa United Co. Ltd. ("Shanghai Jahwa")	PRC	28.15%	Manufacture, distribution and sales of personal care and cosmetics products

A summary of the financial information in respect of Shanghai Jahwa, the associate of the Group, is set out in note 35.

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets of jointly controlled entities	30,096	15,360
Goodwill on acquisition of jointly controlled entities (note)	39,232	—
	69,328	15,360
Less: Impairment loss recognised	(2,445)	—
	66,883	15,360

The directors considered that in the light of unfavourable market conditions and the recurring operating losses of a jointly controlled entity, 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 recognised 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.

Note:

Movement of goodwill on acquisition of jointly controlled entities is analysed as follows:

	HK\$'000
<b>COST</b>	
Arising on acquisition of jointly controlled entities interest/additional interest in a jointly controlled entity and balance at 31st December 2002	40,309
<b>AMORTISATION</b>	
Provided for the year and balance at 31st December 2002	1,077
<b>NET BOOK VALUE</b>	
At 31st December 2002	39,232

The amortisation period adopted for goodwill is 20 years.

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES — Continued

Details of the Group's jointly controlled entities at 31st December 2002 are as follows:

Name of jointly controlled entity	Place of incorporation or establishment/ operations	Percentage of issued/ registered capital attributable to the Group	Principal activities
杭州胡慶餘堂國藥號有限公司 Hangzhou Huqingyutang Drugstore Co., Ltd. ("Huqingyutang Drugstore")	PRC	24%	Drugstore chain outlets
微創醫療器械(上海)有限公司 MicroPort Medical (Shanghai) Co., Ltd.	PRC	21.31%	Development, production, sale and servicing of advanced medical instruments for micro wounds
珠海友通科技有限公司 E-COM Technology Limited ("E-COM Technology")	PRC	24.35%	Manufacture and marketing of digital medical imaging and information systems
廣東寶萊特醫用科技股份有限公司 Guong Dong Biolight Medical Technology Co. Ltd.	PRC	38%	Manufacture and sale of medical equipments
上海醫藥商務網絡有限公司 Shanghai Pharmaceutical Business Network Co., Ltd.	PRC	20%	Provision of e-commerce and internet services
MicroPort Medical (Cayman) Corp.	Cayman Islands	21.27%	Investment holding

## 18. INVESTMENT SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed equity securities in Hong Kong	3,806	—	3,806	—
Unlisted securities in overseas	—	11,700	—	—
	3,806	11,700	3,806	—
Market value of listed securities	2,919	—	2,919	—

**19. LOANS RECEIVABLE**

The receivables are due from minority shareholders of a subsidiary (the "MI Shareholders"). They are secured by the MI Shareholders' equity interests in the subsidiary and the dividend distribution by the subsidiary. Included in the balance are receivable of HK\$6,303,000 which is interest-bearing and is repayable in October 2006 and HK\$2,400,000 which is interest-bearing and is repayable in October 2004.

**20. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>34,098</b>	25,382
Work in progress	<b>11,500</b>	10,947
Finished goods	<b>24,665</b>	13,590
	<b>70,263</b>	49,919

The inventories were carried at cost.

**21. TRADE AND OTHER RECEIVABLES**

The Group generally allows a credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$105,938,000 (2001: HK\$130,440,000) and their aged analysis is as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Trade receivables:		
Within 30 days	<b>46,363</b>	81,596
Within 31-60 days	<b>35,673</b>	23,738
Within 61-90 days	<b>14,187</b>	19,422
Within 91-180 days	<b>7,008</b>	5,684
Within 181-360 days	<b>2,707</b>	—
	<b>105,938</b>	130,440



**22. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of HK\$22,760,000 (2001: HK\$12,997,000) and their aged analysis is as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Trade payables:		
Within 30 days	<b>15,962</b>	11,070
Within 31-60 days	<b>4,366</b>	1,230
Within 61-90 days	<b>564</b>	564
Within 91-180 days	<b>834</b>	100
Within 181-360 days	<b>339</b>	—
Over 360 days	<b>695</b>	33
	<b>22,760</b>	12,997

**23. SHARE CAPITAL**

	<b>Number of</b>	<b>Amount</b>
	<b>ordinary shares</b>	<b>HK\$'000</b>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January 2001, 31st December 2001 and 2002	1,000,000,000	100,000
Issued and fully paid:		
At 1st January 2001, 31st December 2001 and 2002	620,000,000	62,000

There was no change in the share capital of the Company in both years.

