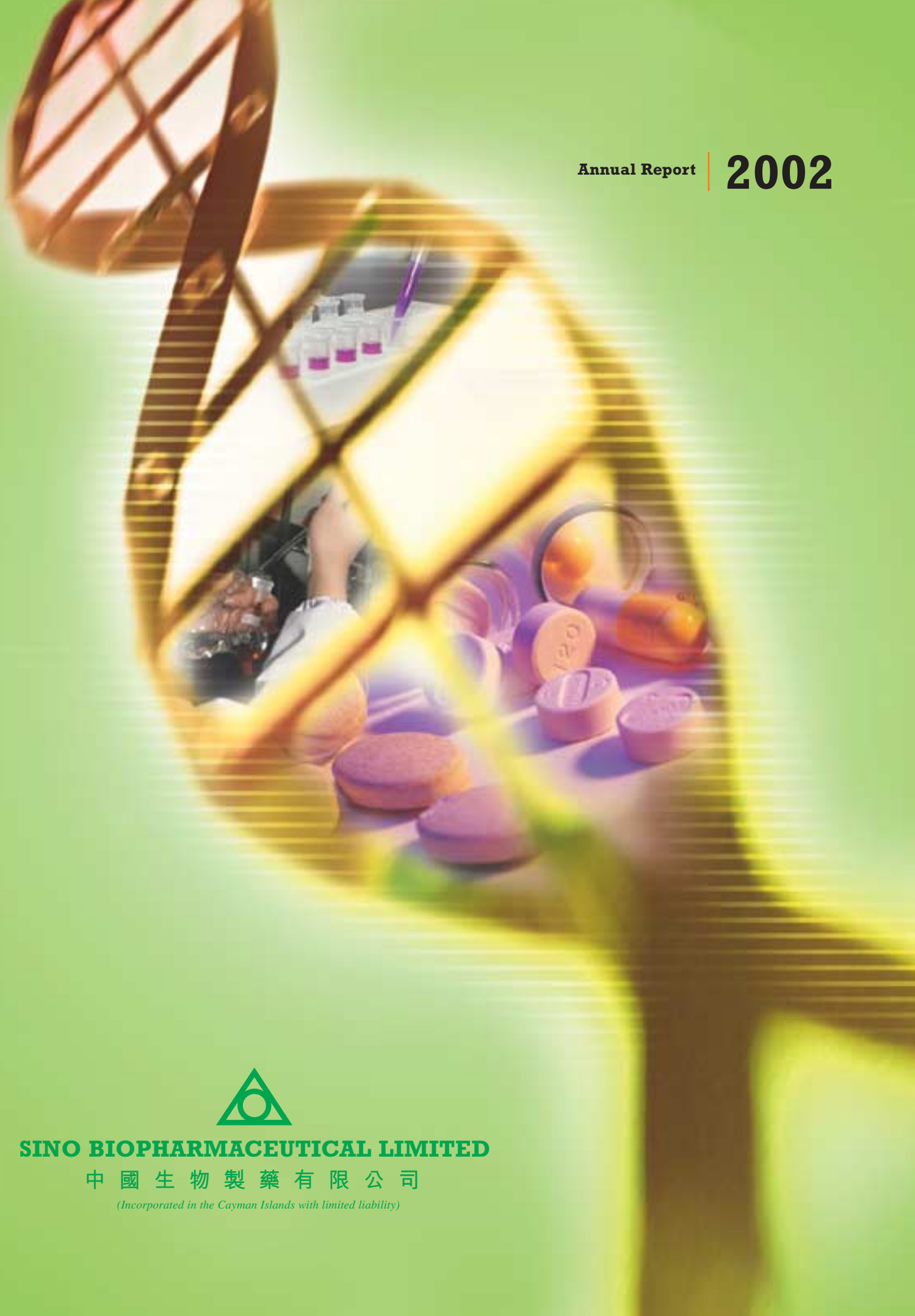


Annual Report

2002



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability.

Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website with the domain name of www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

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CORPORATE PROFILE

The Company and its subsidiaries (the "Group") is one of the leading developers of biomedicine and modernized Chinese medicine in PRC. Its principal activities include research and developing, manufacturing and sales of biopharmaceutical, modernized Chinese pharmaceutical and chemical medicines.

The Group, managed by experienced senior management, is supported by some of the country's top researchers and a far-reaching sales network. It has been awarded Good Manufacturing Practice ("GMP") in respect of its production facilities for large volume injection, small volume injection, powder injection, eyedrops, tablets, capsules, ointment, eye ointment, nosedrops, eardrops, and liniments.

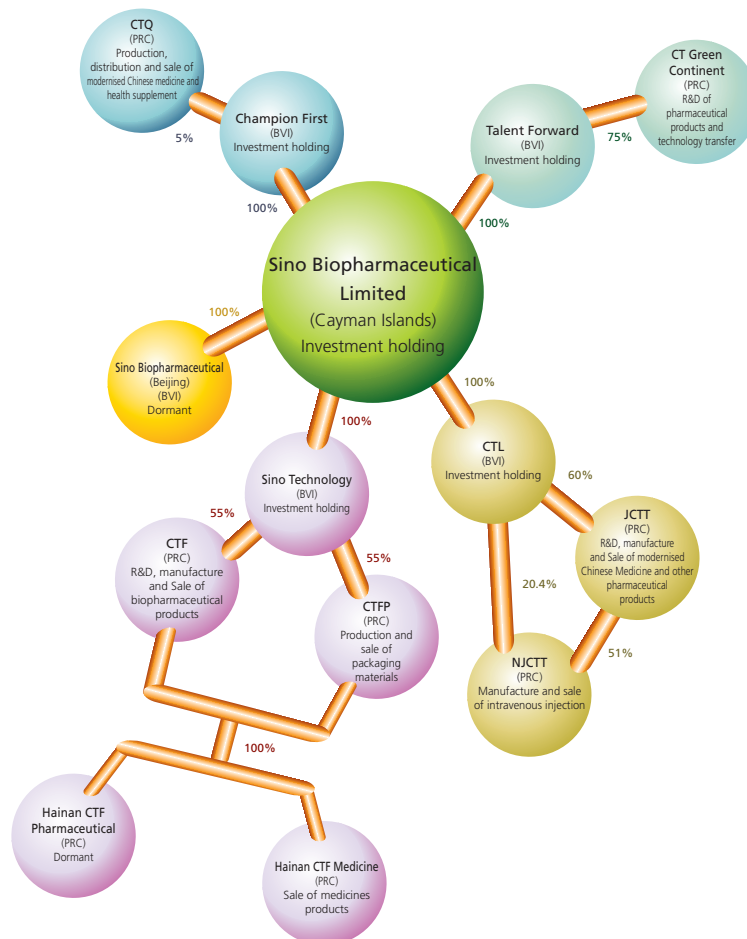
The Group's aim is to bring healthier lives to people and greater value to its shareholders by developing innovative biopharmaceuticals and modernized Chinese medicines.

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

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

According to statistics in "Chinese Medicine Statistics Annual Report 2001" issued by the State Economic and Trade Committee, CTF, JCTT and CTQ were ranked among the top 100 Chinese medicine entirely independent audited enterprises based on aggregated profit.

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

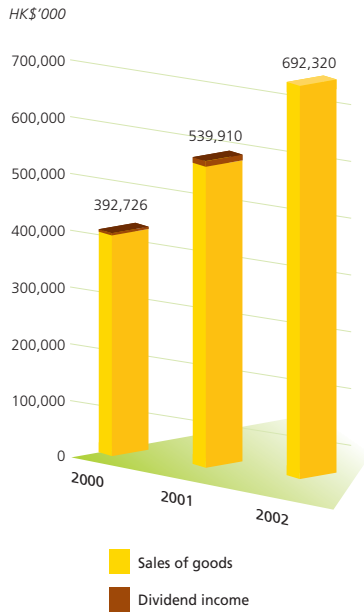


FINANCIAL SUMMARY

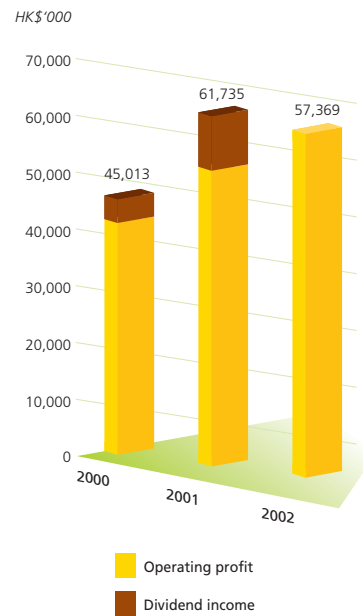
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS			
TURNOVER	692,320	539,910	392,726
Cost of sales	(145,286)	(101,436)	(83,222)
Gross profit	547,034	438,474	309,504
Other revenue	3,932	5,092	2,314
Selling and distribution costs	(309,437)	(237,601)	(163,740)
Administrative expenses	(84,257)	(78,610)	(54,987)
Other operating expenses	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	136,710	119,562	87,691
Finance costs	(1,124)	(1,913)	(2,483)
PROFIT BEFORE TAX	135,586	117,649	85,208
Tax	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	118,411	109,465	78,441
Minority interests	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS			
TOTAL ASSETS	593,986	433,129	377,232
TOTAL LIABILITIES (exclude convertible bonds)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(46,800)	-	-
NET ASSETS	292,808	244,539	209,804

