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If you have sold all your shares in SIIC Medical Science and Technology (Group) Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or to the bank, stockbroker or other agents through whom the sale was effected for transmission to the purchaser.

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上海實業醫藥科技(集團)有限公司*

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.
(Incorporated in the Cayman Islands with limited liability)

**PROPOSED PRIVATISATION
BY**

上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

**BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW
(2003 REVISION) OF THE CAYMAN ISLANDS)
INVOLVING THE CANCELLATION OF
ALL THE ISSUED SHARES OF HK\$0.10 EACH IN
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
HELD BY THE SCHEME SHAREHOLDERS (AS DEFINED HEREIN)**

Financial Adviser to Shanghai Industrial Holdings Limited

BNP PARIBAS PEREGRINE

**Independent Financial Adviser to the Independent Board Committee
(as defined herein) of
SIIC Medical Science and Technology (Group) Limited**



A letter from the board of directors of SIIC Medical Science and Technology (Group) Limited is set out on pages 7 to 14 of this document. An explanatory statement regarding the Proposal (as defined herein) is set out on pages 37 to 50 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in relation to the Proposal is set out on page 15 of this document. A letter from the independent financial adviser, ING Bank N.V., containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 16 to 36 of this document.

The action to be taken by the Shareholders (as defined herein) is set out on page 12 of this document.

Notices convening the Court Meeting (as defined herein) and the Extraordinary General Meeting (as defined herein) to be held on Monday, 11th August 2003 are set out on pages 105 to 109 of this document. Whether or not you are able to attend the Meetings (as defined herein) in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Extraordinary General Meeting in accordance with the instructions printed thereon and to lodge them with the principal place of business of SIIC Medical Science and Technology (Group) Limited in Hong Kong, by hand or by post, at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, or in the case of the pink form of proxy in respect of the Court Meeting only by facsimile at number (852) 2520 0128 (marked for the attention of The Company Secretary) as soon as possible but in any case not later than 10:30 a.m. on Saturday, 9th August 2003 for the pink form of proxy in respect of the Court Meeting and 11:00 a.m. on Saturday, 9th August 2003 for the white form of proxy in respect of the Extraordinary General Meeting. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for a minimum period of 7 days from the date of publication.

* For identification purpose only

CHARACTERISTICS OF GEM

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. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this document, the following expressions have the following meanings, unless the context otherwise requires:

“Adjusted Consolidated NTAV”	adjusted unaudited consolidated net tangible assets value of the SIIC MedTech Group
“Announcement”	the announcement dated 21st May 2003 issued jointly by SIHL and SIIC MedTech relating to the Proposal and published in the South China Morning Post and the Hong Kong Economic Times on 22nd May 2003
“Announcement Date”	21st May 2003, being the date of the Announcement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Authorisations”	all the necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
“BNP Paribas Peregrine”	BNP Paribas Peregrine Capital Limited, financial adviser to SIHL and deemed licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Board”	the board of directors of SIIC MedTech
“Cancellation Price”	the cancellation price of HK\$2.15 per Scheme Share payable in cash by SIHL to the Scheme Shareholders
“CFI”	Central Force Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of SIHL
“Companies Law”	the Companies Law (2003 Revision) of the Cayman Islands
“Conditions”	the conditions of the Scheme or any of them to which the Proposal is subject, all of which are set out in the Explanatory Statement on pages 38 to 39 of this document
“Controlling Parties”	SIHL together with SIIH, SIHL Treasury and CFI, all wholly-owned subsidiaries of SIHL and beneficially interested in an aggregate of approximately 65.91% of the issued capital of SIIC MedTech as at the date of this document
“Court Meeting”	a meeting of the Scheme Shareholders to be convened by direction of the Grand Court for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme, notice of which is set out on pages 105 to 106 of this document, and any adjournment thereof
“Director(s)”	director(s) of SIIC MedTech

DEFINITIONS

“Effective Date”	the date on which the Scheme, if approved, becomes effective, which is expected to be 16th September 2003
“Excluded Parties”	NEL, NPL and Mr. Shen Wei Jia, all beneficially interested in an aggregate of approximately 1.50% of the issued capital of SIIC MedTech as at the date of this document
“Executive”	the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
“Explanatory Statement”	the explanatory statement set out on pages 37 to 50 of this document and issued in compliance with the Rules of the Grand Court
“Extraordinary General Meeting”	the extraordinary general meeting of SIIC MedTech for the approval and implementation of the Scheme, notice of which is set out on pages 107 to 109 of this document, and any adjournment thereof
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Grand Court”	Grand Court of the Cayman Islands
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“holder”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent board committee comprising Mr. Kwok Chin Kung, Robert and Mr. Li Ka Cheung, Eric, the independent non-executive Directors, which has been established for the purpose of advising the Independent Shareholders in relation to the Proposal
“Independent Shareholders”	Shareholders other than the Controlling Parties and the Excluded Parties
“ING”	ING Bank N.V., independent financial adviser to the Independent Board Committee
“Latest Practicable Date”	15th July 2003, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meetings”	the Court Meeting and the Extraordinary General Meeting or any of them, as the case may be
“Mr. Ge”	Mr. Ge Wen Yao, an executive director of SIHL and SIIC MedTech
“Mr. Li”	Mr. Li Wei Da, an executive director of SIHL and SIIC MedTech

DEFINITIONS

“NEL”	Nanyang Enterprises Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SIIC
“NPL”	Nanyang Enterprises Properties Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SIIC
“NTAV”	net tangible assets value of the SIIC MedTech Group
“PER”	price to earnings ratio
“PRC”	the People’s Republic of China
“Proposal”	the proposal for the privatisation of SIIC MedTech by SIHL by way of the Scheme
“Record Time”	5:00 p.m. Hong Kong time on the day immediately preceding the Effective Date
“Reduction of Capital”	the proposed reduction of SIIC MedTech’s capital as set out in the notice of the Extraordinary General Meeting, which is set out on pages 107 to 109 of this document
“Register”	the register of members of SIIC MedTech
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Scheme”	the proposed scheme of arrangement between SIIC MedTech and the Scheme Shareholders under Section 86 of the Companies Law involving the cancellation and extinguishment of all Scheme Shares, as set out on pages 100 to 104 of this document, with or subject to any modification thereof or addition thereto or condition(s) approved or imposed by the Grand Court
“Scheme Share(s)”	the Shares in issue as at the Record Time other than those beneficially owned by the Controlling Parties
“Scheme Shareholder(s)”	holder(s) of Scheme Shares
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	registered holders of Shares
“Share Option Scheme”	the share option scheme of SIIC MedTech adopted on 11th November 1999
“Shares”	ordinary shares of HK\$0.10 each in the share capital of SIIC MedTech

DEFINITIONS

“SIHL”	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
“SIHL Group”	SIHL and its subsidiaries
“SIHL Share(s)”	ordinary shares of HK\$0.10 each in the share capital of SIHL
“SIHL Treasury”	SIHL Treasury Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SIHL
“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and is the ultimate controlling shareholder of SIHL
“SIIC MedTech”	SIIC Medical Science and Technology (Group) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are currently listed on GEM
“SIIC MedTech Group”	SIIC MedTech and its subsidiaries
“SIIH”	S.I. Infrastructure Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of SIHL
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“%”	per cent.

EXPECTED TIMETABLE

Hong Kong time 2003

- Latest time for lodging transfers of the Shares to qualify for attending and voting at the Court Meeting and the Extraordinary General Meeting 4:30 p.m. on Wednesday, 6th August
- Register closed for determination of entitlements of Independent Shareholders to attend and vote at the Court Meeting and the Extraordinary General Meeting Thursday, 7th August to Monday, 11th August (both days inclusive)
- Latest time for lodging forms of proxy in respect of:
- Court Meeting (*Note 1*) 10:30 a.m. on Saturday, 9th August
- Extraordinary General Meeting (*Note 1*) 11:00 a.m. on Saturday, 9th August
- Suspension of dealings in the Shares 9:30 a.m. on Monday, 11th August
- Court Meeting 10:30 a.m. on Monday, 11th August
- Extraordinary General Meeting 11:00 a.m. on Monday, 11th August
- Press announcement of the results of the Meetings in the South China Morning Post and the Hong Kong Economic Times and on the GEM website Tuesday, 12th August
- Resumption of dealings in the Shares 9:30 a.m. on Tuesday, 12th August
- Hearing of SIIC MedTech's application to the Grand Court to dispense with settling of a list of creditors (*Note 2*) Thursday, 14th August
- Last day for dealings in the Shares 4:00 p.m. on Monday, 8th September
- Latest time for lodging transfers of the Shares to qualify for entitlements under the Scheme 4:30 p.m. on Wednesday, 10th September
- Grand Court hearing of the petition to sanction the Scheme and the petition to confirm the Reduction of Capital (*Note 2*) Wednesday, 10th September
- Record Time 5:00 p.m. on Monday, 15th September
- Effective Date (*Note 3*) Tuesday, 16th September
- Withdrawal of the listing of the Shares on the Stock Exchange (*Note 3*) 9:30 a.m. on Wednesday, 17th September
- Press announcement on the Effective Date and withdrawal of listing of the Shares in the South China Morning Post and the Hong Kong Economic Times and on the GEM website Wednesday, 17th September
- Cheques for payment under the Scheme to be despatched on or before Friday, 26th September

EXPECTED TIMETABLE

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. Forms of proxy should be lodged with the principal place of business of SIIC MedTech in Hong Kong, by hand or by post, at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, or in the case of the pink form of proxy in respect of the Court Meeting only by facsimile at number (852) 2520 0128 (marked for the attention of The Company Secretary) as soon as possible and in any event no later than the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for the Extraordinary General Meeting must be lodged not later than the time and date stated above. Completion and return of a form of proxy for the Court Meeting or the Extraordinary General Meeting will not preclude a Shareholder from attending the relevant Meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
2. All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected dates for the Grand Court hearing of SIIC MedTech's application to dispense with settling of a list of creditors and the Grand Court hearing of the petition to sanction the Scheme and the petition to confirm the Reduction of Capital, which are references to the relevant dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.
3. The Scheme will become effective when it is sanctioned (with or without modification) by the Grand Court and a copy of the Grand Court order is delivered to the Registrar of Companies in the Cayman Islands for registration and is registered. Registration is expected to take place in the morning on Tuesday, 16th September 2003 (Cayman Islands time) (which will be the evening on Tuesday, 16th September 2003 (Hong Kong time)). However, in the event that not all of the Conditions have been fulfilled (or, as applicable, waived) by Wednesday, 10th September 2003, being the proposed date of the Grand Court hearing of the petition to sanction the Scheme and the petition to confirm the Reduction of Capital, the timetable of events thereafter will be subject to change. Independent Shareholders should note the Conditions set out in the Explanatory Statement on pages 38 to 39 of this document. If the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn on Wednesday, 17th September 2003.