## 24. SHARE OPTION SCHEMES

- (a) The Company adopted a share option scheme (the "Initial Share Option Scheme") on 11th November 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 10th November 2009.

Under the Initial Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options are exercisable on the expiry of three years after the date of grant. The exercise price is determined by the Board of Directors of the Company, and shall not be less than (i) the highest of the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The total number of shares in respect of which options may be granted under the Initial Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

No employee of the Company shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the Initial Share Option Scheme.

The following table discloses details of the Company's options under the Initial Share Option Scheme held by employees (including directors) and movements in such holdings during the year:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
January 2000	1.69	38,700,000	(500,000)	38,200,000

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2001	Lapsed during the year	Outstanding at 31.12.2001
January 2000	1.69	39,200,000	(500,000)	38,700,000

**24. SHARE OPTION SCHEMES — Continued**

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at 1st January	Reclassification during the year	Outstanding at 31st December
2002	29,000,000	(8,000,000)	21,000,000
2001	29,000,000	—	29,000,000

The share options can be exercised during the period from 21st January 2003 to 20th January 2006. At 31st December 2002, the number of shares in respect of which options had been granted and remained was 6.2% (2001 : 6.2%) of the shares of the Company in issue at that date.

- (b) The share option scheme of Shanghai Industrial Holdings Limited, an intermediate holding company of the Company ("SIHL") (the "SIHL Initial Share Option Scheme") was adopted on 17th May 1996 for the primary purpose of providing incentives to executive directors and eligible employees of SIHL or its subsidiaries, and will expire on 16th May 2006.

Under the SIHL Initial Share Option Scheme, the Board of Directors of SIHL may grant options to eligible employees, including executive directors of SIHL and its subsidiaries (the "SIHL Group"), to subscribe for shares in SIHL for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options. Under the SIHL Initial Share Option Scheme, the exercise price is determined by the directors of SIHL, and will not be less than the higher of the nominal value of SIHL's shares and 80% of the average closing price of the SIHL's shares for the five business days immediately preceding the date of grant.

Without prior approval from SIHL's shareholders or in other cases, a prior approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the total number of shares in respect of which options may be granted under the SIHL Initial Share Option Scheme is not permitted to exceed 10% of the shares of SIHL in issue at any point in time.

No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIHL Initial Share Option Scheme.

## 24. SHARE OPTION SCHEMES — Continued

The following table discloses the total entitlements of the Company's directors and employees under the SIHL Initial Share Option Scheme:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2002
August 1998	10.432	2,000,000	—	(2,000,000)	—	—
January 1999	9.568	6,000,000	—	(6,000,000)	—	—
July 2001	10.432	3,000,000	—	—	—	3,000,000
		11,000,000	—	(8,000,000)	—	3,000,000

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2001	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2001
April 1997	30.912	2,000,000	—	—	(2,000,000)	—
August 1998	10.432	3,000,000	—	(1,000,000)	—	2,000,000
January 1999	9.568	6,000,000	—	—	—	6,000,000
July 2001	10.432	—	3,000,000	—	—	3,000,000
		11,000,000	3,000,000	(1,000,000)	(2,000,000)	11,000,000

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

Details of share option exercised:

Exercise date	Exercise price per share HK\$	Proceeds received HK\$	2002 Number	2001 Number
8th March 2001	10.432	10,432,000	—	1,000,000
19th July 2002	9.568	13,395,200	1,400,000	—
23rd July 2002	10.432	15,648,000	1,500,000	—
24th July 2002	10.432	5,216,000	500,000	—
12th September 2002	9.568	9,568,000	1,000,000	—
16th September 2002	9.568	34,444,800	3,600,000	—
			8,000,000	1,000,000

## 24. SHARE OPTION SCHEMES — Continued

- (c) To be in line with the changes in the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") 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 SIHL, have on 6th May 2002 and 31st May 2002 respectively approved the termination of the Initial Share Option Scheme and adopted the new share option scheme (the "New Share Option Scheme") at their respective extraordinary general meetings. Upon termination of the Initial Share Option Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the Initial Share Option Scheme shall remain in force. The outstanding options granted under the Initial Share Option Scheme shall continue to be subject to the provisions of the Initial Share Option Scheme and the provisions of Chapter 23 of the GEM Listing Rules which took effect from 1st September 2001 and the adoption of the New Share Option Scheme will not in any event affect the terms in respect of such outstanding options. 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 including directors and employees of the Company, its subsidiaries, its associated companies, its jointly controlled entities and its related companies (the "Participants"); any executive or employee of any business consultant and professional advisers to the Participants, as absolutely determined by the Board, to subscribe for shares in the Company for a consideration of HK\$1 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 should expire no later than 10 years from the date of grant of the option. The Board may also provides 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 not be less than (i) the highest of the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholder.

## 24. SHARE OPTION SCHEMES — Continued

- (d) SIHL has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), terminated the SIHL Initial Share Option Scheme and adopted a new share option scheme (the "SIHL New Share Option Scheme"), as approved by the shareholders of SIHL at the extraordinary general meeting held on 31st May 2002.

Upon termination of the SIHL Initial Share Option Scheme, no further options may be granted thereunder. However, in respect of the outstanding options, the provisions of the SIHL Initial Share Option Scheme shall remain in force.

According to the SIHL New Share Option Scheme, the Board of Directors of SIHL may grant options to any director and employee of each member of the SIHL Group (including a company in which (i) SIHL is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board, SIHL is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the SIHL Group, to subscribe for shares in SIHL for a consideration of HK\$1 for each lot of share options granted. Share 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 a share option may be exercised, such period should expire no later than 10 years from the date of the adoption of the SIHL New Share Option Scheme. The Board may also provide restrictions on the exercise of a share option during the period a share option may be exercised. The exercise price is determined by the Board of Directors of SIHL, and shall be at least the highest of: (i) the closing price of SIHL's shares on the date of grant; (ii) the average closing price of the SIHL's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL New Share Option Scheme and any other share option schemes of SIHL shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the SIHL New Share Option Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

The following table discloses the total entitlement of the Company's directors and employees under the SIHL New Share Option Scheme:

Month of grant	Exercise price per share HK\$	Granted during the year and outstanding at 31.12.2002
September 2002	11.710	200,000
October 2002	11.710	950,000

**25. RESERVES**

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY				
At 1st January 2001	192,130	194,649	49,249	436,028
Profit for the year	—	—	29,756	29,756
Dividends (note 10)	—	—	(18,600)	(18,600)
At 31st December 2001	192,130	194,649	60,405	447,184
Profit for the year	—	—	48,250	48,250
Dividends (note 10)	—	—	(27,900)	(27,900)
At 31st December 2002	192,130	194,649	80,755	467,534

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 group reorganisation.

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31st December 2002 amounted to approximately HK\$467 million (2001: HK\$447 million).

**26. DEFERRED TAXATION**

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Balance brought forward	8,024	2,100
(Credit) charge for the year (note 9)	(4,000)	5,924
Balance carried forward	4,024	8,024

The deferred tax liability represents principally the tax effect of the recognition of income and expenses by Hangzhou Qingchunbao in different accounting periods with regard to its financial statements prepared in accordance with accounting principles generally accepted in Hong Kong and its PRC tax computation.

The Group and the Company had no significant unprovided deferred taxation at the balance sheet date.