FINANCIAL SUMMARY

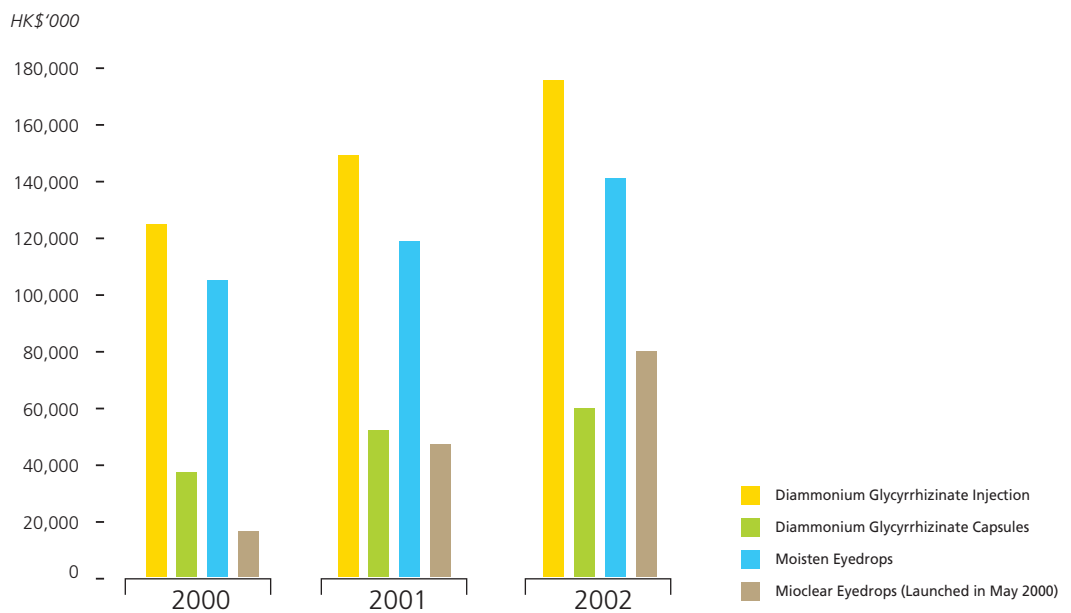
SALES GROWTH



PROFIT GROWTH



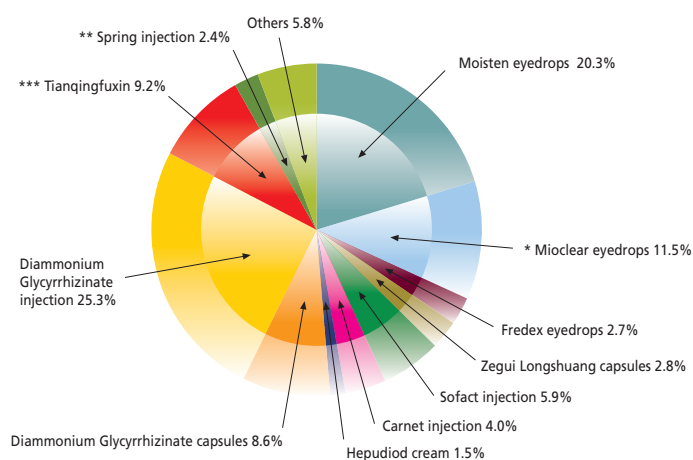
SALES GROWTH OF MAJOR PRODUCTS



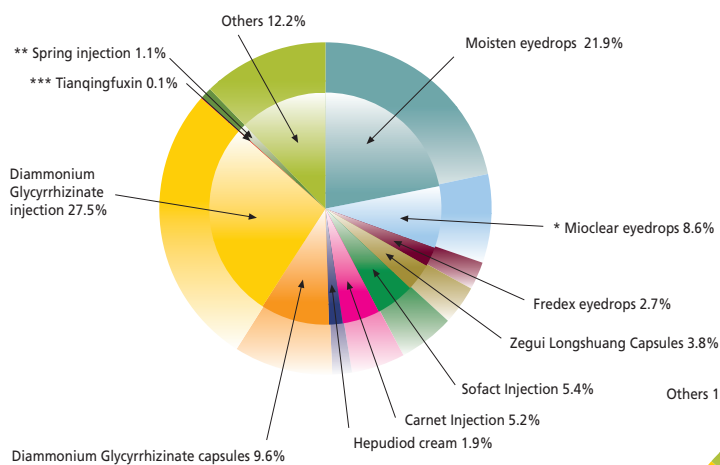
FINANCIAL SUMMARY

PRODUCT MIX

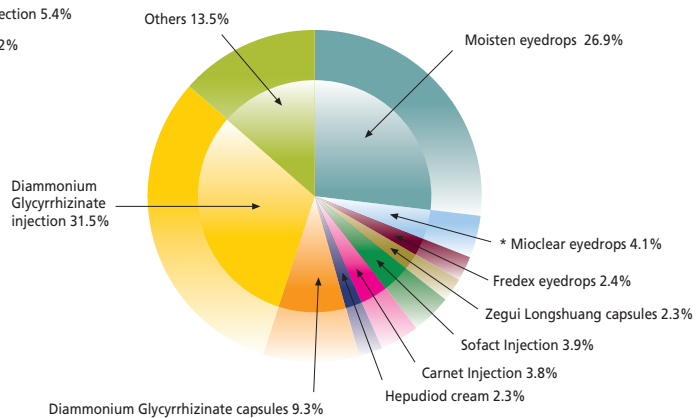
2002



2001



2000



* Mioclear eyedrops (launched in the market in May 2000)

** Spring injection (launched in the market in January 2001)

*** Tianqingfuxin (launched in the market in December 2001)

CORPORATE INFORMATION

Legal name of the Company	Sino Biopharmaceutical Limited
Stock code (ordinary shares)	8027
Place of incorporation	Cayman Islands
Date of initial listing on GEM	29 September, 2000
Directors	<p><i>Executive Directors</i></p> <p>Mr. Tse Ping (Chairman)</p> <p>Mr. Ling Peixue</p> <p>Mr. Tao Huiqi</p> <p>Mr. Wang Jinyu</p> <p><i>Non-executive Director</i></p> <p>Ms. Josephine Price</p> <p><i>Independent non-executive Directors</i></p> <p>Ms. Peng Yu</p> <p>Mr. Hu Ximing</p>
Compliance officer	Mr. Tse Ping
Qualified accountant and company secretary	Ms. Wong Pui Shan, ACCA, AHKSA
Audit committee	<p>Ms. Peng Yu (<i>Chairwoman</i>)</p> <p>Mr. Hu Ximing</p>
Authorised representatives	<p>Mr. Tse Ping</p> <p>Ms. Wong Pui Shan</p>
Authorised person to accept services of process and notices	Ms. Tse Wun

CORPORATE INFORMATION

Principal bankers	CITIC Ka Wah Bank Limited 166 Hennessy Road Wanchai Hong Kong
	Agricultural Bank of China, Lianyungang Branch No. 43 North Tong-guan Road, Xinpu, Lianyungang Jiangsu Province PRC
	Bank of China, Jinan Branch 22 Luoyuan Street, Jinan Shandong Province PRC
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Tengis Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Registered office	Codan Trust Company (Cayman) Limited Century Yard Cricket Square Hutchins Drive P.O.Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	Unit 09, 41st Floor, Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong

CORPORATE INFORMATION

Web-sites addresses

The Company www.sinobiopharm.com
 Principal subsidiaries www.cp-freda.com
 www.zdtqzy.com

Sponsor

DBS Asia Capital Limited
 16th Floor, Man Yee Building
 68 Des Voeux Road Central
 Central
 Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
 15th Floor, Hutchison House
 10 Harcourt Road
 Central
 Hong Kong

Legal advisers

As to Hong Kong Law:
 Morrison & Foerster
 21st Floor
 Entertainment Building
 30 Queen's Road Central
 Hong Kong

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

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

CHAIRMAN'S STATEMENT



Mr. Tse Ping, Chairman

The board of the Directors (the "Board") is pleased to announce the results of the Group for the year ended 31 December 2002.

RESULTS

The results of Group for the year ended 31 December 2002 showed a promising growth. Apart from the Group's dividend income (i.e., income derived from the investment in 5% equity interest of Chia Tai Qingchunbao Pharmaceutical Co., Ltd ("CTQ")), turnover of the Group amounted to approximately HK\$692.32 million, representing an increase of approximately 30.6% over last year; profit attributable to shareholders reached approximately HK\$57.37 million, representing an increase of approximately 10.7% over last year; and basic earnings per share was approximately HK18.9 cents, respectively.

The Board recommends a final dividend of HK9 cents per share, in addition to an interim dividend of HK5 cents per share. Total dividend per share for the year amounted to HK14 cents (2001: HK14 cents).

BUSINESS REVIEW

During the year, principal products, mid-end products, new products and products under research showed satisfactory development. During the year under review, 13 new products of the Group have obtained production approvals. Sales of principal products, including Diammonium Glycyrrhizinate injection and capsules for treatment of hepatitis, Moisteen and Mioclear eyedrops for treatment of eye diseases, accounted for approximately 65.6% of the Group's total turnover, representing an increase of approximately 24.4% as compared with the previous year, while sales of mid-end products had an increase of approximately 17.2% as compared with the previous year. New products (products launched for less than two years), such as Tianqingfuxin (Matrine glucose injection and Matrine capsules), Spring (Puerarin glucose injection), and Helen (Levofloxacin Hydrochloride) eyedrops etc., which were launched in the market after January 2001, generated revenue of approximately HK\$94 million. Accordingly, the sales of the Group's principal products still have growth potential, while mid-end products and new products are having promising outlook and lots of room for development.

During the year under review, profit of the Group was contributed by Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP") and Jiangsu Chia Tai Tianqing Pharmaceutical Co., Ltd. ("JCTT").

In order to keep abreast with the ever-changing market momentum, the Group continued to strengthen its management, adjust its sales strategies, focus on sales to end-users, improve its product mix, establish comprehensive internal system and develop new markets. During the year, the reform of the medical system in the People's Republic of China (the "PRC") further intensified. For example, drug bidding systems were introduced in hospitals, prices of products under price control of the government kept decreasing, while competition of the pharmaceutical market

CHAIRMAN'S STATEMENT

became more intense after PRC accession to the World Trade Organisation. Despite these, the Group managed to achieve relatively rapid growth. This was attributable to its unique business concept and strategy, successful objectives and risk management, a man-oriented human resources perception and an incentive reward mechanism. Human resources management system, ideal working environment as well as sustained comprehensive staff training have encouraged commitment, stimulated creativity of staff and nurtured an efficient workforce – the most precious resource and competitive advantage of the Group.

Turnover of the Group of the fourth quarter is relatively lower as compared with the prior two quarters. In 2002, the reasons are due to: (i) the negative effect on the sales of the products, which were manufactured at the end of year, by using the manufacturing approval number throughout the whole year; and (ii) the adoption of revised business policy of the Company in 2003, including reducing the sales discount and decrease in the delivery of products to its customers.

During the year under review, Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CT Green Continent") was established in Beijing. It focuses on the research and development ("R&D") of dripping pills, fast release, sustained release, controlled release preparations and injections for the treatment of cardiovascular and respiratory diseases, anti-bacterial and anti-viral infection. The first batch of products for R&D was dripping pills, with ten products having entered the research stage.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), which was established in August 2001, has completed its plant construction and machinery installation. NJCTT has obtained the GMP certificates set by the State Drug Administration of the PRC (the "SDA") in July 2002 and has commenced trial production.

According to statistics in "Chinese Medicine Statistics Annual Report 2001" issued by the State Economic and Trade Committee, CTF, JCTT and CTQ were ranked among the top 100 Chinese medicine entirely independent audited enterprises based on aggregated profit.

As a result of revision of accounting policies, dividend incomes for the financial years of both 2000 and 2001 totally amounted to approximately HK\$9.9 million which were recognised in 2001, while a dividend income for the financial year of 2002 amounted to approximately HK\$6.8 million was recognised in January 2003 according to the date of board resolution of CTQ.

During the year under review, the Company has also carried out two fund-raising activities – the issuance of convertible bonds and the placement of new shares of the Company (the "Shares"). A strategic investor was introduced to the Group for the issuance of convertible bonds, which was a fund managed by CLSA Private Equity Management Limited. The introduction of such a strategic investor had a positive effect on enhancing the Group's management structure and transparency and furtherance of its corporate governance. The Company has also placed 20,000,000 new Shares. These fund-raising activities have provided funding for the Group's future development plan.

CTF

Principal products of CTF are biopharmaceuticals based on biotechnology. The substrates used in the product series are hyaluronan. Commonly existed in animal tissues, hyaluronan is a kind of polysaccharide substance and a moisturising agent with a high degree of adhesion. CTF's research and applications in hyaluronan have reached sophisticated international standards. The Moistening eye-drops, containing chloramphenicol eye-drops with hyaluronan, together with its method of production, was awarded as one of the "Top Ten Invention Patents" by Shandong Scientific Technology Bureau. In 2002, CTF's eye-drops with hyaluronan and the method of production was also awarded as one of Jinan's "Top Ten Invention Patents". These two patents cover all eye-drops products of CTF.



CHAIRMAN'S STATEMENT

For the year ended 31 December 2002, turnover of CTF increased by approximately 29.5% as compared with the previous year. Helen eyedrops, which was successfully launched in June 2002, has attracted extensive attention of the eye disease treatment practitioners and has been applied by more than 500 hospitals.



In May 2002, CTF obtained GMP certificates for seven dosage forms, including ointment, eye ointment, eardrops, nosedrops, liniments, tablets and capsules. This laid a solid foundation for the further expansion of its production and R&D areas and for the development of products treating diseases of the five sense organs. Together with the certificates awarded in 1999 for eyedrops and injection dosage forms, CTF has been awarded with GMP certificates for all of its nine dosage forms.



During 2002, CTF capitalised RMB14,000,000 from the enterprise expansion funds and reserve funds to increase its capital. As a result, the registered capital of CTF was increased to RMB42,000,000.

JCTT

JCTT is one of the leading manufacturers engaged in the R&D and production of modernised Chinese medicines and chemical medicines for treatment of hepatitis and elderly diseases. It is particularly famous in the PRC pharmaceutical industry for its R&D and production of medicines in treating hepatitis. Its Diammonium Glycyrrhizinate, a product for curing hepatitis, is the first choice for doctors and patients in the PRC in caring liver. Tianqingfuxin, which was launched



in December 2001 capitalising the awareness of Diammonium Glycyrrhizinate, has been prescribed in combination with Diammonium Glycyrrhizinate to achieve better result and shorten the treatment course, and hence reinforcing the brand name effect of the enterprise products and achieving satisfactory sales performance. Over the last year, turnover of JCTT increased by approximately 31.6%, in which sales of Diammonium Glycyrrhizinate alone accounted for approximately 16.9%. Further, Tianqingfuxin has recorded a significant sales income of approximately HK\$63 million since its launch to the market for the first year. It is believed that the product will soon be one of the products with annual sales of HK\$100 million.