上海實業醫藥科技(集團)有限公司*

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

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

Independent Non-executive Directors:

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

Registered Office:

P.O. Box 309GT, Uglan House
South Church Street, George Town
Grand Cayman, Cayman Islands

*Principal Place of Business
in Hong Kong:*

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

18th July 2003

To the Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
BY SHANGHAI INDUSTRIAL HOLDINGS LIMITED**

**BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW**

INTRODUCTION

On 21st May 2003, SIHL, the controlling shareholder of SIIC MedTech, requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of SIIC MedTech by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation and extinguishment of all the Scheme Shares in consideration of the payment of the Cancellation Price of HK\$2.15 per Scheme Share.

Upon the Scheme becoming effective, SIIC MedTech will become a wholly-owned subsidiary of SIHL. SIIC MedTech will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective. SIHL does not have any intention to discontinue any of the businesses of SIIC MedTech and its subsidiaries in the foreseeable future following the implementation of the Proposal.

* For identification purpose only

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Controlling Parties were interested in 408,934,000 Shares, representing approximately 65.91% of the issued share capital of SIIC MedTech. Shares held by the Controlling Parties will not form part of the Scheme Shares and accordingly, will neither be represented or voted at the Court Meeting to approve the Scheme.

In view of the interest of SIHL in the Proposal and the relationship between Mr. Shen Wei Jia, NPL, NEL and SIHL as explained below, all of the 9,288,000 Shares owned by Mr. Shen Wei Jia, NPL and NEL which represented approximately 1.50% of the issued share capital of SIIC MedTech as at the Latest Practicable Date, although forming part of the Scheme Shares, will not be represented or voted at the Court Meeting as Mr. Shen Wei Jia, NPL and NEL are presumed to be acting in concert with SIHL under the Takeovers Code. Mr. Shen Wei Jia, NPL and NEL are deemed parties acting in concert with SIHL because Mr. Shen Wei Jia is a director of SIIC MedTech, a subsidiary of SIHL, and because NPL and NEL are fellow subsidiaries of SIHL.

The Board comprises eleven Directors, eight of whom are executive Directors and the remaining three are independent non-executive Directors. Mr. Lu Ming Fang, Mr. Li, Mr. Zhou Jie and Mr. Ge are directors of SIHL and of SIIC MedTech. Mr. Feng Gen Sheng, Mr. Chen Shu Zi and Mr. Wu Jian Zhuang are interested in the share options of SIIC MedTech. Mr. Shen Wei Jia is interested in the Shares. Mr. Lee Ka Sze, Carmelo is a partner of Woo, Kwan, Lee & Lo, which is the legal adviser to SIIC MedTech in connection with the Proposal. Hence, all of the executive Directors and Mr. Lee Ka Sze, Carmelo are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposal. Accordingly, an Independent Board Committee comprising Mr. Kwok Chin Kung, Robert and Mr. Li Ka Cheung, Eric, who are independent non-executive Directors, has been established by the Board to advise the Independent Shareholders in connection with the Proposal.

ING has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with further information regarding the Proposal and to give you notices of the Court Meeting and the Extraordinary General Meeting. Your attention is also drawn to the letter from the Independent Board Committee, the letter from ING to the Independent Board Committee, the Explanatory Statement and the Scheme.

SUMMARY OF THE PROPOSAL

It is proposed that, subject to the Conditions being fulfilled or waived (as applicable), the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of all the Scheme Shares and a reduction of the authorised and issued share capital of SIIC MedTech under Section 16 of the Companies Law. The Scheme also provides that, in consideration of such cancellation and extinguishment, the Scheme Shareholders will be entitled to receive the Cancellation Price of HK\$2.15 in cash from SIHL for each Scheme Share held.

Payment of the Cancellation Price will be effected by cheques and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which SIIC MedTech may otherwise be, or claim to be, entitled against any holder of the Scheme Shares.

LETTER FROM THE BOARD

On the basis of the Cancellation Price of HK\$2.15 per Scheme Share and a total of 620,400,000 Shares in issue as at the Latest Practicable Date, the Proposal values the entire issued share capital of SIIC MedTech at approximately HK\$1,333.9 million.

The maximum number of Scheme Shares and amount of cash required for the Proposal is up to 240,766,000 Shares (representing approximately 38.81% of the issued share capital of SIIC MedTech as at the Latest Practicable Date and approximately 37.06% of the enlarged issued share capital of SIIC MedTech) and approximately HK\$517.65 million respectively, assuming all outstanding share options are exercised in full by all holders of share options except for Mr. Li and Mr. Ge. SIHL intends to finance the cash required for the Proposal from its own cash resources. BNP Paribas Peregrine, SIHL's financial adviser, is satisfied that sufficient financial resources are available to SIHL for the implementation of the Proposal.

As at the Latest Practicable Date, there were 37,800,000 outstanding options (37,800,000 new Shares, representing approximately 6.09% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and approximately 5.74% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 37,800,000 outstanding options) granted by SIIC MedTech under the Share Option Scheme, out of which 6,000,000 share options, 6,000,000 share options, 4,000,000 share options, 2,500,000 share options and 2,500,000 share options were granted to Mr. Feng Gen Sheng, Mr. Li, Mr. Chen Shu Zi, Mr. Ge and Mr. Wu Jian Zhuang respectively, who are Directors and are presumed parties acting in concert with SIHL (a total of 21,000,000 new Shares, representing approximately 3.38% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and approximately 3.27% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 21,000,000 outstanding share options).

On 6th May 2002, SIIC MedTech adopted the new share option scheme. As at the Latest Practicable Date, no share options have been granted by SIIC MedTech under the new share option scheme. The outstanding share options granted under the Share Option Scheme shall continue to be subject to the provisions of the Share Option Scheme and the adoption of the new share option scheme will not in any event affect the terms in respect of such outstanding share options.

To the extent that holders of share options under the Share Option Scheme (apart from Mr. Li and Mr. Ge as they have undertaken not to exercise their respective rights under the share options held by each of them prior to the fulfilment of the Conditions, details of which are referred to in the section headed "Effect of the Proposal" in the Explanatory Statement) exercise their share options and become Scheme Shareholders before the Record Time and remain so as at the Record Time, they will be entitled to receive the Cancellation Price under the Scheme. Holders of share options who do not exercise their share options in such manner will be entitled to receive a cash payment from SIHL equivalent to the "see-through" price (that is HK\$0.46 for each share option held, being the difference between the Cancellation Price and the exercise price of the share option) under separate arrangements with SIHL. As at the Latest Practicable Date, all of the holders of share options, including Mr. Feng Gen Sheng, Mr. Chen Shu Zi and Mr. Wu Jian Zhuang, have agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the Share Option Scheme. The holders of share options have also agreed not to exercise their rights under the share options and to receive the "see-through" price offered to them by SIHL.

LETTER FROM THE BOARD

At the Extraordinary General Meeting, a special resolution will be proposed to approve, among other things, the adoption of Article 182 as an addition to the existing articles of association of SIIC MedTech to facilitate the inclusion as Scheme Shares of Shares issued pursuant to the Share Option Scheme after the date of the Court Meeting. The text of such special resolution is set out on pages 107 to 108 of this document.

The cash consideration of HK\$2.15 per Scheme Share represents:

- a premium of approximately 64.12% to the audited consolidated net asset value per Share of approximately HK\$1.31 as at 31st December 2002;
- a premium of approximately 14.97% over the closing price of HK\$1.87 per Share as quoted on the Stock Exchange on 20th May 2003 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 20.79% over the average closing price of approximately HK\$1.78 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 20th May 2003;
- a premium of approximately 24.28% over the average closing price of approximately HK\$1.73 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 20th May 2003;
- a premium of approximately 31.90% over the average closing price of approximately HK\$1.63 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 20th May 2003;
- a premium of approximately 43.33% over the average closing price of approximately HK\$1.50 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 20th May 2003; and
- a premium of approximately 3.61% over the closing price of HK\$2.075 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Proposal will become effective and binding on SIIC MedTech and all Scheme Shareholders provided that all the Conditions are fulfilled or waived (as applicable). Upon the Effective Date, the authorised and issued share capital of SIIC MedTech shall be reduced by cancelling and extinguishing all the Scheme Shares.

The Scheme will lapse if the Conditions are not fulfilled or waived (as applicable) on or before 30th September 2003 (or such later date as agreed between SIHL and SIIC MedTech and as the Grand Court may direct) and Shareholders will be notified accordingly by press announcements and also by an announcement published on the GEM website. Further announcements regarding the Proposal will be made as and when appropriate.

Assuming that the Scheme becomes effective on Tuesday, 16th September 2003, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders on or before Friday, 26th September 2003.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF SIIC MEDTECH

The table below sets out the shareholding structure of SIIC MedTech as at the Latest Practicable Date and immediately following implementation of the Proposal:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Controlling Parties	408,934,000	65.91	408,934,000	100.00
NEL (Note 1) (Note 3)	8,088,000	1.30	—	—
NPL (Note 1) (Note 3)	975,000	0.16	—	—
Shen Wei Jia (Note 1) (Note 4)	<u>225,000</u>	<u>0.04</u>	<u>—</u>	<u>—</u>
Sub-total (Note 2)	418,222,000	67.41	408,934,000	100.00
Independent Shareholders	<u>202,178,000</u>	<u>32.59</u>	<u>—</u>	<u>—</u>
Total	<u>620,400,000</u>	<u>100.00</u>	<u>408,934,000</u>	<u>100.00</u>

Notes:

1. All of the Shares held by NEL, NPL and Mr. Shen Wei Jia will form part of the Scheme Shares.
2. The figure represents the aggregate shareholding of the SIHL Group and parties acting in concert with the SIHL Group under the Takeovers Code.
3. Both NEL and NPL are wholly-owned subsidiaries of SIIC which is the ultimate controlling shareholder of SIHL.
4. An executive director of SIIC MedTech.

Following the Effective Date of the Scheme and the withdrawal of listing of the Shares on the Stock Exchange, SIIC MedTech will become a wholly-owned subsidiary of SIHL.

Save for the options described above, there are no warrants, convertible securities or outstanding derivatives affecting the Shares held by SIHL or parties acting in concert with it. Any Shares issued as a result of the exercise of the options of SIIC MedTech will be treated as Scheme Shares and be subject to the Scheme.

BACKGROUND TO, AND REASONS FOR, THE PROPOSAL

Your attention is drawn to the paragraph headed “Background to, and reasons for, the Proposal” in the Explanatory Statement on page 43 of this document.