## 27. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired a 56% of the issued share capital of Xiamen Traditional Chinese Medicine Co., Ltd. for a consideration of HK\$40,759,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$8,939,000.

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Property, plant and equipment	22,984	—
Inventories	6,624	—
Trade and other receivables	17,242	—
Amounts due from shareholders	9,708	—
Bank balances and cash	51,186	—
Trade and other payables	(44,229)	—
Short-term bank loan	(5,234)	—
Taxation payable	(1,460)	—
Minority interests	(25,001)	—
	31,820	—
Goodwill	8,939	—
	40,759	—
Total consideration	40,759	—
Satisfied by:		
Cash	40,759	—
Net cash inflow arising on acquisition:		
Bank balances and cash acquired	51,186	—
Cash consideration	(40,759)	—
	10,427	—
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	10,427	—

The subsidiary acquired during the year contributed HK\$26.0 million to the Group's turnover and HK\$5.2 million to the Group's profit from operations.



**28. OPERATING LEASE ARRANGEMENTS***The Group as a lessee*

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments for land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,101	1,037	979	665
In the second to fifth years inclusive	470	59	408	—
	<b>1,571</b>	<b>1,096</b>	<b>1,387</b>	<b>665</b>

Operating lease payments represent rentals payable by the Group of certain of its office premises. Leases are negotiated for an average term of 2 years with fixed rentals.

Included in the above are operating lease commitments for land and building of approximately HK\$1.4 million (2001: HK\$0.7 million) payable by the Company to a connected party.

*The Group as a lessor*

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	392	392
In the second to fifth years inclusive	1,047	1,570
	<b>1,439</b>	<b>1,962</b>

The properties held have committed tenants for the next 4 years and are expected to generate rental yield of 10.45% on an ongoing basis.

## 29. COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— proposed investment in a PRC jointly controlled entity	—	11,215
— additions in construction in progress	7,275	5,641
— acquisition of property, plant and equipment	131	—
	<b>7,406</b>	<b>16,856</b>

At 31st December 2002, the Group had commitment to pay for research and development expenditure of HK\$1.6 million (2001: nil).

In addition to the above, the Group's share of capital commitments of a jointly controlled entity are as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of additions in construction in progress	2,804	—
Capital expenditure authorised but not contracted for in respect of:		
— additions in construction in progress	8,411	—
— acquisition of property, plant and equipment	—	12,710
	<b>8,411</b>	<b>12,710</b>

The Company had no significant capital commitments at the balance sheet date.

**30. CONTINGENT LIABILITIES**

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Guarantees given to a bank in respect of banking facilities extended to a subsidiary	39,000	39,000

The Group had no significant contingent liabilities at the balance sheet date.

**31. PLEDGE OF ASSETS**

At 31st December 2002, certain of the Group's plant and machinery with a net book value of HK\$3.8 million (2001 : nil) were pledged to an independent third party which provided a guarantee to a bank in respect of a bank loan granted to the Group.

In addition, the Group and the Company also pledged a bank deposit of HK\$10.2 million (2001 : nil) to a bank in order to secure banking facilities granted to a jointly controlled entity.

**32. RETIREMENT BENEFITS SCHEMES**

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits schemes for their qualifying employees pursuant to the Occupational Retirement Schemes Ordinance. To comply with the Mandatory Provident Fund Schemes Ordinance, a Mandatory Provident Fund Scheme (the "MPF Scheme") has also been established. New employees on or after 1st December 2000, however, must join the MPF Scheme. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the income statement represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the schemes prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the balance sheet date, no forfeited contributions are available to reduce the contribution payable in the future years.