While boosting sales of major products and exploring markets for new products, JCTT focused particularly on tapping markets for mid-end products, application of launched products to new diseases and continuous response to increasing market demand. Take Carnet (Foscarnet Disodium) injection, an anti-virus medicine, as an example. According to the continuous assessment of the theory and effects of the medicine and from the feedback of doctors, researchers discovered that the medicine has significant effect in curing hepatitis B. More approvals for clinical tests in respect of new applications have been granted by the SDA and clinical tests are currently undergoing.



Hepatitis B, fatty liver or alcoholic damaged liver will lead to different degree of hepatic fibrosis. People always concern with issues of liver caring and protection and try to reduce the degree of hepatic fibrosis. Therefore, it has a great potential development in the market of medicines in treating hepatitis. JCTT will continue with its intensive R&D as well as production of hepatitis medicines. With its established sales network of hepatitis medicines, JCTT is playing an increasingly important role in this market.



CHAIRMAN'S STATEMENT

NJCTT



Established in August 2001, NJCTT has completed its plant construction and machinery installation and has obtained GMP certificates for the production line of PVC-free soft bags for intravenous injection granted by SDA's GMP certificate center. Currently, NJCTT has commenced trial production. Shenning (Compound Marnital) injection has obtained new medicine certificate and production approval. Shenning injection is a medicine for dehydration and discharge of urine, particularly effective in eliminating hydrocephalus and reducing pressure within the head bone. It is believed that this will be another product with great contribution to the Group's turnover.

R&D

During the year, the Group obtained a total of 13 certificates and production approvals for new medicines and 12 medicines undergoing clinical tests. The sales contribution of the new products to the Group in 2002 amounted to approximately HK\$94 million. This shows that the Group has formed a solid integrated operation model in product development and marketing in terms of selection of products for development, research and market development. It provides valuable experience for the Group's continuous development and for the commercialisation of new medicines after their R&D.



In October 2002, the Group formed a joint venture with Mr. Qu Yun Zhi, an independent third party, whereby CT Green Continent was established in the Beijing Economic Technology Development Zone to focus on the R&D of dripping pills, fast

release, sustained release and controlled release preparations and injections for the treatment of cardiovascular and respiratory diseases, anti-bacterial and anti-viral infection. The first batch of products for R&D was dripping pills, with ten products having entered into the research stage. Mr. Qu Yun Zhi has more than 20 years experience in the R&D of new medicines. He is particularly keen in the research and production technology of dripping pills for Chinese medicines. This will enable the Group to explore new research areas and develop new dosage forms, so as to keep abreast of international advanced dosage forms and enter the realms of international advanced medicines.

Currently JCTT's Nanjing Research and Development Centre has also started operation during the year. The planning for trial-production workshop has completed and construction will soon commence. CTF's Beijing Research and Development Centre has also started operation during the year.

The Group's main objective on R&D is to be better equipped to compete internationally in the future. To this end, it will concentrate the most sophisticated workforce for the R&D of effective medicines for treating eye diseases and hepatitis.

DEVELOPMENT AND MANAGEMENT OF NETWORK SALES

With the improvement of living standards, healthcare has been one of the most important concerns in people's daily life. In view of this, the Group has provided a general introduction of its products as well as certain information on topics relating to eye diseases, eye protection and skin diseases on CTF's website (www.cp-freda.com). In JCTT's website (www.zdtqzy.com), knowledge about prevention and cure consultancy of hepatitis and elderly diseases are provided. The Group aims to develop the websites so that they will become the first choice for online information relating to eye protection, prevention and cure consultancy of skin diseases, hepatitis B, elderly diseases and related subjects.

CHAIRMAN'S STATEMENT

Currently, the Group can fully utilise the internet to carry out daily production and sales and financial management. Through the internet, the sales staff can update themselves on a timely manner with information on the R&D status and related sales policies of enterprise's products; the enterprise's management personnel through the internet can obtain on a timely manner information on sales of the Group's sales networks covering various regions, and can get updated market information on time. This can substantially enhance production and sales efficiency as well as the effective communication and interaction between enterprises and customers, which in turn can upgrade the management standard of the enterprises.

In the near future, the Group will implement an online e-commerce system with an aim to start online sales.

BUSINESS STRATEGIES

1. To adopt a scientific R&D concept combining with self innovation and replication, with technology as orientation and biotechnology and modernisation of Chinese medicines as the focus of scientific development. Meanwhile, advanced domestic and foreign pharmaceutical technologies will be introduced from time to time at the disposal of the Group. Continuous R&D of products under research will be carried out comprehensively, capitalising on the opportunity that the R&D centres of JCTT and CTF in Nanjing and Beijing respectively have commenced operation to enhance the Group's innovation capacity.
2. To adopt a human resources-based strategy and fully develop the businesses of JCTT and CTF, and to strengthen the corporate management by applying an innovative approach to sales and internal management and the development of staff's creativity so as to achieve better market and management efficiency.
3. To build strategic alliances through mergers and acquisitions and to adjust product mix, improve its quality and make full use of the edge of the Group's sales networks. Complementary advantages will serve to enhance corporate economic effectiveness, with an aim to further expand and consolidate the Group's major businesses and make it an entity with great potential in the development of biopharmaceuticals and modernisation of Chinese medicines.
4. To research and develop dripping pills, fast release, sustained release and controlled release new dosage forms through the establishment of CT Green Continent. Through consolidating internal and external technological resources, methods like High-throughput Molecular Screening System, High-throughput Molecular Expression System and Humanized Monoclonal Antibodies etc, new biopharmaceutical medicines have finally been obtained and enhance the Group's capacity in specialised technology.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's primary source of fund was cash provided by operating activities and funds raised by placing new shares and the issuance of convertible bonds. As at 31 December 2002, the Group's bank balances and cash in hand was approximately HK\$280.53 million (2001: HK\$171.96 million) whereas the short-term bank loan was approximately HK\$4.71 million (2001: Nil).

GEARING RATIO

As at 31 December 2002, the total assets of the Group amounted to approximately HK\$593.99 million (2001: HK\$433.13 million) whereas the total liabilities amounted to approximately HK\$171.45 million (2001: HK\$91.80 million). The gearing ratio (total liabilities to total assets) was approximately 28.9% (2001: 21.2%).

CHAIRMAN'S STATEMENT

EMPLOYEES AND REMUNERATION POLICY

As at 31 December, 2002, the Group had 2,227 employees (2001: 2,010). With deep exploration of the market, continuous R&D of new products and adoption of high technology, the Group expects to recruit more professionals. The staff's salaries and bonus are paid with reference to the Group's human resources management policy and incentive policy. Other benefits include mandatory provident fund, pension, unemployment insurance, housing fund, etc are provided in accordance with relevant policies in the PRC and region.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the assets and liabilities of the Group was denominated in Renminbi and HK dollars. In the PRC, foreign investment enterprises are authorised to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner), the Directors consider that the Group is not significantly exposed to foreign currency exchange risk and no hedging or other alternatives have been implemented.

OUTLOOK

Biomedicines and modernised Chinese medicine represent high technology and high growth in the pharmaceutical industry. On the base of these two high and new technology areas, together with its stable profit base and awareness of

its well-known brand names, the Group will continue to increase its market share at a steady pace. The Directors believe that the enhancement of the Group's scientific research ability will facilitate the continuous launch of new products. These, together with the increase and continuous improvement of paralleled production facilities, the fact that the medicines produced have all obtained GMP certificates, the more sophisticated and effective sales networks and the strategic alliance through mergers and acquisitions, are the Group's profit growing points, and will continuously ensure fruitful returns to the shareholders of the Company.

On behalf of the Board, I would like to express my sincere gratitude to all shareholders of the Company for their full support, and to all our dedicated, hardworking and honorable staff for achieving the business objectives set at the beginning of the year.

On behalf of the Board



Tse Ping
Chairman

Beijing, 18 March, 2003

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

	Business objectives up to 31 December 2002 as stated in the prospectus of the Company dated 22 September 2000 (the "Prospectus")	Actual business progress up to 31 December 2002
1. R&D		
(1) <i>Establish a R&D centre in Beijing</i>	<p>a. Complete applications of registration and approval of new products</p> <p>b. Confirm transfer and production of new products</p> <p>c. Continue to carry out research work on incomplete projects</p>	Established equity joint venture with an independent third party CT Green Continent, with ten products having entered the research stage
(2) <i>Plan of new product R&D of CTF</i>		
Jingfu eyedrops	Market and promote product	Waiting for the clinical approval of SDA
Composite tobramycin gel	Market and promote product	Research has been terminated. Its reasons have been disclosed in the annual report 2000
Butenafine hydrochloride gel	Obtain new medicine certificate from SDA and apply for production approval	Waiting for new medicine certificate and production approval
(3) <i>Plan for new product R&D of JCTT</i>		
Oxymatrine (now known as Matrine) capsules and oxymatrine (now known as Matrine) glucose injection	Market and promote product	Marketed and promoted product
Diammonium Glycyrrhizinate sodium chloride and glucose injection	Market and promote product	Preparing for business production and the date of launch postponed

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

	Business objectives up to 31 December 2002 as stated in the Prospectus	Actual business progress up to 31 December 2002
Puerarin glucose injection	Market and promote product	Marketed and promoted product
Buyang huanwutang injection	Apply for production approval	Due to technical reasons, clinical applications suspended. This has been disclosed in annual report 2001
Roloxifene hydrochloride and tablets	Apply for production approval	Due to technical reasons, research has been terminated
Sotaloi hydrochloride injection	Market and promote product	Marketed and promoted product
Clindamycin phosphate powder injection	Market and promote product	Due to market reasons, this product has been transferred
Sanzi kechuan capsules	Apply for production approval	Waiting for SDA's clinical approval
Netimycin sulfate and sodium chloride injection	Market and promote product	Marketed and promoted product
Puerarin capsules	Market and promote product	Undergoing clinical testing

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

	Business objectives up to 31 December 2002 as stated in the Prospectus	Actual business progress up to 31 December 2002
2. Production of pharmaceutical products		
(1) <i>Forming alliance with reputable producers of biopharmaceuticals, chinese medicine or natural herbal products</i>	Continue to identify cooperative partners and execute cooperative agreements	Continue to discuss with several cooperative partners
(2) <i>Expansion of production facilities of CTF:</i>		
(a) Factory	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 12,000 sq.m.	Located in Jinan, Shandong Province, the PRC with a total gross floor area of 12,123 sq.m.
(b) GMP compliance	All workshops comply fully with GMP procedures	All workshops obtained GMP certificates
(3) <i>Expansion of production facilities of JCTT:</i>		
(a) Factory	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.	Located in Lianyungang, Jiangsu Province, the PRC with a gross floor area of 15,800 sq.m.
(b) GMP compliance	All workshops comply with GMP procedures	GMP procedures implemented for plant extraction workshop and synthetic drugs raw material workshop, while, all other workshops have obtained GMP certificates

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

	Business objective up to 31 December 2002 as stated in the Prospectus	Actual business progress up to 31 December 2002
3. Marketing and sales		
(1) Expansion and <i>consolidation of the PRC distribution network</i>		
The expansion plan of the sales network of CTF:		
No. of representative offices	40	30
No. of sales staff	450	480
The expansion plan of the sales network of JCTT:		
No. of representative offices	40	38
No. of sales staff	900	596

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

COMPARISON OF USE OF PROCEEDS RAISED FROM THE COMPANY'S INITIAL PUBLIC OFFER WITH ACTUAL APPLICATION

The Company raised net proceeds of approximately HK\$60 million from its initial public offer. The following table sets forth the intended use of the net proceeds as stated in the Prospectus and the actual application of such net proceeds up to 31 December, 2002:–

	<i>Notes</i>	Amount to be used up to 31 December, 2002 as disclosed in the Prospectus HK\$ million	Actual amount used up to 31 December, 2002 HK\$ million
For R&D activities including the establishment of a R&D centre in Beijing		15.0	6.8
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products	1	20.0	–
For the expansion of the distribution networks of the Group	2	10.0	–
For the establishment of the Group's website and commencement of e-commerce	3	3.0	0.8
General working capital		12.0	12.0
Total		60.0	19.6

Notes:

1. The Company is in the process of negotiating with several potential cooperative partners and no concrete agreement has been reached.
2. The Company is in the process of negotiating with potential cooperative partners and no concrete agreement has been reached.
3. Development of website and e-commerce are mainly financed by income generated by the Company 's principal subsidiaries.