INFORMATION ON THE SIIC MEDTECH GROUP AND FUTURE INTENTIONS

Your attention is drawn to the paragraphs headed “Information on the SIIC MedTech Group” and “Future intentions” in the Explanatory Statement on pages 44 to 46 of this document.

MEETINGS AND ACTION TO BE TAKEN BY SHAREHOLDERS

As you will see from the notices of the Meetings on pages 105 to 109 of this document, Court Meeting and Extraordinary General Meeting have been convened to be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong at 10:30 a.m. and 11:00 a.m. respectively on Monday, 11th August 2003.

The Grand Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. In so far as the statutory requirement for the sanction of the Scheme by the Grand Court is concerned, a resolution for the approval of the Scheme will be deemed to have been passed if a majority in number representing three-fourths in value of the Shares held by the Shareholders other than the Controlling Parties present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. Under Rule 2.10 of the Takeovers Code, however, such a resolution will only be considered to have been passed if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 202,178,000 Shares held by the Independent Shareholders as at the date of this document, 10% of such Shares amounted to 20,217,800 Shares.

Immediately following the Court Meeting, the Extraordinary General Meeting will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of the Company). The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the Shareholders present and voting, in person or by proxy, at the Extraordinary General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Extraordinary General Meeting. Each of the Controlling Parties, NEL, NPL and Mr. Shen Wei Jia has indicated that if the Scheme is approved at the Court Meeting, their respective Shares will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve and give effect to the Scheme.

Whether or not you are able to attend the Meetings in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Extraordinary General Meeting in accordance with the instructions respectively printed thereon and to lodge them with the principal place of business of SIIC MedTech in Hong Kong, by hand or by post, at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, or in the case of the pink form of proxy in respect of the Court Meeting only by facsimile at number (852) 2520 0128 (marked for the attention of The Company Secretary) as soon as possible, but in any case not later than the following respective times. In the case of the pink form of proxy for use at the Court Meeting, you are requested to lodge this form of proxy not later than 10:30 a.m. on Saturday, 9th August 2003, but if it is not so lodged, it may be handed to the chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the Extraordinary General Meeting must be lodged not later than 11:00 a.m. on the same day. The completion and return of a form of proxy for any of the Meetings will not preclude you from attending the relevant Meeting and voting in person if you so wish. In the event that you attend a Meeting after having lodged the form of proxy, that form of proxy will be deemed to have been revoked.

LETTER FROM THE BOARD

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the Extraordinary General Meeting, the Register will be closed from Thursday, 7th August 2003 to Monday, 11th August 2003 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of SIIC MedTech in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 6th August 2003.

Assuming that the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be on Tuesday, 16th September 2003. Further press announcements will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the last day for dealing in the Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the paragraphs headed “Share certificates, dealings and listing” and “Registration and payment” in the Explanatory Statement on pages 47 to 48 of this document.

RECOMMENDATION

The Independent Board Committee, having taken into account the terms of the Scheme and the opinion of ING and, in particular, the factors and recommendation set out in the letter from ING to the Independent Board Committee on pages 16 to 36 of this document, considers that the terms of the Proposal and in particular the Cancellation Price, are fair and reasonable in so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve and give effect to the Scheme at the Court Meeting. The Independent Board Committee also recommends that the Shareholders vote in favour of the special resolution to approve and give effect to the Scheme at the Extraordinary General Meeting. The letter from the Independent Board Committee is set out on page 15 of this document.

TAXATION AND INDEPENDENT ADVICE

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation or other implications of the Scheme becoming effective or otherwise.

It is emphasised that none of SIIC MedTech, SIHL or BNP Paribas Peregrine or any of their respective directors or associates or any other person involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

LETTER FROM THE BOARD

FURTHER INFORMATION

A letter from ING to the Independent Board Committee is set forth on pages 16 to 36 of this document and we would advise you to read this letter carefully before you take any action in respect of the Proposal.

You are also urged to read carefully the letter from the Independent Board Committee as well as the Explanatory Statement and all the appendices to this document as set out on page 15, pages 37 to 50, and pages 51 to 99 of this document, the Scheme as set out on pages 100 to 104 of this document and the notices of the Meetings as set out on pages 105 to 109 of this document.

Yours faithfully,
For and on behalf of the Board
Lu Ming Fang
Chairman



上海實業醫藥科技(集團)有限公司*

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

(Incorporated in the Cayman Islands with limited liability)

18th July 2003

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
BY SHANGHAI INDUSTRIAL HOLDINGS LIMITED**

**BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 86 OF THE COMPANIES LAW**

It was announced on 21st May 2003 that on the same day, SIHL had requested the Directors to put forward the Proposal to the Scheme Shareholders to privatise SIIC MedTech by way of the Scheme at the Cancellation Price of HK\$2.15 per Scheme Share. Details of the Proposal are set out in the section headed "Letter from the Board" on pages 7 to 14 of this document of SIIC MedTech dated 18th July 2003 (the "document"), of which this letter forms part. We have been appointed as members of the Independent Board Committee to give a recommendation to the Independent Shareholders as to how they should vote on the Proposal. ING has been appointed as the independent financial adviser to advise us in connection with the Proposal. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the document of which this letter forms part.

Having taken into account the terms of the Scheme and the opinion of ING and, in particular, the factors and recommendation set out in the letter from ING to the Independent Board Committee on pages 16 to 36 of this document, the Independent Board Committee considers that the terms of the Proposal and, in particular the Cancellation Price, are fair and reasonable in so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution to approve and give effect to the Scheme at the Court Meeting. We also recommend that the Shareholders vote in favour of the special resolution to approve and give effect to the Scheme at the Extraordinary General Meeting.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board; (ii) the Explanatory Statement; (iii) the letter from ING to the Independent Board Committee; and (iv) the appendices to the document.

Yours faithfully,

Kwok Chin Kung, Robert

Independent Non-executive Director

Yours faithfully,

Li Ka Cheung, Eric

Independent Non-executive Director

* For identification purpose only



39/F., One International Finance Centre
1 Harbour View Street, Central
Hong Kong

18th July 2003

*To the Independent Board Committee of
SIIC Medical Science and Technology (Group) Limited*

Dear Sirs,

**PROPOSED PRIVATISATION
BY SHANGHAI INDUSTRIAL HOLDINGS LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
INVOLVING THE CANCELLATION OF
ALL THE ISSUED SHARES OF HK\$0.10 EACH IN
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
HELD BY THE SCHEME SHAREHOLDERS**

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee with respect to the proposed privatisation of SIIC Medical Science and Technology (Group) Limited (“SIIC MedTech” or the “Company”) by way of a scheme of arrangement under Section 86 of the Companies Law (the “Scheme”). Details of the Scheme are contained in the document dated 18th July 2003 to the Independent Shareholders of SIIC MedTech (the “Document”) of which this letter forms part. ING Bank N.V. has been retained by the Company as independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Proposal, in particular the Cancellation Price, are fair and reasonable in so far as the Independent Shareholders are concerned.

ING Bank N.V. is independent from and not connected with any of the Company, Shanghai Industrial Holdings Limited (“SIHL”) and their respective associates or parties acting in concert with any of them and is accordingly qualified to give independent advice.

The terms used in this letter shall have the same meanings as defined elsewhere in the Document unless the context otherwise requires.

In formulating our recommendation, we have relied on the Directors to ensure that the information and facts supplied to us by the Company are true, accurate and complete in all material respects. We have also assumed that all information, representations and opinions contained or referred to in the Document are fair and reasonable and accordingly, we have relied on them. We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Document. We are not aware of, nor do we suspect that there are, any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading in any material respect.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Document and, having made all reasonable enquiries, have confirmed that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in the Document misleading. We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Document. We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Document to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information supplied to us, or conducted any in-depth investigation into the business and affairs of the SIIC MedTech Group.

INDEPENDENT BOARD COMMITTEE

In accordance with Rule 2.1 of the Takeovers Code, an Independent Board Committee comprising Mr. Kwok Chin Kung, Robert and Mr. Li Ka Cheung, Eric has been set up to consider and advise the Independent Shareholders on the terms of the Proposal. None of the other Directors are considered to be independent for the purpose of giving a recommendation to the Independent Shareholders as they are either connected with SIHL or are employees of the SIIC MedTech Group or, in the case of Mr. Lee Ka Sze, Carmelo, is a legal adviser to the Company in connection with the Proposal.

TERMS OF THE PROPOSAL

In summary, the Proposal involves the following principal steps:

- i. All the Scheme Shares held by their holders will be cancelled and the authorised share capital of SIIC MedTech will be reduced under Sections 15 and 16 of the Companies Law; and
- ii. In consideration of such cancellation and extinguishment of the Scheme Shares, the Scheme Shareholders (as appearing in the Register at the Record Time) will be entitled to receive the Cancellation Price of HK\$2.15 in cash from SIHL for every Scheme Share held.

Upon implementation of the Proposal, SIIC MedTech will become a wholly-owned subsidiary of SIHL and the listing of SIIC MedTech on the Growth Enterprise Market of the Hong Kong Stock Exchange ("GEM") will be withdrawn.

Further details of the terms and conditions of the Proposal are set out in the Explanatory Statement contained in the Document.

The Proposal is subject to a number of Conditions, including but not limited to:

- i. the approval by Independent Shareholders holding at least 75% in value of the Shares that are voted either in person or by proxy at the Court Meeting;
- ii. not being disapproved by Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Independent Shareholders;

- iii. the passing of a special resolution to approve and give effect to the Scheme by a majority of at least three-fourths of the Shareholders present and voting in person or by proxy at a general meeting of SIIC MedTech; and
- iv. the sanction of the Scheme and the confirmation of the reduction of the share capital of SIIC MedTech by the Grand Court.

EVALUATION OF THE FAIRNESS OF THE CANCELLATION PRICE

1. Background of the Proposal

The Company is a company incorporated in the Cayman Islands with limited liability, whose shares have been listed on the GEM since 2nd December 1999. The SIIC MedTech Group is principally engaged in the production and sale of pharmaceutical products and health food, medical retailing, production and sale of medical equipment and personal care products in the PRC.

On 21st May 2003 (the “Announcement Date”), SIHL, the controlling shareholder of SIIC MedTech, requested the Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of SIIC MedTech by way of a scheme of arrangement under Section 86 of the Companies Law, involving the cancellation and extinguishment of all the Scheme Shares in consideration of the payment of the Cancellation Price of HK\$2.15 in cash per Scheme Share. Further details of the terms and conditions of the Proposal are set out in the Explanatory Statement contained in the Document.

Upon the Scheme becoming effective, SIIC MedTech will become a wholly-owned subsidiary of SIHL. SIIC MedTech will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the GEM immediately following the Scheme becoming effective.