### 33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

#### (I) Connected parties

- (a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the GEM Listing Rules. The significant transactions with the connected parties during the year, and significant balances with them at the balance sheet date, are as follows:

Transactions:

Name of company	Nature of transactions	2002 HK\$'000	2001 HK\$'000
<i>Ultimate holding company</i>			
Shanghai Industrial Investment (Holdings) Company Limited	Rental paid by the Group in respect of land and buildings (note i)	571	—
<i>Fellow subsidiaries</i>			
SIIC Estate Company Limited	Rental, management fees and air-conditioning charges paid by the Group in respect of land and buildings (note i)	517	1,240
S.I. Technology Venture Capital Limited ("SITVC")	Purchase of additional interest in a jointly controlled entity (note ii)	8,953	—

**33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — Continued****(l) Connected parties — Continued**

Balances:

Name of company	Nature of transactions	2002 HK\$'000	2001 HK\$'000
<i>Intermediate holding company</i>			
SIHL	Balance at 31st December — payment on behalf of the Group (note iii)	806	595
Directors	Balance at 31st December — accrued emoluments (note iii)	2,397	2,887

Notes:

- (i) The rental, management fees and air-conditioning charges were charged in accordance with the relevant tenancy agreement and the prevailing rent is equivalent or approximate to the open market rental as certified by an independent firm of professional property valuer.
- (ii) On 29th May 2002, SIMST eMedical Network Limited ("SIMST"), a wholly-owned subsidiary of the Company and SITVC, a wholly-owned subsidiary of SIHL entered into a share transfer agreement, pursuant to which SIMST acquired a 13.35% interest in E-COM Technology Limited from SITVC at a consideration of HK\$9.0 million. Details of this acquisition were included in a published announcement on the same date.
- (iii) The amounts were unsecured, non-interest bearing and had no fixed repayment terms.
- (b) Details of operating lease commitments with a connected party are set out in note 28.

## 33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — Continued

## (II) Related party, other than connected party

- (a) During the year, the Group also had significant transactions with related companies, other than connected parties, and significant balances with them at the end of the year, as follows:

Transactions:

Name of company	Nature of transactions	2002 HK\$'000	2001 HK\$'000
<i>Minority shareholders of the Company's PRC subsidiary, Hangzhou Qingchunbao:</i>			
中國(杭州)青春寶集團有限公司 (China (Hangzhou) Qingchunbao Group Co., Ltd.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (note i) Purchase of materials (note ii)	50 358	41 2,621
<i>An associate:</i>			
Shanghai Jahwa	Interest received (note iii)	248	108

## 33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — Continued

## (II) Related party, other than connected party — Continued

Balances:

Name of company	Nature of transactions	2002 HK\$'000	2001 HK\$'000
China Qingchunbao and its subsidiaries	Balance at 31st December		
	— trade receivables (note iv)	99	147
	— trade payable (note iv)	37	1,116
	— dividend payable (note iv)	—	50,000
Shanghai Jahwa	Balance at 31st December	8,120	4,000
	— loan receivable (note iii)		
<i>Jointly controlled entities:</i>			
E-COM Technology	Balance at 31st December	6,071	—
	— trade receivable (note iv)		
Hangzhou Huqingyutang	Balance at 31st December	2,336	—
	— non-trade receivable (note iv)		

Notes:

- (i) These transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- (ii) These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- (iii) The loan was unsecured, bearing interest at commercial rate and has no fixed repayment terms.
- (iv) The amounts were unsecured, non-interest bearing and had no fixed repayment terms.
- (b) Details of pledge of assets given by the Group and the Company to a related party are set out in note 31.