AWARDS AND REWARDS

CTF

Advanced Technique Business Enterprise
Shandong Province Outward Economic Trade Committee

High and New Technique Enterprise
Shandong Province Science Technique Committee

* Shandong Province Heavy Prize Technology
(Sodium hyaluronate series products)
Shandong Province Government

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

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

Jinan City Top Ten Invention Patents
* (HA based eyedrops and production method)
Jinan City Technology Bureau

Shandong Province Technology Improvement
* (HA fermentation developed product)
Shandong Province Science Technique Committee

Top 100 Chinese Medicine Entity Independent Audited Enterprises an aggregated profit
Chinese Medicine Statistics Annual Report 2001

* Sodium hyaluronate is also known as Hyaluronan (HA)

JCTT

Intensive Technique and Knowhow Enterprise
Jiangsu Province Science Technique Committee

High and New Technique Enterprise
Jiangsu Province Science Technique Committee

Advanced Technique Business Enterprise
Jiangsu Province Outward Economic Trade Committee

Trust-worthy Enterprise
Jiangsu Province Government

Jiangsu Province Famous Brand
Diammonium Glycyrrhizinate series product
Jiangsu Province Famous Brand Recognition Committee

Modernisation Management Enterprise
Jiangsu Province Economic Trade Committee

Ph.D Invention Centre
Jiangsu Province Labour Bureau, Jiangsu Province Economic Trade Committee

Top 100 Chinese Medicine Entity Independent Audited Enterprises an aggregated profit
Chinese Medicine Statistics Annual Report 2001

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 51, is the Founder, Chairman and President of the Company. Mr. Tse is one of the most successful foreign investors in the PRC's pharmaceutical sector. With more than 10 years of related investment and management experience, Mr. Tse was formerly the vice-chairman of 999 Pharmaceutical Co. Ltd., and involved in the management of Hainan Pharmaceutical (both companies are now listed on stock exchanges in the PRC) Mr. Tse was also the chairman of CTQ which is now a subsidiary of SIIC Medical Science and Technology Ltd. (a company listed on GEM). Mr. Tse is also the Chairman of Xian Chia Tai Pharmaceutical Co. Ltd., a director of CTQ and a committee member of the Association of Pharmaceutical Biotechnology of China. Beyond the drugs and biotechnology field, Mr. Tse is the vice-chairman of Hong Kong Fortune Limited, an investment holding company listed on the Main Board, and the executive chairman of TM International Bank, based in Shanghai. He is also a member of the Ninth and the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Mr. Ling Peixue (凌沛學先生), aged 40, joined the Group in October 1994 and is a director and general manager of CTF. Mr. Ling was graduated from the Shandong University of Medicine with a master degree. Mr. Ling is an accomplished expert on the therapeutic applications of hyaluronan. He has won numerous awards for his work on HA-based therapeutics including special subsidies from the State Council, "Outstanding Scientist" granted by the Ministry of Domestic Trade, Mr. Ling is the deputy chairman of the Biochem Pharmaceutical Professionals Committee of the Association of Chinese Medicine, a deputy head of the Industrial Biochemistry Professionals Committee of the Association of Biochemistry and Molecular Biology of China, an executive director of the Association of Biochemical Pharmaceutical Manufacturers of China and a member of the editorial committee of the Chinese Medicine Magazine and Chinese Biochem Pharmaceutical Magazine.

Mr. Tao Huiqi (陶惠啟先生), aged 53, joined the Group in May 1997 and is the vice chairman and president of JCTT. He is a university graduate and senior economist. Mr. Tao has 30 years experience in managing pharmaceutical companies. He has been awarded the title of an "Outstanding Entrepreneur" by the China Pharmaceutical Association, China Chinese Medicine Association, the Jiangsu Economic Planning Commission and Jiangsu Pharmaceutical Administration respectively.

Mr. Wang Jinyu (王金宇先生), aged 33, joined the Group in March 1999. Prior to joining the Group, Mr. Wang worked in the corporate finance division of BNP Prime Peregrine Capital Ltd., where he gained extensive experience in corporate finance, investment management and the development and promotion of high technology. He is also a co-chairman and general manager of Dic Network Company Ltd.

Non-executive Director

Ms. Josephine Price (潘佐芬女士), aged 48, is the non-executive Director of the Company. Ms. Price is the Managing Director of CLSA Private Equity. She joined CLSA in 1995 to set up its private equity activities from NatWest Markets where she had been a regional corporate finance director. She has been based in Asia for over 20 years. She is a graduate of the University of Kent at Canterbury, a member of the Law Societies of England & Wales and Hong Kong, a member of the Hong Kong Securities Institute, Fellow of the Hong Kong Institute of Directors and a non-executive director of SBSi, Petra Foods and Jyothy Laboratories.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Independent non-executive Directors

Ms. Peng Yu (彭玉女士), aged 60, is the independent non-executive Director of the Company and chairwoman of the audit committee of the Company. She graduated from the Beijing Medical Institute, (currently the Medical Division of the Beijing University). She is currently the vice president of China Charity Federation, the vice president of the Association of Biotechnology of China, the vice president of the Chinese Committee for the Care of Young Generation, a member and a standing committee member of the Eighth (8th) Executive Committee of the All-China Women's Federation, the vice-chairwoman of the Jinan University and the vice-chairwoman of the Huaqiao University. She was previously a doctor and the deputy president of Beijing Xiehe Hospital, the vice director of the State Family Planning Commission of China, the deputy minister of the Ministry of Health People's Republic of China, the vice chairwoman of the Seventh (7th) National Medicine Committee, the vice director of National Base of National Coordinating Board for Research and Development of New Medicine, the vice director of the National Industrial Base of Biomedicine in Zhangjiang, Shanghai, the Commissioner of the 27th, 28th and 29th Population and Development Commission of the United Nations.

Mr. Hu Ximing, (胡熙明先生), aged 70, is the independent non-executive Director of the Company. He is a member of the Chinese People's Political Consultative Conference, chief editor of the Chinese Traditional Medicine Magazine of China, the president of the China Acupuncture Society, the vice president of the Chinese Traditional Medical and Pharmaceutical Society of China and the president of Taiwan Strait Medicine pharmacy Health Exchange Association. Mr. Hu has served the Ministry of Public Health for more than 30 years. He has assumed a number of titles, including deputy minister of the Ministry of Public Health, deputy head of the Traditional Medicine Research Academy, director of the State Administration of Traditional Chinese Medicine and vice chairman of the State Committee for Combating Narcotics.

SENIOR MANAGEMENT

Ms. Zhao Yanping (趙艷萍女士), aged 40, is the vice president of the Company. Ms. Zhao joined the Group in 1992. Ms. Zhao was graduated from the Shenyang University of Pharmacy with a degree in science and completed the Master of Business Administration course in Dalian Polytechnic University. She was the executive director of CTF, and a visiting professor of Shenyang University of Pharmacy. She was the general manager of the research and development department of the Group. Ms. Zhao is also one of the editors of the "1998 National Development Guide for New Chemical Medicine". She is an editorial board member of Economic Report of Chinese medicine. Ms. Zhao has nearly 20 years of experience in the pharmaceutical industry.

Mr. Stephen Tse Hsin (謝焯先生), aged 33, is the vice president of the Company. He is in charge of the Group's audit department and is responsible for mergers and acquisitions. Mr. Tse graduated from the University of Hong Kong with a degree in industrial engineering. He joined the Group in 1995 as the assistant to executive vice president and served as the general manager of Xian CT Pharmaceutical Co., Ltd.. In 1999, he was awarded the "Outstanding Management Award for foreign-invested enterprises of Shanxi Province" by the Shanxi Provincial Government. He is also a director of JCTT and a cousin of Mr. Tse Ping.

Mr. Zhang Baowen (張寶文先生), aged 46, is the vice president of the Company. He is a graduate of the Shenyang University of Pharmacy with a bachelor's degree in science. Mr. Zhang joined the Group in 1995 and has 20 years of experience in the pharmaceutical industry. He is an expert in microbiological pharmaceuticals production. Mr. Zhang's research papers on the use of computer software programs in the biosynthesis of spiramycin, done in collaboration with the Chinese Academy of Sciences, have been published in international academic journals. Mr. Zhang is a committee member of the Association of Chinese Medicine of China.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Ms. Wong Pui Shan (黃佩珊小姐), aged 32, is the financial controller and company secretary of the Company. Ms. Wong graduated from the Hong Kong Polytechnic University with an honor's degree in accountancy. She is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. Ms. Wong worked in an international accounting firm prior to joining the Company in August 2000.

Ms. Chen Xiaofung (陳曉楓女士), aged 49, is the deputy financial controller of the Company. Ms. Chen joined the Group in 1993 and was the manager of the investment division, deputy controller of the accounting division, officer of the audit division and controller of the finance and accounting division. Ms. Chen is a certified accountant in the PRC and has over 20 years of experience in accounting and finance.

Ms. Chia Ming (謝明女士), aged 42, is an assistant to the chairman and the general manager of the technology department. Ms. Chia has a master degree and a bachelor degree with Cum Laude honor in computer science from Brigham Young University, USA. Ms. Chia has over 16 years of computer experience working for multinational companies in America. She has broad compute knowledge applying across pharmaceutical industry, the financial industry and the telecommunications industry. She has worked for Dendrite International, (sales force automation system for worldwide health care industry,) Goldman Sachs (formerly Commodities Corporation) and AT&T. Ms. Chia joined the Group in 2003.

Mr. Yuan Genbao (袁根寶先生), aged 54, is the standing vice president of JCTT. He graduated from the Party School of Jiangsu Province with a degree in finance management. Mr. Yuan joined the Group in 1997. He has been the workshop officer, head of finance division, head of enterprise management division, factory co-ordination officer, head of production division and deputy factory manager of JCTT. He has 28 years working experience.

Mr. Cheng Bo (程波先生), aged 42, is the vice president of CTF. Mr. Cheng graduated from Sichuan University and completed EMBA course in Sichuan Electronic Technology University. He joined the Group in October 1994 and has been appointed as sales office representative in Chengdu, regional sales manager and marketing director. He has extensive experience in sales management.

Mr. Shun Jian (孫鍵先生), aged 42, is the vice president and senior engineer of JCTT. He graduated from Nanjing Polytechnic with a degree in engineering. He has 20 years of experience in pharmaceutical industry and has extensive experience in management and marketing.

Mr. Zhang Xichang (張錫昌先生), aged 61, is the vice president of JCTT. Mr. Zhang has been the workshop officer and deputy factory director of JCTT. Mr. Zhang joined the group in 1997. He has 40 years of working experience.

Ms. He Yanli (賀艷麗女士), aged 39, is the vice president of CTF. Ms. Ho graduated from Shandong University of Medicine with a master degree. Ms. Ho is now studying a PhD degree. She has 19 years experience in the R&D of pharmaceutical products and has published more than 20 academic papers. Ms. Ho worked in Shandong Provincial Oceanic Pharmaceutical Research Centre, Shandong Biological Pharmaceutical Research Institute. She has been the head of Technology Division in CTF, the head of R&D division and the assistant to general manager of CTF. She has been awarded the title of a "Superior Working Lady" from the Nature Labour Union in 1999.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Ms. Wu Ruizhen (吴瑞珍女士), aged 56, is the vice president of the finance and accounting division of JCTT. She graduated from Gansu Province Electronic University with a degree in industrial accounting. Ms. Wu joined the Group in 1997. She has been the accountant of the finance division in Gansu Province Film Machinery Factory, chief accountant of the finance division in Lanzhou Oil Pump Oil Company. Ms. Wu's article titled "Cost Management and Cost Effectiveness" published in 1995 was awarded as excellent essay from PRC Machinery and Industry Bureau.

Mr. Pei Sinmin (裴新民先生), aged 37, is the finance controller of CTF. He graduated from Inner Mongolia Finance University with a degree in industrial accountancy and completed the Financial EMBA of Nanyang-Linder and University of International. Mr. Pei has been the head of the finance division in Baotou Gangtie Guolu Factory with 15 years of experience in finance. Mr. Pei joined the Group in 1995.