2. Valuation considerations

In evaluating the fairness of the Cancellation Price, we have analysed the Cancellation Price against the factors set out below:

(a) *Financial performance of the SIIC MedTech Group*

SIIC MedTech, incorporated in the Cayman Islands with limited liability, was established by SIHL on 17th September 1999 and its shares have been listed on the GEM since 2nd December 1999. The Shares were listed at a price of HK\$1.63 per Share. As at the Latest Practicable Date, SIIC MedTech had a market capitalisation of approximately HK\$1,287.33 million.

LETTER FROM ING TO THE INDEPENDENT BOARD COMMITTEE

Table 1 below shows the SIIC MedTech Group's summary profit and loss accounts for the three years ended 31st December 2000, 2001 and 2002 and three months ended 31st March 2003, respectively:

Table (1)

Summary profit & loss accounts	Year ended 31st December			Three months ended 31st March	Percentage Change	
	2000	2001	2002	2003	2001/2000	2002/2001
	(HK\$m)			(HK\$m)		
Turnover	533.4	723.9	842.4	325.7	35.7%	16.4%
Cost of sales	(166.9)	(283.9)	(320.1)	(118.1)	70.1%	12.7%
Gross profit	366.5	440.0	522.3	207.6	20.0%	18.7%
Profit from operations	125.5	157.6	231.8	53.3	25.6%	47.1%
Profit for the year/period	72.3	232.7	87.5	21.1	221.8%	(62.4%)

Source: Company's annual reports and unaudited quarterly report

More than 90% of the SIIC MedTech Group's turnover and profit from operations for the year ended 31st December 2002 was derived from the manufacture and sale of Chinese medicine and health supplement products in the PRC. For the years ended 31st December 2000, 2001 and 2002, SIIC MedTech Group's audited consolidated turnover was approximately HK\$533.4 million, HK\$723.9 million and HK\$842.4 million respectively, representing a year-on-year increase of approximately 35.7% and 16.4% respectively. The increases were mainly due to strong growth in sales of healthcare products and steady growth in sales of pharmaceutical products.

The SIIC MedTech Group's profit from operations during the three years ended 31st December 2000, 2001 and 2002 was approximately HK\$125.5 million, HK\$157.6 million and HK\$231.8 million respectively, representing a year-on-year increase of approximately 25.6% and 47.1% respectively. Operating margin decreased from approximately 23.5% in 2000 to approximately 21.8% in 2001 and increased to approximately 27.5% in 2002.

The SIIC MedTech Group's net profit increased by approximately 221.8% to approximately HK\$232.7 million for the year ended 31st December 2001, mainly due to the exceptional gain of approximately HK\$155.7 million on the deemed disposal of an interest in a jointly controlled entity (i.e., from the listing of its associate, Shanghai Jahwa United Co., Ltd., on the Shanghai Stock Exchange A Shares Market in March 2001).

Net profit for the year ended 31st December 2002 declined by 62.4% to approximately HK\$87.5 million, predominantly due to the gain described above and partly due to a diminution in the investment value of Shanghai Pharmaceutical Business Network Co., Ltd. which contributed an exceptional loss of approximately HK\$15.3 million.

We noted from our review of SIIC MedTech Group's audited accounts two principal items which appear to be non-recurring, namely the exceptional gain from the listing of Shanghai Jahwa United Co., Ltd. and the exceptional loss from the diminution in the investment value of Shanghai Pharmaceutical Business Network Co., Ltd. as mentioned above. If these non-recurring items are excluded, net profit grew by approximately 33.5% to approximately HK\$102.8 million for the year ended 31st December 2002 from approximately HK\$77.0 million for the year ended 31st December 2001.

SIIC MedTech Group's unaudited consolidated turnover and profit for the first quarter of 2003 amounted to approximately HK\$325.7 million and HK\$21.1 million respectively, representing an increase of approximately 37.2% and 11.7% respectively over the equivalent period of the prior year.

(A) *Prescription Drugs*

The SIIC MedTech Group's prescription drugs mainly focus on the treatment of cardio-vascular diseases. It also produces analgesic-antipyretic drugs and antiphlogistics. Approximately 59% and 45% of the SIIC MedTech Group's turnover was derived from prescription drugs for the year ended 31st December 2002 and the three months ended 31st March 2003, respectively, according to the SIIC MedTech Group's annual report of 2002 and unaudited first quarterly report of 2003. The highest selling prescription drug in 2002 was "Shen Mai Injection", accounting for approximately 27% or HK\$227.8 million of the SIIC MedTech Group's turnover, and the second highest was "Dan Shen Injection", accounting for approximately 10% or HK\$85.0 million of total turnover. Sales of "Shen Mai Injection" and "Dan Shen Injection" in 2002 were up by 7.5% and 10.3%, respectively over the previous year. Sales of two other key injection products, "Herba Houttuyniae Injection" and "Huang Qi Injection", increased by approximately 40.1% and 21.1%, respectively. For the first quarter of 2003, sales of "Shen Mai Injection", "Dan Shen Injection", "Herba Houttuyniae Injection" and "Huang Qi Injection" rose by approximately 7.4%, 5.9%, 27.7% and 13.1%, respectively over the equivalent period of the prior year.

(B) *Over-the-Counter ("OTC") Drugs and Health Food*

For the year ended 31st December 2002, the SIIC MedTech Group had 56 types of OTC drugs and 3 types of health food. Approximately 41% and 55% of the SIIC MedTech Group's turnover was derived from OTC drugs and health food in the year ended 31st December 2002 and three months ended 31st March 2003, respectively, according to SIIC MedTech Group's annual report of 2002 and unaudited first quarterly report of 2003. The sales of the SIIC MedTech Group's "Qingchunbao Anti-ageing Tablets" increased by approximately 37% to over HK\$328 million in 2002 and approximately 18% to HK\$141 million in the first quarter of 2003 as compared to the equivalent period of the prior year.

Intention of the Directors regarding future of the SIIC MedTech Group

According to the first quarterly report for 2003, the Directors believe the SIIC MedTech Group will maintain a proactive, open and enterprising business approach, leveraging its financial soundness and flexible operational structure to continue its forward momentum. Pharmaceuticals will remain its core business, with other medical-related operations as sidelines. The SIIC MedTech Group will continue to strengthen and expand its asset base through mergers, acquisitions and integration of internal and external resources.

In the third quarter of 2002, the SIIC MedTech Group invested approximately HK\$38.9 million to acquire a 56% stake in Xiamen Traditional Chinese Medicine Co., Ltd. ("Xiamen Chinese Medicine"). Xiamen Chinese Medicine's results have been consolidated into the accounts of the SIIC MedTech Group since September 2002 and

the full year financial results will be reflected for the first time in the accounts for 2003. It is not possible to predict what the impact of this investment will be on SIIC MedTech Group's results in future years.

In April 2003, the SIIC MedTech Group concluded an agreement to acquire a 30% interest in Hangzhou Huqingyutang Pharmaceutical Co., Ltd. ("Huqingyutang Pharmaceutical") for a consideration of approximately HK\$78.7 million. Huqingyutang Pharmaceutical has the exclusive licence to manufacture and sell proprietary Chinese medicines and health foods in Mainland China under the "Huqingyutang" trademark. The company's turnover for the year 2002 was approximately RMB143.9 million (approximately HK\$135.8 million). It is not possible to predict what the impact of this investment will be on SIIC MedTech Group's results in future years.

As stated under the paragraphs headed "Background To, and Reasons For, the Proposal" and "Future Intentions" in the section headed "Explanatory Statement" in the Document, SIHL has confirmed that:

- i. medicine and bio-technology is one of its core businesses for development and it intends to restructure its medical business, and the Proposal represents a principal step for the restructuring exercise;
- ii. it does not have any intention to discontinue any of the businesses of SIIC MedTech and its subsidiaries in the foreseeable future following implementation of the Proposal;
- iii. upon the privatisation of SIIC MedTech, it has no intention to make any significant changes to the existing businesses or make any significant disposals of assets or interests in the subsidiary or associated companies of SIIC MedTech in the foreseeable future, other than in the ordinary course of business; and
- iv. it has no intention to make any significant changes to the employment of staff of SIIC MedTech and its subsidiaries or any significant redeployment of their fixed assets in the foreseeable future.

SIHL intends that the listing of the Shares on the GEM will be withdrawn if the Scheme is implemented; otherwise, SIIC MedTech's listing status will be maintained.

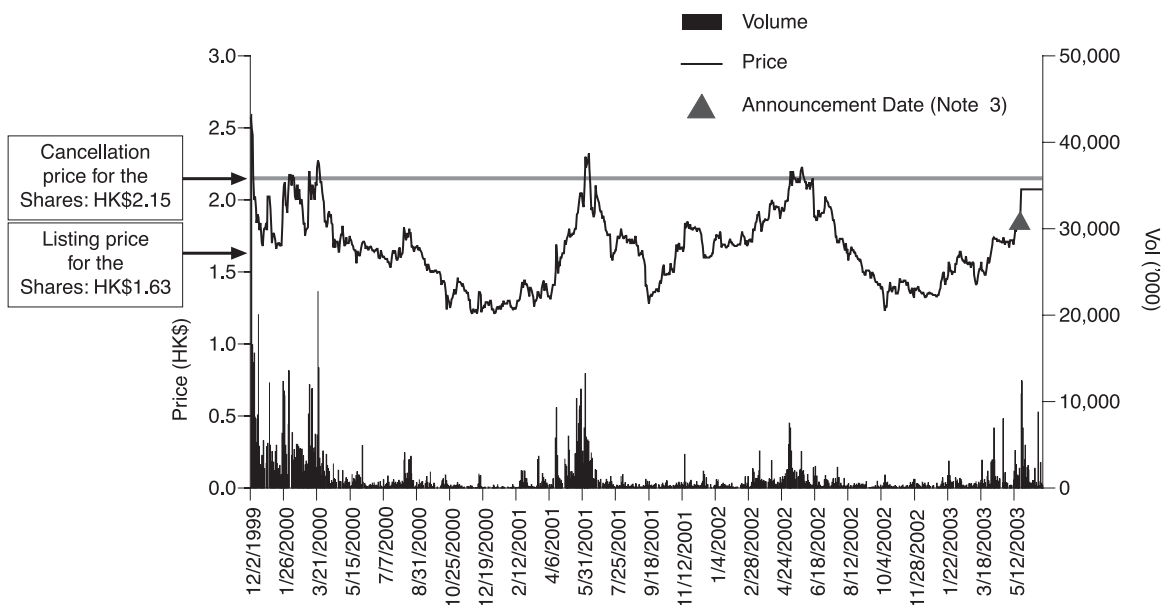
(b) Market trading performance of the Shares

The Company is listed and its Share price should, in principle, reflect the prevailing market assessment of its fair value.