### 34. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2002 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and nominal value fully paid share capital/ registered capital	Attributable proportion of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.)	PRC	RMB128,500,000	—	55%	Manufacture and sale of Chinese medicine and health supplement products
廈門中藥廠有限公司 (Xiamen Traditional Chinese Medicine Co., Ltd.)	PRC	RMB47,830,000	—	56%	Manufacture and sale of Chinese medicine and health supplement products
寧夏上實保健品有限公司 (Ningxia SIIC Viopes Nutraceuticals Co., Limited)	PRC	RMB10,000,000	59%	—	Manufacture and trading of Chinese Medicinal products
北京上實中藥有限公司 (Beijing SIIC Phytopharmaceuticals Co., Ltd.)	PRC	US\$250,000	100%	—	Research and development of Chinese medicine and natural products
上海醫創中醫藥科研開發中心有限公司 (Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co., Ltd.)	PRC	RMB3,000,000	55%	—	Research and development of Chinese medicine and natural products
SIIC MedTech Research and Development Limited	Hong Kong	HK\$2	100%	—	Research and development of Chinese medicine and natural products
Green Source Medical Trading Limited	British Virgin Islands/ Hong Kong	US\$1	100%	—	Trading of pharmaceutical products
SIIC-CYBeR Pacificare Limited	British Virgin Islands	US\$750,000	—	66.67%	Marketing of medicare system units
SIIC MedTech Health Products Limited	Hong Kong	Ordinary shares — US\$2 Non-voting deferred shares — US\$2	—	100%	Investment holding
World Honest Investment Limited	Hong Kong	HK\$10,000	—	100%	Investment holding
Golden News Enterprises Limited	British Virgin Islands	US\$60	—	100%	Investment holding



**34. SUBSIDIARIES — Continued**

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and nominal value fully paid share capital/ registered capital	Attributable proportion of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
SIMST Medical Science and Technology Development Limited	British Virgin Islands	US\$1	100%	—	Investment holding
SIMST eMedical Network Limited	British Virgin Islands	US\$1	100%	—	Investment holding
S.I. Daily Chemical Holdings Ltd.	British Virgin Islands	US\$56,250	100%	—	Investment holding

The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective company and have practically no rights to dividends or to participate in any distributions on winding up.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

**35. SUMMARY OF FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S ASSOCIATE**

Shanghai Jahwa, formerly a jointly controlled entity of the Group, was listed on the Shanghai Stock Exchange A Shares Market on 15th March 2001 and was classified as an associate of the Group thereafter.

The following is a summary of the most recent audited and published financial information of Shanghai Jahwa prepared in accordance with accounting principles generally accepted in the PRC at the balance sheet date.

Consolidated results for the year:

	2002 RMB'000	2001 RMB'000
Turnover	1,363,885	1,275,382
Profit from ordinary activities before taxation	94,204	85,330
	2002 HK\$'000	15.3.2001 to 31.12.2001 HK\$'000
Profit from ordinary activities before taxation attributable to the Group in accordance with accounting principles generally accepted in Hong Kong*	24,161	27,577

**35. SUMMARY OF FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S ASSOCIATE — Continued**

Consolidated financial position:

	2002 RMB'000	2001 RMB'000
Non-current assets	458,947	320,258
Current assets	1,062,996	1,183,407
Current liabilities	(368,840)	(420,141)
Non-current liabilities	(8,073)	(9,000)
Minority interests	(39,797)	(4,174)
<b>Net asset</b>	<b>1,105,233</b>	<b>1,070,350</b>

	2002 HK\$'000	2001 HK\$'000
Net assets attributable to the Group in accordance with accounting principles generally accepted in Hong Kong	296,700	284,012

- \* The profit from ordinary activities before taxation attributable to the Group from Shanghai Jahwa for the period from 1st January 2001 to 15th March 2001 before its listing on the Shanghai Stock Exchange A Shares Market was HK\$288,000 and was included within "Share of results of jointly controlled entities" of the income statement.