Mr. Tian Zhoushan (田舟山先生), aged 39, is the general manager of NJCTT. Mr. Tian is studying MBA course in Nanjing University. He was the production manager, assistant to the president and vice president of JCTT. Mr. Tian has 20 years of experience in the pharmaceutical industry.

Mr. Qu Yunzhi (曲韵智先生), aged 47, is the general manager of CT Green Continent. He obtained a master degree in Pharmacy in Inner Mongolia University. Mr. Qu has been the chairman of Huhehaote Te Natural Pharmacy Industrial Research Institute, chief engineer and deputy factory manager of Baotou Chinese Medicine Company in Inner Mongolia. Mr. Qu has 25 years of experience in the scientific research of medicines. He is the intellectual property proprietor of various Chinese medicine dripping pills products.

Ms. Li Minqin (李名沁女士), aged 44, is the deputy general manager of the Company's R&D division and the director and deputy general manager of CT Green Continent. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a bachelor degree in medicine. Prior to joining the Company, Ms. Li has worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine Faculty of Colorado University, USA and the Medicine Faculty in Massachuset University. Ms. Li joined the Group in 1997 and has been the manager and deputy general manager of the Group's R&D department. She has more than 20 years of experience in Pharmaceutical industry.

Mr. Bi Yong (畢勇先生), aged 41, is the vice president of CTF. He graduated from Shandong Industrial University with a degree in machinery manufacture. Prior to joining the Group in 1996, Mr. Bi has been the deputy head of division of equipment power, deputy officer of tablets and capsules workshop, the chairman of technological improvement office, the chairman of technology improvement office under Jinan Yong Ning Medicine Manufacturing Company Limited and the vice chairman of the preparatory department under Jinan Haimufamn Medicine Manufacturing Company Limited. Mr. Bi has 21 years of extensive working experience.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Ji Yanfeng (姬彥鋒先生), aged 38, is the vice president of the marketing division of CTF. Mr. Ji graduated from Medicine Faculty of Xian Medicine University and completed studying the EMBA course in West North University. Mr. Ji has been the surgery doctor of Xian Hua Yang Hospital, the surgery chief doctor of Xian Airline Electronic Company Staff Hospital, regional manager of Tianjing Smith Kline & French Laboratories Ltd. (SK&F). He has 10 years of experience in marketing and sales management. Mr. Ji joined the Group in 2001.

Mr. Ye Weinong (葉衛農先生), aged 41, is the assistant president of the Company and deputy general manager of the technology department. Mr. Ye graduated from Zhongshan University in biochemistry profession with a bachelor degree in science. In 1989, Mr. Ye obtained a doctoral degree (Ph.D.) in microbiology in Instituts Nationaux des Sciences Appliquees de Toulouse (INSA de Toulouse) of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Superieure de Commerce de Toulouse of France. Prior to joining the Group in 2002, Mr. Ye worked in Europe, the PRC and Hong Kong for the multinational biotechnology and pharmaceutical companies. Mr. Ye has 20 years of experience in investment, R&D, technology transfer, and products and services commercialisation of biotechnology and pharmaceutical industries.

Ms Chia Fai (謝輝女士), aged 45, is an assistant to the chairman of the Company and the officer of Personnel Department. Ms. Chia joined the Group in 1992, she has more than 20 years of experience in financial industry. Ms. Chia is the director of many companies including Chia Tai Pharmaceutical (Lianyungang) Co., Ltd., Sino Concept Technology Ltd., Talent Forward Ltd., Sino Biopharmaceutical (Beijing) Ltd. and Magnificent Technology Ltd.

Ms Tse Wun (謝瓊小姐), aged 36, is an assistant to the chairman of the Company. She joined the Group in 1992. Ms. Tse graduated from the University of Oregon with a bachelor's degree in Science in the United States. She was a director of 999 Pharmaceutical Co., Ltd. and has years of experience in finance and investment.

Ms. Cheng Hui (程惠女士), aged 40, is the deputy financial controller of the Company. She has been the head of finance and accounting department of business division in The China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 20 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants.

Ms Gu Liping (顧莉萍女士), aged 41, is the vice president of JCTT and the secretary to the board of directors. She graduated from the department of chemistry of Nanjing University and holds a bachelor degree in science. Ms Gu is a senior engineer and she joined the Group in 2001. She was the assistant director of the finance department of Jiangsu Agribusiness and the assistant manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Liu Bo (劉波先生), aged 40, is the deputy general manager of NJCTT. He graduated from Wuhan Tong Ji University. Mr. Liu has been in-charge of medicine sales work in Novartis Pharmaceutical Co., Ltd and Shenzhen Qinghuayuan Pharmarecetical Co., Ltd. He has ten years of experience in sales of medicine.

Mr. Lu Yuehui (呂月輝先生), aged 50, is the financial controller NJCTT. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Red Flag University, Department of Accountancy in Beijing Finance College. He has been the tutor of the Department of Accountancy in Beijing Economic Management Cadre College. Mr. Lu has been the manager of audit department and manger of finance and accountancy in the Group. Mr. Lu has 25 years of experience in finance and accounting profession and is a qualified accountant.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements.

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 81.

An interim dividend of HK\$0.05 per ordinary share totalling HK\$15,000,000 was paid during 2002.

The Directors recommend the payment of a final dividend of HK\$0.09 per ordinary share in respect of the year ended 31 December 2002 to shareholders of the Company on Monday, 5 May 2003 whose names appear on the register of members of the Company on Wednesday, 23 April 2003. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in the note 3 to the financial statements.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of the Stock Exchange in September 2000, after deduction of related issuance expenses, amounted to approximately HK\$61,973,000. Application of proceeds up to 31 December 2002 and comparison with the proposed applications set out in the Company's Prospectus is set out on page 19 of this report.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the results, assets, liabilities and minority interests of the Group for the last three financial years is set out below. This summary does not form part of the audited financial statements.

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS			
TURNOVER	692,320	539,910	392,726
Cost of sales	(145,286)	(101,436)	(83,222)
Gross profit	547,034	438,474	309,504
Other revenue	3,932	5,092	2,314
Selling and distribution costs	(309,437)	(237,601)	(163,740)
Administrative expenses	(84,257)	(78,610)	(54,987)
Other operating expenses	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	136,710	119,562	87,691
Finance costs	(1,124)	(1,913)	(2,483)
PROFIT BEFORE TAX	135,586	117,649	85,208
Tax	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	118,411	109,465	78,441
Minority interests	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS			
TOTAL ASSETS	593,986	433,129	377,232
TOTAL LIABILITIES (exclude Convertible bonds)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(46,800)	–	–
NET ASSETS	292,808	244,539	209,804

REPORT OF THE DIRECTORS

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in Company's share capital and share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law (2000 Revision) of the Cayman Islands, and after taking into account for the proposed final dividend of HK\$29,880,000 (2001: HK\$30,000,000), amounted to HK\$157,585,000 (2001: HK\$136,366,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the current and prior years. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the current and prior years.

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

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

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

Non-executive Director:

Ms. Josephine Price (appointed on 22 October 2002)

Independent non-executive Directors:

Dr. Patrick Ho Chi Ping JP. (resigned on 26 June 2002)
 Ms. Peng Yu (appointed on 26 June 2002)
 Mr. Hu Ximing

In accordance with articles 86 and 87 of the Company's articles of association, Mr. Ling Peixue, Ms. Josephine Price and Ms. Peng Yu will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 21 to 25 of the annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements, no Director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2002, the interests of the Directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or otherwise notified to the Stock Exchange or the Company as required by Rule 5.40 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") were as follows:

Name of Director	Notes	Nature of interest	Number of shares in the Company
Mr. Tse Ping	(1)	Corporate	231,120,000
Mr. Wang Jinyu	(2)	Corporate	8,880,000
			240,000,000

The interests of Directors in the share options of the Company are separately disclosed in the section headed "Share Option Scheme" in this report.

Notes:

- (1) The shares are held by Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited, companies beneficially owned by Mr. Tse Ping.
- (2) The shares are held by Discover Profits Limited, a company beneficially owned by Mr. Wang Jinyu.

Save as disclosed above, at 31 December 2002, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' Interests in Share Capital" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

(i) The Existing Scheme

The Company operates a share option scheme ("the Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September 2000. Eligible participants of the Existing Scheme include the Company's Directors and employees of the Group. On 26 April 2002, the Existing Scheme was terminated and replaced by a new option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further options will be offered pursuant to the Existing Scheme; however, the Existing Scheme will, in all respects, remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto (the "Outstanding Options"). The Outstanding Options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company (the "Shares") in issue for a period of ten consecutive years. At 31 December 2002, the number of shares issuable under share options granted under the Existing Scheme was 30,000,000, which represented approximately 9.4% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time.

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (cont'd)

(i) The Existing Scheme (cont'd)

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

Name or category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price per share option** HK\$	Price of Company's shares***		
	At 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 December 2002				At grant date of options HK\$	At exercise date of options HK\$	
Directors												
Mr. Tse Ping	7,500,000	-	-	-	-	7,500,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	-	
Mr. Ling Peixue	1,000,000	-	-	-	-	1,000,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	-	
Mr. Tao Huiqi	1,000,000	-	-	-	-	1,000,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	-	
Mr. Wang Jinyu	1,000,000	-	-	-	-	1,000,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	-	
	<u>10,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,500,000</u>						
Other employees												
In aggregate	19,500,000	-	-	-	-	19,500,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74	-	
	<u>30,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000,000</u>						

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (cont'd)

(ii) The New Scheme

As a result of the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001, no option may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new option scheme (the "New Scheme") was adopted by the Company on 26 April 2002 and at the same time the Existing Scheme was terminated. The New Scheme will remain in force for ten years commencing from 26 April 2002.

Under the New Scheme, the eligibility of the participants for the grant of any options shall be determined by the directors of the Company from time to time on the basis of their contribution or potential contribution to the development and growth of the Group and the directors may at their discretion, invite any person belonging to any of the following classes of participants to take up options for shares:

- (a) any Director or proposed Director (whether executive or non-executive, including any independent non-executive Director), employee or proposed employee (whether full-time or part-time) of any member of the Group or any management shareholder ("Management Shareholder" as defined under Rule 1.01 of the GEM Listing Rules) or any company controlled by a Management Shareholder ("Management Shareholder's Company");
- (b) any individual for the time being seconded to work for any member of the Group or any Management Shareholder or any Management Shareholder's Company;
- (c) any holder of any securities issued by any member of the Group or any Management Shareholder or any Management Shareholder's Company;
- (d) any business or joint venture partner, contractor, agent or representative of any member of the Group or any Management Shareholder or any Management Shareholder's Company;
- (e) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Management Shareholder or any Management Shareholder's Company;
- (f) any supplier, producer or licensor of goods or services to any member of the Group or any Management Shareholder or any Management Shareholder's Company;

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (cont'd)

(ii) The New Scheme (cont'd)

- (g) any customer, licensee (including any sub-licensee) or distributor of goods or services of any member of the Group or any Management Shareholder or any Management Shareholder's Company;
- (h) any landlord or tenant (including sub-tenant) of any member of the Group, or any Management Shareholder or any Management Shareholder's Company; and
- (i) any company controlled by one or more persons belonging to any of the above classes of participants.

The maximum number of shares which may be allotted to and issued upon the exercise of all Outstanding Options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue at the date of approval in a general meeting.

The maximum number of shares issued and to be issued upon exercise of options granted under the New Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of options in excess of such limit must be separately approved by the shareholders in a general meeting with such participant and his associates abstaining from voting.

Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of option to a substantial shareholder of the Company or an independent non-executive director of the Company, or to any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of options already granted and to be granted to such person under the New Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in a general meeting. Any change in the terms of the options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options must be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be determined on the date of offer of grant of option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and in any event shall not exceed 10 years from the date of such grant. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the New Scheme for the holding of an option before it can be exercised.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (cont'd)

(ii) The New Scheme (cont'd)

The exercise price of the Shares under the New Scheme shall be determined by the Board but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

No option has been granted under the New Scheme during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
Conspicuous Group Limited	108,000,000*	33.75
Remarkable Industries Limited	57,317,760*	17.91
Validated Profits Limited	65,802,240*	20.56

* The interests of Conspicuous Group Limited, Remarkable Industries Limited and Validated Profits Limited have been disclosed as the corporate interests of Mr. Tse Ping in the above section headed "Directors' Interests in Share Capital".