Market price of the Shares

A chart of historical daily closing market prices and trading volume of the Shares for the period starting from 2nd December 1999, being the date of its listing on the GEM, to the Latest Practicable Date is set out below:

**Chart (a)
Share Price Performance**



Source: Thomson Financial Datastream

Notes:

- (1) Daily volume is calculated as the aggregate volume of Shares transacted on that day.
- (2) Daily Share price is, on market days when the Shares are traded, the closing price of the Shares on that day and, on market days when the Shares are not traded, the closing Share price from the last traded day.
- (3) 21st May 2003, being the date of the Announcement.

The above Share price chart shows that the Shares have largely traded at a discount to the Cancellation Price during the period starting on 2nd December 1999 and ending on the Latest Practicable Date. Specifically, out of a total of 888 trading days in that period, the Shares closed at a discount to the Cancellation Price for 855 trading days, at a premium to the Cancellation Price for 24 trading days and at HK\$2.15 for nine trading days.

From the above Share price chart, we set out the following trading statistics for the period from 21st May 2002 to 20th May 2003, being the period from one year prior to the Announcement Date to the last trading day immediately prior to the Announcement Date (the “**Pre-Announcement Period**”), and for the period from 21st May 2003 to the Latest Practicable Date (the “**Post-Announcement Period**”):

**Table (2)
Pre-Announcement Period**

Closing market prices	Price (HK\$)	Premium/ (discount) of the Cancellation Price to market price
Closing price of the Shares prior to the date of the Announcement (20th May 2003)	1.87	14.97%
Lowest price (10th October 2002)	1.230	74.80%
Highest price (27th May 2002 and 28th May 2002)	2.225	(3.37)%
10-day average price prior to the Announcement Date ⁽¹⁾	1.78	20.79%
30-day average price prior to the Announcement Date ⁽¹⁾	1.73	24.28%
60-day average price prior to the Announcement Date ⁽¹⁾	1.63	31.90%
90-day average price prior to the Announcement Date ⁽¹⁾	1.59	35.22%
180-day average price prior to the Announcement Date ⁽¹⁾	1.50	43.33%

Source: Thomson Financial Datastream

Note:

(1) Based on the daily average closing prices of the Shares during the last 10, 30, 60, 90 and 180 trading days prior to the Announcement Date, as the case may be.

Based on the above trading statistics during the Pre-Announcement Period, we note that the Cancellation Price represents a premium of approximately 14.97% to the closing market price of the Shares on the last trading day prior to the Announcement Date, a premium of approximately 74.80% over the lowest closing market price and a discount of approximately 3.37% to the highest closing market price during the Pre-Announcement Period. Overall, the Shares have largely traded at a discount to the Cancellation Price

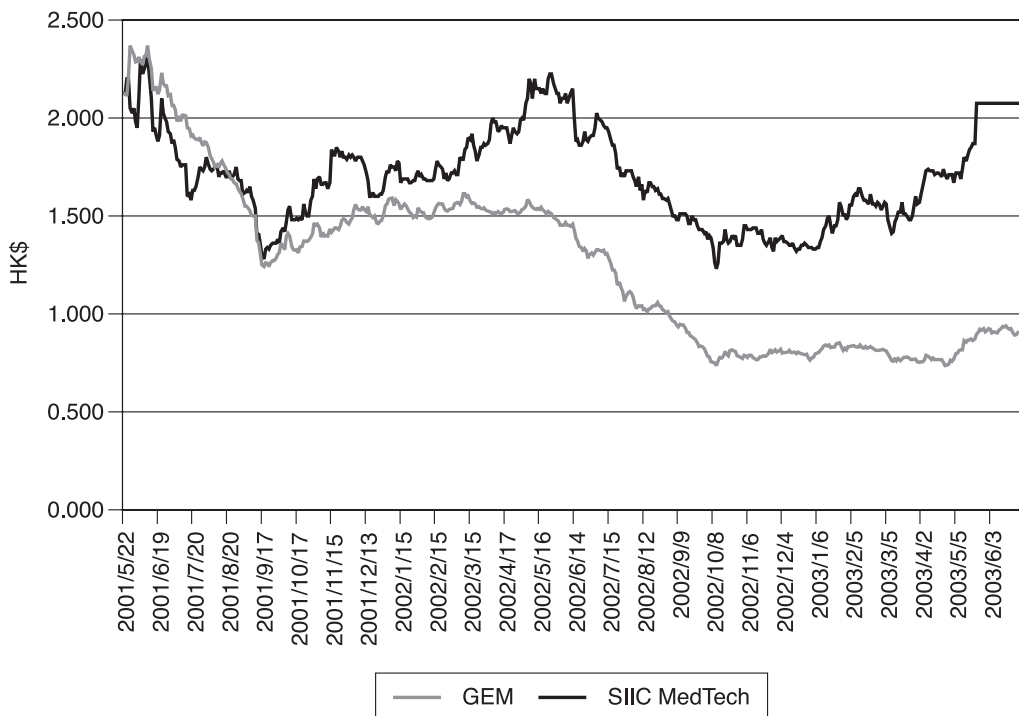
during the Pre-Announcement Period. Specifically, out of 249 trading days in that period, the Shares closed at a discount to the Cancellation Price for 242 trading days, at a premium to the Cancellation Price for four trading days and at HK\$2.15 for three trading days.

After the release of the Announcement and up to the Latest Practicable Date, there was no material fluctuation in the price level of the Shares and the Shares generally traded around HK\$2.075 per Share, representing a discount of approximately 3.48% to the Cancellation Price.

Comparison to the GEM Index

For information purposes, we set out below the relative share price performance of SIIC MedTech against the benchmark GEM Index for the period of two years prior to the Announcement Date. We have compared the GEM Index with the Company's Share price performance, as it is the main indicator of the share performance for listed stocks on the GEM in Hong Kong.

Chart (b)
Relative Share Price Performance of SIIC MedTech against the GEM Index^{(1) (2)}



Source: Thomson Financial Datastream

Notes:

- (1) Based on the S&P GEM Index commencing from 3rd March 2003. Prior to 3rd March 2003 based on the Growth Enterprise Index.
- (2) The Growth Enterprise Index and the S&P GEM Index are rebased by reference to the closing Share price of SIIC MedTech for every trading day commencing 22nd May 2001.

LETTER FROM ING TO THE INDEPENDENT BOARD COMMITTEE

As illustrated in the above graph, the Share price has largely outperformed the movement of the GEM Index since 21st May 2001.

(c) *Liquidity*

We have also considered the average daily trading volume of the Shares since the date of listing on the GEM, 2nd December 1999, to the Announcement Date, as set out below:

Table (3)

Financial year <i>(Year ended 31st December)</i>	Average daily trading volume <i>(million Shares)</i>	Average daily trading volume to issued Shares⁽¹⁾ <i>(%)</i>	Percentage of average daily trading volume to free float Shares⁽²⁾ <i>(%)</i>
Period from 2nd December 1999 to 31st December 1999	14.066	5.09	5.84
2000	1.814	0.29	0.88
2001	1.143	0.18	0.52
2002	0.718	0.12	0.33
Period from 1st January 2003 to the Announcement Date	1.036	0.17	0.51

Source: Thomson Financial Datastream

Notes:

- (1) Based on the weighted average number of Shares outstanding for the year ended 31st December, except for the period ended 31st December 1999 in which case fully diluted number of Shares is used as the Company was listed on 2nd December 1999.
- (2) Based on Shares held by the public, being the Shares in issue less the Shares held by SIHL and parties acting in concert with it, for the financial year ended 31st December.

As illustrated in the table above, except for the first month after listing, the daily average number of Shares traded was consistently below two million and the percentage of the issued Shares traded daily was less than 0.30%. The trading volume both in terms of absolute number of Shares and as a percentage of issued share capital and free float is generally on a declining trend. The aggregate number of Shares owned by the Independent Shareholders as at the Announcement Date represents approximately 195 times the daily average trading volume of the Shares for the period from 1st January 2003 to the Announcement Date.

The Independent Board Committee should note that the low liquidity might make it difficult for the Independent Shareholders to sell a significant number of Shares in the market within a short timeframe without this having a negative impact on the Company's Share price. Therefore, Independent Shareholders who wish to liquidate their investment and believe that due to the size of their shareholding they may be unable to sell the Shares without having a downward impact on the price for the Shares should consider the Proposal as an alternative exit for their investment.

(d) *Indicative valuation benchmarks*

We have reviewed the valuation benchmarks for four pharmaceutical companies (the “Comparables”) listed in Hong Kong, whose businesses largely consist of the production and sale of pharmaceutical products, which we consider to be broadly comparable to the Company. The Comparables have been selected after taking into consideration, among other things, their scope of business, which focuses largely on the production and sale of pharmaceutical products, and their operating environment, which has China as their production base and Chinese consumers as their key target market. We are of the view that these four listed companies are the most comparable to the Company.

We acknowledge that the list of Comparables is by no means an exhaustive list of all the listed pharmaceutical companies in China. We have not included other pharmaceutical companies in Asia or other markets, as they are not considered to be comparable either because their products, target markets or operation bases are significantly different from those of SIIC MedTech.

In drawing conclusions, it should also be noted that the Comparables and the Company may be subject to different accounting policies and standards as well as different local regulations and tax treatments. No adjustments have been made to account for these differences or any non-recurring earnings or losses. In addition, all Comparables have a financial year ending 31st December, except for Far East Pharmaceutical which has its financial year ending on 30th June. For this company, we have used announced unaudited interim six-month figures for the equivalent periods for the calculation of the relevant figures for the year ended 31st December 2002 or as at 31st December 2002 in our comparison.

One of the most commonly used valuation benchmarks for valuing companies is the price earnings ratio (“PER”). As shown in the table below, the PER of the Company, based on the Cancellation Price of approximately 15.2 times, represents a premium over the average PER of the Comparables of approximately 12.9 times.

We have also considered the ratio of enterprise value (calculated as market capitalisation plus net debt) divided by sales (“EV/Sales”). The EV/Sales ratio of the Company based on the Cancellation Price of approximately 1.1 times represents a discount to the average EV/Sales ratio of the Comparables of approximately 1.8 times as illustrated in the comparison table set out below.

Taking into consideration the nature of the business operations and the differences in revenue composition of SIIC MedTech and the Comparables, we believe PER represents a more relevant valuation benchmark.