## Financial Summary

	Year ended 31st December				2002 HK\$'000
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	
<b>RESULTS</b>					
Turnover	375,373	424,780	533,434	723,911	<b>842,386</b>
Cost of sales	(128,643)	(144,440)	(166,886)	(283,900)	<b>(320,084)</b>
Gross profit	246,730	280,340	366,548	440,011	<b>522,302</b>
Investment income	1,880	16,087	15,428	8,496	<b>6,075</b>
Other operating income	2,847	19	578	208	<b>3,972</b>
Distribution costs	(113,212)	(133,267)	(181,156)	(205,853)	<b>(219,059)</b>
Administrative expenses	(44,605)	(48,203)	(75,915)	(85,286)	<b>(81,446)</b>
PRC sales tax refund	27,376	—	—	—	<b>—</b>
Profit from operations	121,016	114,976	125,483	157,576	<b>231,844</b>
Finance costs	(4,079)	(2,975)	(1,526)	(4)	<b>(154)</b>
Gain on disposal of interest in a jointly controlled entity	—	—	—	—	<b>1,799</b>
Share of results of an associate	—	—	—	27,577	<b>24,161</b>
Share of results of jointly controlled entities	13,861	14,711	23,490	259	<b>669</b>
Amortisation of goodwill on acquisition of joint controlled entities	—	—	—	—	<b>(1,077)</b>
Impairment loss on interest in a jointly controlled entity	—	—	—	—	<b>(15,300)</b>
Gain on deemed disposal of interest in a jointly controlled entity	—	—	—	155,694	<b>—</b>
Profit from ordinary activities before taxation	130,798	126,712	147,447	341,102	<b>241,942</b>
Taxation	(13,793)	(14,217)	(20,215)	(52,831)	<b>(74,448)</b>
Profit before minority interests	117,005	112,495	127,232	288,271	<b>167,494</b>
Minority interests	(47,416)	(41,012)	(54,914)	(55,586)	<b>(79,973)</b>
Profit for the year	69,589	71,483	72,318	232,685	<b>87,521</b>
			<b>At 31st December</b>		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Non-current assets		233,352	258,557	448,510	<b>573,654</b>
Current assets		513,074	543,263	621,764	<b>683,741</b>
Current liabilities		134,901	118,135	204,723	<b>232,990</b>
Non-current liabilities		2,100	2,100	8,024	<b>4,024</b>
Minority interests		136,291	156,870	119,484	<b>210,222</b>
Net assets		473,134	524,715	738,043	<b>810,159</b>

Note: The results for each of the two years ended 31st December 1998 and 1999 have been prepared on a pro forma combined basis as if the group structure immediately after a group reorganisation had been in existence throughout those years.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of SIIC Medical Science and Technology (Group) Limited (the "Company") will be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, on Friday, 9th May 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and of the Auditors for the year ended 31st December 2002.
2. To declare a final dividend for the year ended 31st December 2002.
3. To re-elect Directors and authorise the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.
5. As Special Business, to consider and if thought fit, pass with or without any amendments, the following resolution as an Ordinary Resolution:

**"THAT:**

- (i) subject to paragraph (ii) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase shares in the capital of the Company on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (i) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution, and the said approval shall be limited accordingly; and
- (iii) for the purposes of this Resolution:

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

- (a) the conclusion of the next Annual General Meeting of the Company; or
- (b) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
- (c) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting."

6. As Special Business, to consider and if thought fit, pass with or without any amendments, the following resolution as an Ordinary Resolution:

**“THAT:**

- (i) subject to paragraph (iii) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require shares to be allotted be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require shares to be allotted after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (i) of this Resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); or (b) an issue of shares upon the exercise of subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to the grantees as specified in such scheme or similar arrangement of shares or rights to acquire shares of the Company; or (c) any issue of shares pursuant to the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into shares of the Company; or (d) an issue of shares pursuant to any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

- (iv) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next Annual General Meeting of the Company; or
- (b) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
- (c) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares of the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to holders of shares, or any class of shares, whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such

exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

7. As Special Business, to consider and if thought fit, pass with or without any amendments, the following resolution as an Ordinary Resolution:

"**THAT** the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and deal with any additional shares of the Company pursuant to Ordinary Resolution no.6 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution no.5 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution."

By Order of the Board

**Wong Mei Ling, Marina**

*Company Secretary*

Hong Kong, 18th March 2003

*Head Office:*

26th Floor, Harcourt House

39 Gloucester Road

Wanchai

Hong Kong

**Notes:**

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed.
3. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the head office of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. 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.