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

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed in note 34 to the financial statements, which also constituted connected transactions under the GEM Listing Rules. In the opinion of the Directors, such connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

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

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

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

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

Mr. Tse Ping has signed a deed of non-competition undertaking in favour of the Company dated 19 September 2000 under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature ("Mr. Tse Ping's Companies") (excluding for this purpose the Group) will:

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

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

REPORT OF THE DIRECTORS

SPONSORS' INTERESTS

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

As updated and notified by the Company's sponsor, DBS, as at 31 December 2002, neither DBS nor its directors or employees, had any interests in the share capital of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2002.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the Committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board. The Committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Group's financial statements for the year ended 31 December 2002 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The Committee has two members comprising the two independent non-executive Directors, Ms. Peng Yu and Mr. Hu Ximing. During the year, the Committee performed the functions specified in the GEM Listing Rules.

AUDITORS

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

On behalf of the Board



Tse Ping
Chairman

Beijing, 18 March 2003

REPORT OF THE AUDITORS



To the members

SINO BIOPHARMACEUTICAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 39 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.

Ernst & Young

Certified Public Accountants

Hong Kong

18 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT (Year ended 31 December 2002)

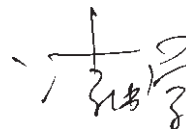
	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	5	692,320	539,910
Cost of sales		(145,286)	(101,436)
Gross profit		547,034	438,474
Other revenue	5	3,932	5,092
Selling and distribution costs		(309,437)	(237,601)
Administrative expenses		(84,257)	(78,610)
Other operating expenses		(20,562)	(7,793)
PROFIT FROM OPERATING ACTIVITIES	6	136,710	119,562
Finance costs	7	(1,124)	(1,913)
PROFIT BEFORE TAX		135,586	117,649
Tax	10	(17,175)	(8,184)
PROFIT BEFORE MINORITY INTERESTS		118,411	109,465
Minority interests		(61,042)	(47,730)
NET PROFIT FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	11, 29	57,369	61,735
DIVIDENDS	12		
Interim		15,000	12,000
Proposed final		29,880	30,000
		44,880	42,000
EARNINGS PER SHARE	13		
Basic		HK18.9 cents	HK20.6 cents
Diluted		HK16.9 cents	HK19.4 cents

CONSOLIDATED BALANCE SHEET (31 December 2002)

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	173,293	122,079
Intangible assets	15	2,389	548
Goodwill	16	2,388	3,120
Long term investment	18	29,820	29,820
		207,890	155,567
CURRENT ASSETS			
Inventories	19	45,251	37,558
Trade receivables	20	51,667	56,371
Other receivables	21	8,637	11,657
Amount due from a related company	22	16	16
Cash and cash equivalents	23	280,525	171,960
		386,096	277,562
CURRENT LIABILITIES			
Trade payables	24	24,437	16,385
Profits tax payable		3,415	1,557
Taxes payable other than profits tax	25	14,347	10,592
Other payables and accruals	26	77,629	63,153
Interest-bearing bank loan, unsecured		4,712	-
Amount due to a related company	27	113	113
		124,653	91,800
NET CURRENT ASSETS		261,443	185,762
		469,333	341,329
CAPITAL AND RESERVES			
Issued capital	28	32,000	30,000
Reserves	29	230,928	184,539
Proposed final dividend	12	29,880	30,000
		292,808	244,539
MINORITY INTERESTS		129,725	96,790
CONVERTIBLE BONDS	30	46,800	-
		469,333	341,329



Tao Huiqi
Director



Ling Peixue
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY (Year ended 31 December 2002)

	Notes	2002 HK\$'000	2001 HK\$'000
1 January – total equity		244,539	209,804
Exchange differences on translation of the financial statements of foreign entities	29	(165)	–
Net gains not recognised in the profit and loss account		244,374	209,804
Net profit for the year attributable to shareholders	11	57,369	61,735
Dividends		(45,000)	(27,000)
Issue of shares, including share premium	28	36,600	–
Share issue expenses	29	(535)	–
31 December – total equity		292,808	244,539

CONSOLIDATED CASH FLOW STATEMENT (Year ended 31 December 2002)

	2002 HK\$'000	2001 HK\$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	135,586	117,649
Adjustments for:		
Interest income	(2,024)	(3,603)
Interest expenses	1,124	1,913
Investment income	–	(9,904)
Depreciation	13,703	13,075
Goodwill amortisation	732	732
Patent and license amortisation	153	21
Loss on disposal/write-off of fixed assets	633	1,323
Operating profit before working capital changes	149,907	121,206
Increase in inventories	(7,693)	(2,887)
Decrease/(increase) in trade receivables	4,704	(9,291)
(Increase)/decrease in other receivables	(2,169)	10,838
Decrease in amounts due from related companies	–	332
Increase in trade payables	8,052	3,519
Increase in taxes payable other than profits tax	3,755	295
Increase in other payables and accruals	18,437	12,124
Decrease in an amount due to a related company	–	(17)
Cash generated from operations	174,993	136,119
PRC profits tax paid	(15,317)	(8,451)
Net cash inflow from operating activities	159,676	127,668
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,024	3,603
Dividend received from an unlisted investment	5,189	4,715
Purchases of fixed assets	(66,720)	(28,798)
Purchase of intangible assets	(1,994)	–
Proceeds from disposal of fixed assets	1,097	33
Net cash outflow from investing activities	(60,404)	(20,447)

CONSOLIDATED CASH FLOW STATEMENT cont'd (Year ended 31 December 2002)

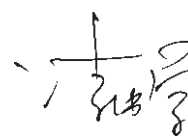
	2002 HK\$'000	2001 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(1,124)	(1,913)
Dividends paid to minority shareholders	(33,673)	(30,749)
Dividends paid	(45,000)	(27,000)
Proceeds from issue of shares	36,600	–
Share issue expenses	(535)	–
Proceeds from issue of convertible bonds	46,800	–
Increase in minority interests	1,272	14,951
Repayment/advance from a minority shareholder	325	8,486
New short term bank loans	80,095	78,732
Repayment of bank loan	(75,383)	(99,051)
Repayment of loans from minority shareholders	–	(3,772)
Net cash inflow/(outflow) from financing activities	9,377	(60,316)
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	171,960	125,055
Effect of foreign exchange rate changes, net	(84)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	280,525	171,960
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	141,983	99,730
Time deposits with original maturity of less than three months when acquired	138,542	72,230
	280,525	171,960

BALANCE SHEET (31 December 2002)

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	622	699
Interests in subsidiaries	17	135,741	130,220
		136,363	130,919
CURRENT ASSETS			
Other receivables	21	400	20,532
Cash and cash equivalents	23	130,350	46,054
		130,750	66,586
CURRENT LIABILITIES			
Taxes payable		23	36
Other payables and accruals	26	825	1,103
		848	1,139
NET CURRENT ASSETS			
		129,902	65,447
		266,265	196,366
CAPITAL AND RESERVES			
Issued capital	28	32,000	30,000
Reserves	29	157,585	136,366
Proposed final dividend	12	29,880	30,000
		219,465	196,366
CONVERTIBLE BONDS			
	30	46,800	–
		266,265	196,366



Tao Huiqi
Director



Ling Peixue
Director

NOTES TO FINANCIAL STATEMENTS (31 December 2002)

1. CORPORATE INFORMATION

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

The head office and principal place of business of the Company in Hong Kong is located at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

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

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

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

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 11 (Revised): "Foreign Currency Translation"
- SSAP 15 (Revised): "Cash Flow Statements"
- SSAP 34: "Employee Benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised below.

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 41 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of the subsidiaries operating in the People's Republic of China (the "PRC") are translated at an average rate for the period, rather than the applicable rates of exchange ruling at the balance sheet date as was previously the case. This SSAP is required to be applied retrospectively. There is no material impact from the changes on the consolidated financial statements for the prior years.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flow statement set out on pages 42 and 43 of the financial statements has been revised in accordance with the new requirements.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")**
(cont'd)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme(s), as detailed in note 28 to the financial statements. These disclosures are similar to those required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Joint venture companies

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Joint venture companies** (cont'd)

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

A joint venture company is treated as:

- (a) a subsidiary, if the company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company;
or
- (d) a long term investment, if the company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture company.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

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

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Related parties**

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

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

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation (cont'd)

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

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

Land use rights are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight-line basis to write off the costs of the land use rights over the respective period of land use rights.

Improvements to leasehold buildings are depreciated over the shorter of the lease term and the rate of 20% per annum.

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

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

Intangible assets

Patent

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

Research and development costs

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

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

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Operating leases**

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is lessee, rentals payables under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

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

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Inventories

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

Cash equivalents

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

Provisions

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Deferred tax**

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

Revenue recognition

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

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (iii) dividends, when the shareholders' right to receive payment has been established.

Dividends

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

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Borrowing costs**

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

All other borrowing costs are recognised as expenses when incurred.

Share option scheme

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries in the PRC are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries in the PRC are translated into Hong Kong dollars at the weighted average exchange rates for the year. The balance sheets of subsidiaries in the PRC are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flow of subsidiaries in the PRC are translated into Hong Kong dollars at the exchange rate at the date of the cash flow except for frequently recurring cash flows which arise throughout the year which are translated into Hong Kong dollars at the weighted average exchange rates for the year.

In previous years, the profit and loss accounts and the cash flows of subsidiaries in the PRC were translated into Hong Kong dollars at the exchange rates at the balance sheet date. The change in the treatment of such items in the current year, however, had no significant effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Retirement benefits scheme**

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

The employees of the Company's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 20–23% of payroll costs to the central pension scheme.

4. SEGMENT INFORMATION

Over 90% of the Group's revenue, results, assets and liabilities are accounted by the pharmaceutical business segment which is predominantly undertaken in the PRC. Accordingly, geographical segment information is not shown.

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

- (a) the pharmaceutical products segment comprises the manufacture, sale and distribution of pharmaceutical products; and
- (b) the investment segment is engaged in long term investments.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

4. SEGMENT INFORMATION (cont'd)

The following table presents revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments.

	Pharmaceutical Products		Investment		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	692,320	530,006	–	–	692,320	530,006
Dividend income	–	–	–	9,904	–	9,904
Total	692,320	530,006	–	9,904	692,320	539,910
Segment results	155,256	118,608	(1,812)	7,634	153,444	126,242
Unallocated expenses					(20,666)	(11,772)
Interest and other income					3,932	5,092
Profit from operating activities					136,710	119,562
Finance costs					(1,124)	(1,913)
Profit before tax					135,586	117,649
Tax					(17,175)	(8,184)
Profit before minority interests					118,411	109,465
Minority interests					(61,042)	(47,730)
Net profit from ordinary activities attributable to shareholders					57,369	61,735
Segment assets	431,946	352,408	162,040	80,721	593,986	433,129
Total assets	431,946	352,408	162,040	80,721	593,986	433,129
Segment liabilities	123,228	90,661	48,225	1,139	171,453	91,800
Total liabilities	123,228	90,661	48,225	1,139	171,453	91,800
Other segment information:						
Depreciation and amortisation	14,392	13,751	196	77	14,588	13,828
Other non-cash expenses	633	1,323	–	–	633	1,323
Capital expenditure	68,596	25,882	118	397	68,714	26,279

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

5. TURNOVER AND REVENUE

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

An analysis of turnover and other revenue is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of goods	692,320	530,006
Dividend income from an unlisted investment	–	9,904
	692,320	539,910
Other revenue		
Interest income	2,024	3,603
Subsidy income	552	1,489
Sale of scrap materials	329	–
Technology transfer income	754	–
Others	273	–
	3,932	5,092

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	145,286	101,436
Depreciation	13,703	13,075
Amortisation of intangible assets*	153	21
Amortisation of goodwill*	732	732
Minimum lease payments under operating leases:		
Land and buildings	10,016	4,763
Plant and machinery	–	1,604
	10,016	6,367
Loss on disposal of fixed assets	149	1,323
Write-off of fixed assets	484	–
Write-back of provision for doubtful debts	600	–
Research and development costs	19,793	6,470
Auditors' remuneration	540	480
Staff costs (including directors' remuneration, note 8):		
Wages and salaries	87,699	56,895
Pension contributions**	9,363	6,395
Total	97,062	63,290
Exchange losses/(gains), net	119	(76)

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

** During the year, certain of the Company's subsidiaries in the PRC were members of a pension contribution scheme managed by the respective local governments. Contributions made were based on 20% – 23% (2001: 20% – 25%) of the employees' salaries and were charged to the profit and loss account as they became payable.