Table (4)

Comparables	Listing	PER⁽¹⁾	EV/Sales⁽²⁾
Tong Ren Tang ⁽³⁾	GEM	16.5	3.3
China Pharmaceutical	Main Board ⁽⁵⁾	17.6	2.7
Guangzhou Pharmaceutical ⁽⁴⁾	Main Board ⁽⁵⁾	10.1	0.2
Far East Pharmaceutical	Main Board ⁽⁵⁾	7.4	0.9
Average		12.9	1.8
The Company	GEM	15.2	1.1

Notes:

- (1) PER for the Comparables is calculated as the share price as at the Announcement Date divided by earnings per share for the year ended 31st December 2002, except for Far East Pharmaceutical, in which case earnings per share is calculated based on unaudited interim figures for the equivalent period.
- (2) EV/Sales for the Comparables is calculated as enterprise value as at the Announcement Date divided by sales for the year ended 31st December 2002, except for Far East Pharmaceutical, in which case sales is calculated based on unaudited interim figures for the equivalent period.
- (3) Market capitalisation is calculated as share price as at the Announcement Date multiplied by the total number of issued shares, including both H shares and the PRC state-owned shares, regardless of the fact that the PRC state-owned shares are not tradeable.
- (4) Market capitalisation is calculated as share price as at the Announcement Date multiplied by the total number of issued shares, including the H shares, A shares and the PRC state-owned shares, regardless of the fact that A shares have a different trading price and the PRC state-owned shares are not tradeable.
- (5) The Main Board of the Stock Exchange.
- (6) The full names of the Comparables are Tong Ren Tang Technologies Co. Ltd., China Pharmaceutical Group Limited (previously known as "China Pharmaceutical Enterprise and Investment Corporation Limited"), Guangzhou Pharmaceutical Company Limited and Far East Pharmaceutical Technology Company Limited, respectively.

The underlying data for deriving the valuation parameters in the above table are set out below. There may be some rounding differences when multiplying the figures set out below to derive the numbers in the table above:

Table (5)

Comparables	Share price⁽¹⁾ <i>(HK\$)</i>	Market capitalisation <i>(HK\$ m)</i>	Net debt/ (cash)⁽²⁾ <i>(HK\$ m)</i>	EV <i>(HK\$ m)</i>	Sales⁽³⁾ <i>(HK\$ m)</i>	EPS⁽⁴⁾ <i>(HK\$)</i>	Book value per share⁽⁵⁾ <i>(HK\$)</i>
Tong Ren Tang ⁽⁶⁾	12.50	2,285	(214)	2,071	625	0.76	2.83
China Pharmaceutical	2.675	4,018	303	4,322	1,625	0.16	1.28
Guangzhou Pharmaceutical ⁽⁷⁾	1.86	1,508	(353)	1,155	5,601	0.19	2.66
Far East Pharmaceutical	2.45	1,247	(448)	799	892	0.32	1.45
The Company	2.15	1,334	(441)	893	842	0.14	1.31

Sources: Thomson Financial Datastream, annual reports

Notes:

- (1) All share prices are as at the Announcement Date except in the case of the Company, for which the Cancellation Price for the Scheme Shares is used.
- (2) Net debt/(cash) as at 31st December 2002.
- (3) Sales for the Comparables and the Company are based on the audited results for the year ended 31st December 2002, except for Far East Pharmaceutical, in which case unaudited interim figures for the equivalent period are used.
- (4) EPS denotes earnings per share. EPS for the Comparables and the Company are based on the audited results for the year ended 31st December 2002, except for Far East Pharmaceutical, in which case EPS based on unaudited interim figures for the equivalent period is used.
- (5) Book value per share for the Comparables and the Company is based on the audited consolidated equity book value as at 31st December 2002, except for Far East Pharmaceutical, in which case unaudited equity book value as at 31st December 2002 is used.
- (6) Market capitalisation is calculated as share price as at the Announcement Date multiplied by the total number of issued shares, including both H shares and the PRC state-owned shares, regardless of the fact that the PRC state-owned shares are not tradeable.
- (7) Market capitalisation is calculated as share price as at the Announcement Date multiplied by the total number of issued shares, including the H shares, A shares and the PRC state-owned shares, regardless of the fact that A shares have a different trading price and the PRC state-owned shares are not tradeable.

The Independent Board Committee should note that each of the companies selected for the Comparables may differ from SIIC MedTech in a number of respects, including but not limited to product range and product type, management structure and background, brand name recognition and research and development capabilities. The Directors have stated that, in their view, none of the Comparables is directly comparable to SIIC MedTech.

(e) Comparison to past privatisation transactions

The Cancellation Price represents a premium of approximately 14.97% to the closing market price of the Shares on the last trading day prior to the Announcement Date and premia ranging between approximately 20.79% and 43.33% to the 10, 30, 60, 90 and 180 trading day average price prior to the Announcement. The price of the Shares has increased following the Announcement. As at the Latest Practicable Date, the closing price of the Shares is HK\$2.075, representing an increase of approximately 11.0% over the Share price as at 20th May 2003, being the last day prior to the Announcement.

In assessing whether the level of premium is fair and reasonable, we have reviewed both successfully completed and rejected privatisation proposals which have been announced since 1st May 2001 in Hong Kong ("Past Transactions"). We set out below key statistics of the premia represented by the cash consideration offered for these Past Transactions. The Independent Board Committee should note that, in the case of Evergo China Holdings Limited, shareholders were given the choice to elect for cash or new Chinese Estates Holdings Limited shares. We have made our comparison based on the cash consideration.

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Table (6) Past Transaction Premia

Company	Date of privatisation proposal	Principal activities	Offer price <i>(HK\$)</i>	Last trading day prior to announcement <i>(%)</i>	10 trading days prior to announcement <i>(%)</i>	30 trading days prior to announcement <i>(%)</i>	60 trading days prior to announcement <i>(%)</i>	90 trading days prior to announcement <i>(%)</i>	180 trading days prior to announcement <i>(%)</i>
eSun Holdings Limited	19th February 2003	Develops and invests in media, entertainment, internet and technology businesses	0.28	27.27	27.27	28.46	28.53	12.32	(8.77)
Realty Development Corp Ltd	17th December 2002	Develops and invests in properties	3.20	28.00	28.00	38.28	52.60	56.42	52.35
Winton Holdings Bermuda Ltd	3rd December 2002	Provides finance to purchasers of licensed public vehicles	0.65	44.44	42.39	41.36	47.11	47.06	31.38
Henderson Investment Limited	5th November 2002	Develops and invests in properties, infrastructure, department stores, hotel, security guard services and IT businesses	7.60	27.73	27.84	26.04	24.27	22.34	18.85
Ryoden Development Limited	10th September 2002	Property investment and development in Hong Kong and the PRC	0.80	53.85	60.97	69.85	65.40	64.10	80.68
Grand Hotel Holdings Limited (a share offer)	28th August 2002	Management and ownership of hotels and serviced apartments	1.84	116.47	116.47	117.49	108.07	107.26	116.38
Lam Soon Food Industries Limited	4th April 2002	Manufacturing and trading of food products	2.90	31.82	30.93	31.52	33.05	38.04	50.64
IMC Holdings Limited	5th February 2002	Ship-owning, operation and trading of vessels, ship management, crew agency and investment in shipyards	1.60	5.96	9.29	21.64	26.10	30.38	34.53
Evergo China Holdings Limited	7th August 2001	Property investment in Hong Kong and the PRC	0.18	55.17	67.91	65.29	59.25	70.20	80.99
Average				43.4	45.7	48.9	49.4	49.8	50.8
Average excluding the Past Unsuccessful Proposals (as defined below)				48.0	50.9	55.1	55.9	59.1	63.9

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Company	Date of privatisation proposal	Principal activities	Offer price (HK\$)	Last trading day prior to announcement (%)	10 trading days prior to announcement (%)	30 trading days prior to announcement (%)	60 trading days prior to announcement (%)	90 trading days prior to announcement (%)	180 trading days prior to announcement (%)
Average excluding the Past Unsuccessful Proposals and the Property Sector Privatisation Precedents (as defined below)				27.4	27.5	31.5	35.4	38.5	38.9
Proposal:				2.15	15.0	20.8	24.3	31.9	43.3

Source: Thomson Financial Datastream, Bloomberg and shareholders' circulars

We note that the average premium of the offer price over (1) the closing market price prior to announcement, (2) 10 trading days, (3) 30 trading days, (4) 60 trading days, (5) 90 trading days and (6) 180 trading days average price prior to announcement for the Past Transactions is approximately 43.4%, 45.7%, 48.9%, 49.4%, 49.8% and 50.8%, respectively. The Cancellation Price represents a premium of approximately 14.97% over the closing market price of the Shares prior to the Announcement Date, and 20.79%, 24.28%, 31.90%, 35.22% and 43.33% premium over the 10 trading day, 30 trading day, 60 trading day, 90 trading day and 180 trading day average price prior to the Announcement. Compared with the Past Transactions, the implied premium of the Cancellation Price over the Shares' market trading price for the corresponding period in all six cases represents a discount to past precedents.

We also noted that out of nine Past Transactions, two (namely, Henderson Investment Limited and eSun Holdings Limited) were unsuccessful privatisation proposals ("Past Unsuccessful Proposals"). The average premium excluding the Past Unsuccessful Proposals in all six cases is higher than the average premium for the Past Transactions.

However, out of a total of nine Past Transactions, four past precedents (namely, Realty Development Corp Ltd., Ryoden Development Limited, Grand Hotel Holdings Limited and Evergo China Holdings Limited, together referred to as the "Property Sector Privatisation Precedents") relate to privatisation transactions for companies engaged in property investment and development businesses, where the premium over, or discount to, net tangible asset value ("NTAV") may be considered a more relevant benchmark. Therefore, in these instances, the usefulness of comparing the premium over the average share trading price over a certain period prior to announcement for the Past Transactions with the terms of the Proposal may be limited.

If the Property Sector Privatisation Precedents and the Past Unsuccessful Proposals are excluded in the calculation, the average premium of the offer price over (1) the closing market price prior to announcement, (2) 10 trading days, (3) 30 trading days, (4) 60 trading days, (5) 90 trading days and (6) 180 trading days average price prior to announcement is approximately 27.4%, 27.5%, 31.5%, 35.4%, 38.5% and 38.9%, respectively. Compared with the Past Transactions, in three out of six cases of these measures the implied premium of the Cancellation Price over the Shares' market trading price for the corresponding period is broadly in line with past precedents, while in the remaining three cases, the implied premium of the Cancellation Price is lower.

The Independent Board Committee should note that the Past Transactions are provided to serve for informational purposes only. Any valuation inference drawn from such comparison may not necessarily reflect the perceived or implied market valuation

for the Company. We would also like to highlight that the Past Transactions included in this assessment were transactions undertaken under market conditions and in circumstances that may not reflect the market conditions and circumstances in effect on the Announcement Date.

The Independent Board Committee should also note that in using the market prices of the Shares and the shares of other companies in our evaluation of the Cancellation Price against Comparables and Past Transactions, such market prices can be affected by, inter alia, the level of free float, liquidity of the stocks, depth of research coverage of the companies, proportion of retail investors' interest in the companies, the general market sentiment at a given point in time and in the case of the Past Transactions whether the transactions were in any way publicised in advance of their announcements.

(f) *Net Asset Value*

The consolidated net asset value ("NAV") of the SIIC MedTech Group, based on its audited consolidated balance sheet as at 31st December 2002, amounted to approximately HK\$810.2 million or HK\$1.31 per Share. The Cancellation Price represents a premium of approximately 64.1% to the NAV per Share as at 31st December 2002.

As stated on page 89 in Appendix I to the Document, as at 31st December 2002, the consolidated net tangible assets value ("NTAV") of the SIIC MedTech Group amounted to approximately HK\$762.1 million, or approximately HK\$1.23 per Share. The Cancellation Price represents a premium of approximately 74.8% to the NTAV per Share.

A statement of the unaudited adjusted net tangible assets of the SIIC MedTech Group is set out on page 89 in Appendix I to the Document. The unaudited adjusted net tangible assets are based on the audited NTAV as at 31st December 2002 and adjusted to take into account, among others, the final dividend paid out and the unaudited consolidated net profit for the three months ended 31st March 2003. The Cancellation Price represents a premium of approximately 76.2% to the unaudited adjusted NTAV of HK\$1.22 per Share.

We have also reviewed the Past Transactions listed in the section headed “Comparison to past privatisation transactions” above and set out below statistics of the discounts to NAV represented by the cash consideration offered for these Past Transactions:

**Table (7)
Past Transaction Discounts to NAV**

Past transactions	Offer price (HK\$)	Premium/ (discount) of offer price to NTAV per share (%)	Premium/ (discount) of offer price to Adjusted NTAV per share (%)
Realty Development Corp Ltd ⁽¹⁾	3.20	(25.9)	(18.8)
Winton Holdings Bermuda Ltd ⁽²⁾	0.65	(62.9)	(15.6)
Ryoden Development Ltd ⁽³⁾	0.80	N/A	(29.0)
Grand Hotel Holdings Limited ⁽⁴⁾ (a share offer)	1.84	(25.2)	0
Lam Soon Food Industries Limited ⁽⁵⁾	2.90	(51.8)	(52.5)
IMC Holdings Limited ⁽⁶⁾	1.60	(60.6)	(40.7)
Evergo China Holdings Limited ⁽⁷⁾	0.18	(79.6)	(78.1)
Average		(51.2)	(33.5)
Average excluding the Property Sector Privatisation Precedents		(58.4)	(36.3)
Proposal	2.15	74.8	76.2

Source: respective shareholders' circulars

Notes:

- (1) Based on discounts to the book NAV and adjusted NAV per share as at 31st December 2002 as contained in the Realty Development Corporation Limited shareholder circular dated 24th January 2003.
- (2) Based on discounts to audited consolidated NTAV per share and Adjusted Consolidated NTAV per share as at 31st December 2001 as contained in the Winton Holdings (Bermuda) Limited shareholder circular dated 13th January 2003.
- (3) Based on discount to the pro forma adjusted NTAV per share as at 30th June 2002 as contained in the Ryoden Development Limited shareholder circular dated 30th September 2002.
- (4) Calculated based on the audited consolidated NAV and adjusted NAV per share as at 30th June 2002 as contained in the Grand Hotel Holdings Limited shareholder circular dated 15th October 2002.

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- (5) Based on discounts to audited consolidated NTAV per share and proforma NTAV per share as at 31st December 2001 and 31st March 2002, respectively, as contained in the Lam Soon Food Industries Limited shareholder circular dated 6th May 2002.
- (6) Based on discounts to the restated audited consolidated NTAV and unaudited Adjusted Consolidated NTAV per share as at 31st December 2000 and 21st March 2002, respectively, as contained in the IMC Holdings Limited shareholder circular dated 26th March 2002.
- (7) Based on discount to the audited consolidated NAV per share as at 31st December 2000 and discount to the adjusted consolidated NAV per share as at 31st July 2001 as contained in the Evergo China Holdings Limited shareholder circular dated 4th October 2001.
- (8) N/A denotes not available.

We noted that the average discount of the offer price to the NTAV per share and the adjusted NTAV per share for the Past Transactions is approximately 51.2% and 33.5%, respectively. The average discount of the offer price to the NTAV per share and the adjusted NTAV per share is approximately 58.4% and 36.3%, respectively when the Property Sector Privatisation Precedents are excluded. In comparison, the Cancellation Price represents a premium of approximately 74.8% to the NTAV per Share and 76.2% to the adjusted NTAV per Share as at 31st December 2002.

The NAV of the SIIC MedTech Group includes its investment in Shanghai Jahwa United Co., Ltd. (“Shanghai Jahwa”), a company listed on the Shanghai Stock Exchange A Shares Market with a 28.15% interest attributable to the SIIC MedTech Group. The book value of this investment as at 31st December 2002 is HK\$296.7 million. The market value of the 28.15% investment of the SIIC MedTech Group as at the Announcement Date, as measured by the closing share price of the A shares on the Announcement Date, is approximately HK\$874.0 million.

On the assumption that the shares in Shanghai Jahwa held by the SIIC MedTech Group are publicly tradeable, the NAV of the SIIC MedTech Group could be restated as follows using the market value of the shares as at the Announcement Date:

	<i>HK\$ million (except for per Share data)</i>
NTAV as at 31st December 2002:	762.1
Less: book value of the investment	(296.7)
Add: market value of the investment as at the Announcement Date ⁽¹⁾	874.0
Theoretical adjusted NAV	1,339.4
Theoretical adjusted NAV per Share	2.16

Note:

- (1) Based on closing price of RMB12.19 per share on the Shanghai Stock Exchange A Shares Market on the Announcement Date, 76 million shares in Shanghai Jahwa held by SIIC MedTech and an exchange rate of RMB1.06 to HK\$1.00.

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The Cancellation Price represents a small discount of approximately 0.5% to the theoretical adjusted NAV per Share.

The Independent Board Committee should note that the above is a theoretical calculation and we include it here for information purposes. The shares held by the SIIC MedTech Group in Shanghai Jahwa are classified as foreign-owned legal person shares, and as such, under the prevailing PRC rules and regulations, are not publicly tradeable on the Shanghai Stock Exchange. Under the current PRC law and for the foreseeable future, the shares held by the SIIC MedTech Group in Shanghai Jahwa, if sold or transferred or otherwise disposed of, whether for consideration or through restructuring, will remain as non-publicly tradeable legal person shares. We are not able to estimate a price at which the shares in Shanghai Jahwa could be sold.

(g) Dividend

The following sets out the earnings per Share, dividend per Share, dividend payout ratio and the dividend yield of the Company for the four financial years ended 31st December 2002:

Table (8)

For the year ended 31st December	1999	2000	2001	2002
Earnings per Share (<i>HK cents</i>)	8.8	11.7	37.5	14.1
Dividend per Share (<i>HK cents</i>)	—	3	3	4
Special dividend per Share (<i>HK cents</i>)	—	—	1.5	—
Total dividend per Share (<i>HK cents</i>)	—	3	4.5	4
Dividend payout ratio ⁽¹⁾	—	25.6%	12.0%	28.4%
Dividend yield ⁽²⁾		1.48%	2.31%	2.45%
Main Board dividend yield ⁽³⁾	2.2%	2.0%	2.9%	3.4%
GEM dividend yield ⁽³⁾	0%	0.1%	0.7%	0.8%

Source: Company's annual report and ING Financial Markets

Notes:

- (1) Total dividend per Share for the year divided by earnings per Share.
- (2) Dividend per Share divided by average daily closing Share price of the applicable financial year.
- (3) Based on research of ING Financial Markets.

The dividend per Share has been fairly constant for the last three financial years. The dividend payout ratio has fluctuated in line with earnings per Share, principally as a result of the profit from non-recurring items in 2001. The dividend yield calculated using the annual average daily closing price of the Shares remained between 1.48% and 2.45% for the last three financial years. It shows an overall trend of increase, though this is partly a reflection of the falling Share price. The Independent Board Committee should note that the dividend yield, though higher than the yield on the GEM, has been lower than the yield on the Main Board. The implication of this is, should the trend of the dividend yield continue in the future, Independent Shareholders may obtain a higher dividend yield from investing in a basket of stocks which represents the composition of the Main Board compared to investing in SIIC MedTech.

A final dividend of HK\$0.04 per Share was paid by SIIC MedTech on 22nd May 2003. Scheme Shareholders are entitled to keep the final dividend paid on 22nd May 2003. No dividend has been declared by the Company in respect of the three months ended 31st March 2003. The dividend yield based on the Cancellation Price and the dividend for the year ended 31st December 2002 is 1.86%.

The Independent Board Committee should note that SIIC MedTech and SIIC MedTech Group's net cash balances amounted to approximately HK\$28.2 million and HK\$440.6 million, respectively, as at 31st December 2002. These cash balances could potentially be used to pay further dividends, although SIIC MedTech will need to retain certain levels of cash to fund the operations of the business and possible future acquisitions. The Independent Board Committee should also note that despite the cash balance, there is no guarantee the Company will utilise the cash for payment of future dividends.

(h) *Prospect of an alternative offer*

As at the Announcement Date, the Company is approximately 65.9% owned by SIHL. SIHL has confirmed that it does not intend to dispose of, or procure any of its concert parties to dispose of, any of their beneficial interests in SIIC MedTech, nor does it intend to discontinue any of the SIIC MedTech Group's businesses following the implementation of the Proposal. As a result, the Independent Shareholders should note that, without the support of SIHL, it is unlikely that there will be a third party offer or proposal for the Scheme Shares.

Accordingly, should the Proposal be withdrawn or lapse, it is unlikely that there will be an alternative offer or proposal of a similar nature from a third party and the Shares may return to levels close to their historical trading price range and trading volume.