According to the existing PRC regulations, forfeited contributions may not be used by the employer to reduce the existing level of contributions.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans wholly repayable within one year	1,033	1,770
Interest on convertible bonds	91	–
Others	–	143
	1,124	1,913

8. DIRECTORS' REMUNERATION

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

	2002 HK\$'000	2001 HK\$'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,069	2,799
Pension contributions	47	45
Discretionary bonuses	1,323	1,263
	4,439	4,107

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

8. DIRECTORS' REMUNERATION (cont'd)

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

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	6	4
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	1
	8	6

Four (2001: four) executive directors received emoluments of approximately HK\$2,052,000 (2001: HK\$2,012,000), HK\$1,149,500 (2001: HK\$1,074,000), HK\$823,600 (2001: HK\$666,400) and HK\$226,800 (2001: HK\$210,000), respectively, for the year ended 31 December 2002.

Three (2001: two) independent non-executive directors received emoluments of approximately HK\$126,000 (2001: HK\$113,000), HK\$36,000 (2001: HK\$36,000), HK\$24,700 and nil, respectively, for the year ended 31 December 2002. The non-executive director newly appointed did not receive any emolument for the year ended 31 December 2002.

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

During the year, no share options were granted to the directors in respect of their services to the Group.

In the prior year, 10,500,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out note 28. No value in respect of these options were charged to the profit and loss account or exercise included in the above directors' remuneration disclosures in the prior year.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2001: three) directors, details of whose remuneration are set out in note 8 above.

The details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	905	384
Pension scheme contributions	22	17
Discretionary bonuses	726	975
	1,653	1,376

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

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join the Group, or as compensation for loss of office. (2001: Nil)

During the year, no share options were granted to the two non-director, highest paid employees. (2001: Nil).

10. TAX

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

	2002 HK\$'000	2001 HK\$'000
Provision for the year		
PRC income tax	17,175	8,184

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**10.TAX** (cont'd)

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

As at 31 December 2002, the Group's principal operating subsidiaries are subject to an income tax rate of 7.5% – 10% (2001: 7.5%).

There are no significant potential deferred tax liabilities for which provision has not been made (2001: Nil).

11.NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2002 was HK\$32,034,000 (2001: HK\$33,228,000).

12.DIVIDENDS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interim dividend		
– HK\$0.05 (2001: HK\$0.04) per ordinary share	15,000	12,000
Proposed final dividend		
– HK\$0.09 (2001: HK\$0.10) per ordinary share	29,880	30,000
	44,880	42,000

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on net profit from ordinary activities attributable to shareholders for the year of HK\$57,369,000 (2001: HK\$61,735,000) and the weighted average of 304,166,667 (2001: 300,000,000) ordinary shares in issue during the year.

The diluted earnings per share amount for the year is based on net profit from ordinary activities attributable to shareholders for the year of HK\$57,369,000 (2001: HK\$61,735,000) and interest of HK\$91,000 (2001: Nil) on convertible bonds and 304,166,667 (2001: 300,000,000) ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighted average number of 19,416,476 (2001: 17,714,535) ordinary shares deemed to be issued at average fair value if all outstanding options were exercised during the year and the weighted average of 16,421,053 (2001: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all convertible bonds during the year.

14. FIXED ASSETS

Group

	Leasehold buildings <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:								
At beginning of year	33,023	–	15,907	76,487	9,467	14,517	14,971	164,372
Additions	600	3,566	41	3,285	2,073	4,252	52,903	66,720
Disposals	(49)	–	(5)	(1,221)	(194)	(408)	–	(1,877)
Write-off	(623)	–	–	–	–	–	–	(623)
Transfers	24,503	–	–	17,942	–	3,181	(45,626)	–
Exchange realignment	(34)	–	(6)	(47)	(6)	(9)	(9)	(111)
At 31 December 2002	57,420	3,566	15,937	96,446	11,340	21,533	22,239	228,481
Analysis of cost or valuation:								
At cost	25,020	3,566	15,937	96,446	11,340	21,533	22,239	196,081
At valuation	32,400	–	–	–	–	–	–	32,400
	57,420	3,566	15,937	96,446	11,340	21,533	22,239	228,481
Accumulated depreciation:								
At beginning of year	2,376	–	8,225	22,244	3,836	5,612	–	42,293
Provided during the year	2,273	–	751	6,681	1,546	2,452	–	13,703
Disposals	–	–	–	(163)	(175)	(293)	–	(631)
Write-off	(139)	–	–	–	–	–	–	(139)
Exchange realignment	(10)	–	(3)	(17)	(3)	(5)	–	(38)
At 31 December 2002	4,500	–	8,973	28,745	5,204	7,766	–	55,188
Net book value:								
At 31 December 2002	52,920	3,566	6,964	67,701	6,136	13,767	22,239	173,293
At 31 December 2001	30,647	–	7,682	54,243	5,631	8,905	14,971	122,079

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

14. FIXED ASSETS (cont'd)

Company

	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	566	217	783
Additions	30	89	119
<hr/>			
At 31 December 2002	596	306	902
<hr/>			
Accumulated depreciation:			
At beginning of year	34	50	84
Provided during the year	133	63	196
<hr/>			
At 31 December 2002	167	113	280
<hr/>			
Net book value:			
At 31 December 2002	429	193	622
<hr/>			
At 31 December 2001	532	167	699
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The Group's leasehold buildings are all situated in the PRC and are held under long term lease.

The Group's leasehold buildings were revalued on 31 July 2000 by DTZ Debenham Tie Leung Limited ("DTZ"), independent professional valuers at an aggregate open market value of HK\$32,400,000 based on their existing use. The surplus arising from the above revaluation attributable to the Group amounting to HK\$2,546,000 was credited to the revaluation reserve in 2000.

Had these leasehold buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$24,554,000 (2001: HK\$26,646,000).

As the relevant title certificates of certain leasehold buildings (the "Properties") were not obtained by the Group at the balance sheet date, the net book value of approximately HK\$484,000 (2001: HK\$514,000) of the Properties was fully written off.

The relevant title certificates for leasehold buildings and land use rights at net book value of HK\$24,501,000 and HK\$3,566,000, respectively, have not been obtained at 31 December 2002. The directors are of the opinion that the relevant titles will be obtained in due course.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

15. INTANGIBLE ASSETS

	Patent	
	2002 HK\$'000	2001 HK\$'000
Cost:		
At beginning of year	569	–
Additions	1,994	569
At end of year	2,563	569
Accumulated amortisation:		
At beginning of year	21	–
Provided during the year	153	21
At end of year	174	21
Net book value	2,389	548

16. GOODWILL

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost:		
At beginning and end of year	6,781	6,781
Accumulated amortisation:		
At beginning of year	3,661	2,929
Provided during the year	732	732
At end of year	4,393	3,661
Net book value	2,388	3,120

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	131,299	131,299
Due from subsidiaries	5,831	310
Due to subsidiaries	(1,389)	(1,389)
	135,741	130,220

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

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.	PRC 22 October 2002	US\$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands 22 September 1998	US\$2 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited	British Virgin Islands 2 July 1998	US\$3 Ordinary	100	–	Investment holding
Hainan Chia Tai Freda Medicine Co., Ltd.	PRC 3 December 2001	RMB1,000,000	–	55	Sales of medicine products

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

17.INTERESTS IN SUBSIDIARIES (cont'd)

Company name	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hainan Chia Tai Freda Pharmaceutical Co., Ltd.	PRC 28 November 2001	RMB12,000,000	–	55	Dormant
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd.	PRC 16 April 1997	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	PRC 31 August 2001	US\$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF")	PRC 31 March 1992	RMB42,000,000	–	55	Development, manufacture and distribution of pharmaceutical products
Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP")	PRC 27 December 2000	RMB11,000,000	–	55	Production and sale of packaging materials
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands 28 May 2002	US\$50,000 Ordinary	100	–	Dormant

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

17. INTERESTS IN SUBSIDIARIES (cont'd)

Company name	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sino Concept Technology Limited	Hong Kong 21 February 1991	HK\$10,100 Ordinary	100	–	Investment holding and provision of management services
Talent Forward Limited	British Virgin Islands 2 July 2002	US\$50,000 Ordinary	100	–	Investment holding

During the year, CTF's registered capital was increased from RMB28,000,000 to RMB42,000,000, further details of which are set out in note 29(b) to the financial statements.

During the year, CTFP's registered capital was increased from RMB8,000,000 to RMB11,000,000 by additional cash contribution.

18. LONG TERM INVESTMENT

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equity investment, at fair value	29,820	29,820

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

19. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	19,022	15,160
Work in progress	6,909	7,527
Finished goods	17,389	13,670
Spare parts and consumables	1,931	1,201
	45,251	37,558

20. TRADE RECEIVABLES

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

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

	2002 HK\$'000	2001 HK\$'000
Current to 90 days	49,430	52,752
91 days to 180 days	1,985	3,619
Over 180 days	252	-
	51,667	56,371

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

21. OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Advances to suppliers	3,265	1,626	-	-
Other receivables	4,638	4,453	104	332
Prepaid expenses	734	389	296	-
Dividend receivable	-	5,189	-	20,200
	8,637	11,657	400	20,532

22. AMOUNT DUE FROM A RELATED COMPANY

Details of the amount due from a related company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group

	31 December 2002 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2002 HK\$'000
Chia Tai Pharmaceutical & Medicines Limited	16	16	16

Mr. Tse Ping, a director of the Company, has beneficial interests in Chia Tai Pharmaceutical & Medicines Limited.

The amount due is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	141,983	99,730	1,231	482
Time deposits	138,542	72,230	129,119	45,572
	280,525	171,960	130,350	46,054

24. TRADE PAYABLES

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

	2002 HK\$'000	2001 HK\$'000
Current to 90 days	22,721	15,864
91 days to 180 days	1,073	51
Over 180 days	643	470
	24,437	16,385

25. TAXES PAYABLE OTHER THAN PROFITS TAX

	Group	
	2002 HK\$'000	2001 HK\$'000
Value added tax	11,166	9,274
Individual income tax	2,859	996
Property tax	322	322
	14,347	10,592

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Advances from customers	726	591	-	-
Accrued payroll	11,686	20,772	119	-
Other payables	18,588	11,422	2	53
Accrued expenses	26,757	12,837	653	1,050
Housing fund	2,973	2,421	-	-
Staff welfare and bonus fund	16,899	11,149	51	-
Interim dividend payable to minority interests	-	3,961	-	-
	77,629	63,153	825	1,103

27. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

28. SHARE CAPITAL

	Company	
	2002 HK\$'000	2001 HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.1 each	100,000	100,000
<i>Issued and fully paid:</i>		
320,000,000 (2001: 300,000,000) ordinary shares of HK\$0.1 each	32,000	30,000

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

28.SHARE CAPITAL (cont'd)

The movements in the Company's issued capital are summarised as follows:

	Number of ordinary shares	Amount HK\$'000
At 1 January 2002	300,000,000	30,000
Share placing (Note)	20,000,000	2,000
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At 31 December 2002	320,000,000	32,000

Note:

On 13 September 2002, the Company issued 20,000,000 new shares of HK\$0.10 each at a price of HK\$1.83 per share for a total cash consideration, before expenses, of HK\$36,600,000.

There was no movement in the Company's issued capital in 2002.

Share options

The Company adopted a share option scheme (the "Existing Scheme") pursuant to which the Company might grant, for a consideration of HK\$1 for each grant.

Pursuant to the resolution passed in the extraordinary general meeting held on 26 April 2002, the Company adopted a share option scheme (the "New Scheme") and terminated the Existing Scheme. No further options may be offered under the Existing Scheme. However, the outstanding options granted under the Existing Scheme, as mentioned in the preceding paragraphs, shall continue to be subject to the provisions of the Existing Scheme and the provisions of Chapter 23 of the GEM Listing Rules.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

28.SHARE CAPITAL (cont'd)

Share options (cont'd)

The particulars of each share option scheme of the Company that are required under Rules 23.07 to 23.09 of Chapter 23 of the GEM Listing Rules and SSAP 34 are disclosed as follows:

(a) The Existing Scheme

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options**	Exercise price per share option	Price of Company's shares***
	At 1 January 2002	Exercised during the year	At 31 December 2002			HK\$	At grant date of options
Directors							
Mr. Tse Ping	7,500,000	–	7,500,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74
Mr. Ling Peixue	1,000,000	–	1,000,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74
Mr. Tao Huiqi	1,000,000	–	1,000,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74
Mr. Wang Jinyu	1,000,000	–	1,000,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74
	<u>10,500,000</u>	<u>–</u>	<u>10,500,000</u>				
Other employees							
In aggregate	19,500,000	–	19,500,000	2 January 2001	3 January 2003 to 1 January 2007	0.74	0.74
	<u>30,000,000</u>	<u>–</u>	<u>30,000,000</u>				

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

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

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

28.SHARE CAPITAL (cont'd)

Share options (cont'd)

(b) A summary of each share option scheme of the Company is set out as follows:–

	Existing Scheme	New Scheme
Purpose	To attract, retain and motivate high-calibre employees.	To provide incentives and rewards to eligible participants who contribute to the success of the Group's operations.
Participants	<ul style="list-style-type: none"> (i) Full-time employees (including all directors) of the Company. (ii) Employees of any member of the Group or any management shareholder ("Management Shareholder" as defined under Rule 1.01 of the GEM Listing Rules) or any company controlled by a Management Shareholder ("Management Shareholder's company"). (iii) Any holder of any securities issued by any member of the Group or any Management Shareholder or any Management Shareholder's company. 	<ul style="list-style-type: none"> (i) Category A Eligible Person <ul style="list-style-type: none"> (a) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full-time or part-time) of any member of the Group or any Management Shareholder or any Management Shareholder's company; or (b) any individual for the time being seconded to work for any member of the Group or any Management Shareholder or any Management Shareholder's company. (ii) Category B Eligible Person <ul style="list-style-type: none"> (a) any holder of any securities issued by any member of the Group or any Management Shareholder or any Management Shareholder's company. (iii) Category C Eligible Person <ul style="list-style-type: none"> (a) any business or joint venture partner, contractor, agent or representative of any member of the Group or any Management Shareholder or any Management Shareholder's company; or (b) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Management Shareholder or any Management Shareholder's company; or

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

28.SHARE CAPITAL (cont'd)

Share options (cont'd)

(b) A summary of each share option scheme of the Company is set out as follows:

	Existing Scheme	New Scheme
		<p>(c) any supplier, producer or licensor of goods or services to any member of the Group or any Management Shareholder or any Management Shareholder's company; or</p> <p>(d) any customer, licensee (including any sub-licensee) or distributor of goods or services of any member of the Group or any Management Shareholder or any Management Shareholder's company; or</p> <p>(e) any landlord or tenant (including any sub-tenant) of any member of the Group or any Management Shareholder or any Management Shareholder's company.</p> <p>(iv) Any company controlled by one or more persons belonging to any of the above classes of participants.</p>
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	10% of the issued share capital of the Company.	10% of issued share capital of the Company. The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted pursuant to the Existing Scheme, and yet to be exercised under the New Scheme, and any other share option scheme must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time.
Maximum entitlement of each participant	The maximum number of ordinary shares shall not exceed 25% of the total number of ordinary shares in respect of the options that may be granted in accordance with the scheme.	The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

28.SHARE CAPITAL (cont'd)

Share options (cont'd)

(b) A summary of each share option scheme of the Company is set out as follows:

	Existing Scheme	New Scheme
Minimum period for which an option must be held before it can be exercised	To be determined by the board of directors.	To be determined by the board of directors.
Amount payable on acceptance	HK\$1.00	HK\$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable.	Not applicable.
Basis of determining the exercise price	The higher of: (i) the closing price of the shares on the date of the offer of the grant (the "Offer Date"); and (ii) the average closing price of the shares for the five business days immediately preceding the Offer Date.	The higher of: (i) the closing price of the shares on the Offer Date; (ii) the average closing price of the shares for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares.
The remaining life of the scheme	The Existing Scheme was terminated on 26 April 2002.	The New Scheme commenced from 26 April 2002 and will remain in force for 10 years.

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

29. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Leasehold building revaluation reserve HK\$'000	Statutory reserve funds HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	55,973	52,605	4,149	2,546	4,280	498	44,753	164,804
Interim dividend for 2001	-	-	-	-	-	-	(12,000)	(12,000)
Net profit for the year	-	-	-	-	-	-	61,735	61,735
Transfer from statutory reserve fund (note 29(a))	-	-	7,642	-	(7,642)	-	-	-
Transfer from retained profits	-	-	9,896	-	6,774	-	(16,670)	-
Proposed final dividend 2001	-	-	-	-	-	-	(30,000)	(30,000)
At 31 December 2001 and 1 January 2002	55,973	52,605	21,687	2,546	3,412	498	47,818	184,539
Issue of shares	34,600	-	-	-	-	-	-	34,600
Share issue expenses	(535)	-	-	-	-	-	-	(535)
Interim dividend for 2002	-	-	-	-	-	-	(15,000)	(15,000)
Net profit for the year	-	-	-	-	-	-	57,369	57,369
Transfer from statutory reserve fund (note 29(b))	-	-	7,256	-	(7,256)	-	-	-
Transfer from retained profits	-	-	-	-	8,418	-	(8,418)	-
Exchange realignment	-	-	(19)	-	(9)	(137)	-	(165)
Proposed final dividend 2002	-	-	-	-	-	-	(29,880)	(29,880)
At 31 December 2002	90,038	52,605	28,924	2,546	4,565	361	51,889	230,928

The contributed surplus of the Group represents the difference between the nominal value of the shares and the share premium account of the former holding companies acquired pursuant to the group reorganization as set out in the Company's prospectus dated 22 September 2000 (the "Group Reorganization") over the nominal value of the Company's shares issued in exchange therefor.

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

29.RESERVES (cont'd)

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

Capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds upon as paid-up capital upon approval for increasing the registered capital of the PRC joint ventures.

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

(b) On 15 October 2002, CTF's registered capital was increased from RMB28,000,000 to RMB42,000,000 by way of capitalisation of the statutory reserve fund (comprising the general reserve fund and enterprise expansion fund) at an aggregate amount of RMB14,000,000. Accordingly, an amount attributable to the Group of RMB7,700,000 equivalent to HK\$7,256,000, was transferred to capital reserve on consolidation.

Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	55,973	107,299	(18,134)	145,138
Interim dividend for 2001	-	-	(12,000)	(12,000)
Net profit for the year	-	-	33,228	33,228
Proposed final dividend for 2001	-	-	(30,000)	(30,000)
At 31 December 2001 and 1 January 2002	55,973	107,299	(26,906)	136,366
Issue of shares	34,600	-	-	34,600
Share issue expenses	(535)	-	-	(535)
Interim dividend for 2002	-	-	(15,000)	(15,000)
Net profit for the year	-	-	32,034	32,034
Proposed final dividend for 2002	-	-	(29,880)	(29,880)
At 31 December 2002	90,038	107,299	(39,752)	157,585

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)**30. CONVERTIBLE BONDS**

On 14 August 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "JK Bond") and Super Demand (the "SD Bond") convertible bonds for principal amount of US\$6 million (equivalent to approximately HK\$46,800,000) and US\$4 million (equivalent to approximately HK\$31,200,000), respectively.

The JK Bond was issued on 22 October 2002, and bore interest at 1% per annum which is payable every three months in arrears. The JK Bond matures on the fourth anniversary of its issue date, if not previously converted by the bondholders. The JK Bond is convertible into shares of the Company at any time after its issue date at an initial conversion price of HK\$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the JK Bond.

On 30 December 2002, the Company and Super Demand agreed to defer the issuance of the SD Bond to 31 March 2003 or such other date as both parties agree in writing.

31. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**Major non-cash transactions**

During the year, the registered capital of CTF was increased from RMB28,000,000 to RMB42,000,000. The increase in the registered capital was satisfied by the capitalisation of the general reserve fund and enterprise expansion fund for an aggregate amount of RMB14,000,000, equivalent to approximately HK\$13,192,727.

In the prior year, the registered capital of JCTT was increased from RMB68,000,000 to RMB99,000,000. The increase in the registered capital was satisfied by the capitalisation of the general reserve fund, enterprise expansion fund and retained profits for an aggregate amount of RMB31,000,000, equivalent to approximately HK\$29,229,900.

32. CONTINGENT LIABILITIES

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

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

33.COMMITMENTS

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

(a) Capital commitments

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted, but not provided for the acquisition of		
– fixed assets	9,929	323
– product technology	4,156	2,598
	14,085	2,921
Authorised, but not contracted for the acquisition of		
– fixed assets	7,293	28,018

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

(b) Commitments under operating leases

The Group's total future minimum lease payments under non-cancellable operating lease agreements falling due are as follows:

	2002 Land and buildings HK\$'000
Within one year	2,559
In the second to fifth years, inclusive	4,153
After five years	21,888
	28,600

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

33.COMMITMENTS (cont'd)

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

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

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

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
In respect of land and buildings expiring:		
within one year	725	336
in the second to fifth years, inclusive	275	–
	<hr/>	
	1,000	336

NOTES TO FINANCIAL STATEMENTS cont'd (31 December 2002)

34. RELATED PARTY TRANSACTIONS

In addition to the balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2002 HK\$'000	2001 HK\$'000
Sales of goods to a Chinese joint venture partner of a subsidiary	(a)	2,147	1,159
Purchases of raw materials from a related party with a common shareholder of a subsidiary	(b)	12,880	4,433
Operating lease rentals payable to:			
– a fellow subsidiary of a subsidiary's Chinese joint venture partner	(c)	4,525	3,111
– a Chinese joint venture partner of a subsidiary	(c)	562	562
– a company beneficially owned by a director	(c)	660	660

Notes:

- (a) The sales of goods to the Chinese joint venture partner of the subsidiary were conducted with reference to market prices.
- (b) The purchases of raw materials from the related party with the common shareholder of the subsidiary were conducted with reference to market prices.
- (c) The lease rentals were based on the tenancy agreement entered between the Company and each of the related parties with reference to market price.

Pursuant to a patent licensing agreement entered between CTF and Mr. Ling Peixue, a director of the Company, dated, 1 February 2002, Mr. Ling Peixue has agreed to grant a license to CTF free of charge to use certain patent for his inventions until their expiry respective dates.

The directors of the Company are of the opinion that the patent licensing agreement has been entered into and carried out in the ordinary course of business of the Group.

35. COMPARATIVE AMOUNTS

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2003.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Sino Biopharmaceutical Limited (the "Company") will be held at 8/F., Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 23 April 2003, at 3:00 p.m. for the following purposes:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and the reports of the Directors and the auditors of the Company for the year ended 31 December 2002;
2. To approve the payment of a final dividend for the year ended 31 December 2002;
3. To re-elect the Directors and to authorize the Board of Directors to fix the remuneration of the Directors of the Company;
4. To re-appoint the auditors of the Company and to authorize the Board of Directors to fix the remuneration of the auditors of the Company; and
5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

A. "THAT

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares, which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval of paragraph (a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for shares of the Company, which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal value of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or an issue of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this resolution.

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

B. “THAT

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

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

(c) for the purpose of this resolution:

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

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

NOTICE OF ANNUAL GENERAL MEETING

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

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

By Order of the Board
Wong Pui Shan
Company Secretary

Hong Kong, 31 March 2003

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not to be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The register of members of the Company will be closed from Thursday, 17 April 2003 to Wednesday, 23 April 2003 (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday 16 April 2003 for registration.
4. Concerning resolution 5B above, the explanatory statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, will be set out in a separate letter from the Company to be enclosed with the annual report 2002.