RECOMMENDATION

Having considered the matters discussed in our letter, we draw your attention to the following key factors which we have considered, which should be read in conjunction with and interpreted in the full context of this letter, in arriving at our recommendation:

1. The Shares have largely traded below the Cancellation Price since the date of listing on the GEM and up to and including both the Announcement Date and the Latest Practicable Date;
2. The Cancellation Price for the Shares represents a premium of approximately 14.97%, 20.79%, 24.28%, 31.90%, 35.22% and 43.33%, respectively to the closing price of the Shares on the trading day immediately prior to the Announcement and to the average closing price of the Shares for the 10 trading days, 30 trading days, 60 trading days, 90 trading days and 180 trading days prior to the Announcement;
3. The trading volume of the Shares is relatively low both in terms of absolute number of Shares traded and as a percentage of issued capital and the free float and is generally on a declining trend. The aggregate number of Shares owned by the Independent Shareholders as at the Announcement Date represents approximately 195 times the daily average trading volume of the Shares for the period from 1st January 2003 to the Announcement Date;

4. Based on the audited financial statements for the year ended 31st December 2002, the Cancellation Price represents a PER of approximately 15.2 times and an EV/Sales ratio of approximately 1.1 times, which is at a premium over the average PER and a discount to the average EV/Sales ratio of the Comparables, respectively. Taking into consideration the nature of the business operations and the differences in revenue composition of SIIC MedTech and the Comparables, we believe PER represents a more relevant valuation benchmark;
5. The Cancellation Price premium over the market price of the Shares prior to the Announcement is broadly in line with the average premium paid in recent privatisation precedents in three of six measures when the Property Sector Privatisation Precedents and the Past Unsuccessful Proposals are excluded;
6. The Cancellation Price represents a premium of approximately 64.1% to the NAV per share as at 31st December 2002, a premium of approximately 74.8% over the NTAV per Share of approximately HK\$1.23 and a premium of approximately 76.2% over the Adjusted NTAV per Share of HK\$1.22. As a comparison, the average discount of the offer price to the NTAV per share and adjusted NTAV per share for the Past Transactions is approximately 58.4% and 36.3%, respectively when the Property Sector Privatisation Precedents are excluded;

Assuming the shares in Shanghai Jahwa held by the SIIC MedTech Group are publicly tradeable on the Shanghai Stock Exchange A Shares Market and if the interest in Shanghai Jahwa is revalued to the closing price of the A shares as at the Announcement Date, the Cancellation Price represents a small discount of approximately 0.5% to the theoretical adjusted NAV per Share of HK\$2.16. We note that the theoretical adjusted NAV per Share is a theoretical calculation and is included for information purposes;

7. The dividend yield historically remained between approximately 1.48% and 2.45%. The dividend yield based on the Cancellation Price and the dividend for the year ended 31st December 2002 is approximately 1.86%. Should the trend of the dividend yield continue in the future, Independent Shareholders may obtain a higher dividend yield from investing in a basket of stocks which represents the composition of the Main Board compared to investing in SIIC MedTech; and
8. Without the support of SIHL, it is unlikely that there will be a third party offer or proposal for the Scheme Shares. SIHL has confirmed that it does not intend to dispose of its stake in SIIC MedTech.

Having considered the above, and as of the date of this letter, we consider the terms of the Proposal, and in particular the Cancellation Price, are fair and reasonable in so far as the Independent Shareholders of the Company are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions, which will be proposed at the Court Meeting and the Extraordinary General Meeting to approve and implement the Scheme.

Yours faithfully,
For and on behalf of
ING Bank N.V.
David G. Eastlake
Managing Director

EXPLANATORY STATEMENT

SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES AND THE PAYMENT OF THE CANCELLATION PRICE

INTRODUCTION

It was announced on 21st May 2003 that on the same day, SIHL had requested the Directors to put forward the Proposal to the Scheme Shareholders for consideration.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and to give the Scheme Shareholders other relevant information as set out in this document.

The particular attention of Shareholders is drawn to the following sections of this document: (a) a letter from the Board is set out on pages 7 to 14 of this document; (b) a letter from the Independent Board Committee in connection with the Proposal is set out on page 15 of this document; (c) a letter from ING to the Independent Board Committee setting out its advice to the Independent Board Committee in connection with the Proposal is set out on pages 16 to 36 of this document; and (d) the terms of the Scheme are set out on pages 100 to 104 of this document.

SUMMARY OF THE PROPOSAL

It is proposed that, subject to the Conditions being fulfilled or waived (as applicable), the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of the Scheme Shares and a reduction of the authorised and issued share capital of SIIC MedTech under Section 16 of the Companies Law. The Scheme also provides that, in consideration of such cancellation and extinguishment, the Scheme Shareholders will be entitled to receive the Cancellation Price of HK\$2.15 in cash from SIHL for each Scheme Share held.

As at the Latest Practicable Date, there were 37,800,000 outstanding options (37,800,000 new Shares, representing approximately 6.09% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and 5.74% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 37,800,000 outstanding options) granted by SIIC MedTech. Save for the options, there are no warrants, convertible securities or outstanding derivatives affecting the Shares held by SIHL or parties acting in concert with it. Any Shares issued as a result of the exercise of the options of SIIC MedTech will be treated as Scheme Shares and be subject to the Scheme.

On 6th May 2002, SIIC MedTech adopted the new share option scheme. As at the Latest Practicable Date, no share options have been granted by SIIC MedTech under the new share option scheme. The outstanding share options granted under the Share Option Scheme shall continue to be subject to the provisions of the Share Option Scheme and the adoption of the new share option scheme will not in any event affect the terms in respect of such outstanding share options.

To the extent that holders of share options under the Share Option Scheme (apart from Mr. Li and Mr. Ge as they have undertaken not to exercise their respective rights under the share options held by each of them prior to the fulfilment of the Conditions, details of which are referred to in the section headed "Effect of the Proposal" in the Explanatory Statement) exercise their share options and become Scheme Shareholders before the Record Time and remain so as at the Record Time, they will be entitled to receive the Cancellation Price under the Scheme. Holders of share options who do not exercise their share options in such manner will be entitled to receive a cash payment from SIHL equivalent to the "see-through" price (that is HK\$0.46 for each share option held, being

EXPLANATORY STATEMENT

the difference between the Cancellation Price and the exercise price of the share option) under separate arrangements with SIHL. As at the Latest Practicable Date, all of the holders of share options, including Mr. Feng Gen Sheng, Mr. Chen Shu Zi and Mr. Wu Jian Zhuang, have agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the Share Option Scheme. The holders of share options have also agreed not to exercise their rights under the share options and to receive the “see-through” price offered to them by SIHL.

At the Extraordinary General Meeting, a special resolution will be proposed to approve, among other things, the adoption of Article 182 as an addition to the existing articles of association of SIIC MedTech to facilitate the inclusion as Scheme Shares of Shares issued pursuant to the Share Option Scheme after the date of the Court Meeting. The text of such special resolution is set out on pages 107 to 108 of this document.

On the basis of the Cancellation Price of HK\$2.15 per Scheme Share and a total of 620,400,000 Shares in issue as at the Latest Practicable Date, the Proposal values the entire issued share capital of SIIC MedTech at approximately HK\$1,333.9 million. The maximum number of Scheme Shares and amount of cash required for the Proposal is up to 240,766,000 Shares and approximately HK\$517.65 million respectively, assuming all outstanding share options are exercised in full by all holders of share options except for Mr. Li and Mr. Ge. SIHL intends to finance the total consideration for the Proposal from its own cash resources, which will not result in any payment of interest on, repayment of or security for any liability (contingent or otherwise) by, or be otherwise dependent on the business of, SIHL. BNP Paribas Peregrine has confirmed that it is satisfied that sufficient financial resources are available to SIHL for the implementation of the Proposal.

CONDITIONS OF THE SCHEME

The Scheme will become effective and binding on SIIC MedTech and all Shareholders subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme by a majority in number of the Independent Shareholders at the Court Meeting, provided that:
 - (i) the Scheme is approved by Independent Shareholders holding at least 75% in value of those Shares that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the Scheme is not disapproved by Independent Shareholders at the Court Meeting holding more than 10% in value of all the Shares held by the Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the share capital of SIIC MedTech) by a majority of at least three-fourths of the Shareholders present and voting in person or by proxy, at a general meeting of SIIC MedTech;
- (c) the Grand Court’s sanction of the Scheme (with or without modifications) and its confirmation of the Reduction of the Capital, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the orders of the Grand Court for registration;

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- (d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law in each case in relation to the reduction of the issued share capital of SIIC MedTech;
- (e) all Authorisations having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in the Cayman Islands and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and
- (g) all necessary consents which may be required under any existing contractual obligations of SIIC MedTech being obtained.

Condition (a) is the combined effect of Section 86 of the Companies Law and Rule 2.10 of the Takeovers Code. In so far as the statutory requirement for the sanction of the Scheme by the Grand Court is concerned, a resolution for the approval of the Scheme will be deemed to have been passed if a majority in number representing three-fourths in value of the Shares held by the Shareholders other than the Controlling Parties present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. Under Rule 2.10 of the Takeovers Code, however, such a resolution will only be considered to have been passed if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 202,178,000 Shares held by the Independent Shareholders as at the date of this document, 10% of such Shares amounted to 20,217,800 Shares.

SIHL reserves the right to waive Conditions (e), (f) and (g) or any of them, either in whole or in respect of any particular matter. Conditions (a) to (d) cannot be waived as they are imposed either by law or by the Takeovers Code. All of the Conditions will have to be fulfilled or waived, as applicable, on or before 30th September 2003 or such later date as SIHL and SIIC MedTech may agree or, to the extent applicable, as the Grand Court may direct, otherwise the Scheme will lapse.

Assuming that all of the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Tuesday, 16th September 2003. Further announcements will be made giving details of the results of the Meetings and, if the resolutions are passed at the Meetings, the last day for dealing in the Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Effective Date and the date of the withdrawal of the listing of the Shares on GEM.

If all the Conditions are satisfied or waived, then the Scheme will be binding on all of the Scheme Shareholders, i.e. even on those who voted against the Scheme and those who did not vote. At the Court Meeting each Independent Shareholder has one vote for each share registered in his name.

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EFFECTS OF THE PROPOSAL

Shareholding structure

The table below sets out the shareholding structure of SIIC MedTech as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Controlling Parties	408,934,000	65.91	408,934,000	100.00
NEL (Note 1) (Note 3)	8,088,000	1.30	—	—
NPL (Note 1) (Note 3)	975,000	0.16	—	—
Shen Wei Jia (Note 1) (Note 4)	<u>225,000</u>	<u>0.04</u>	<u>—</u>	<u>—</u>
Sub-total (Note 2)	418,222,000	67.41	408,934,000	100.00
Independent Shareholders	<u>202,178,000</u>	<u>32.59</u>	<u>—</u>	<u>—</u>
Total	<u>620,400,000</u>	<u>100.00</u>	<u>408,934,000</u>	<u>100.00</u>

Notes:

- All of the Shares held by NEL, NPL and Mr. Shen Wei Jia will form part of the Scheme Shares.
- The figure represents the aggregate shareholding of the SIHL Group and parties acting in concert with the SIHL Group under the Takeovers Code.
- Both NEL and NPL are wholly-owned subsidiaries of SIIC which is the ultimate controlling shareholder of SIHL.
- An executive director of SIIC MedTech.

Following the Effective Date of the Scheme and the withdrawal of listing of the Shares on the Stock Exchange, SIIC MedTech will become a wholly-owned subsidiary of SIHL.

As at the Latest Practicable Date, there were 37,800,000 outstanding options (37,800,000 new Shares, representing approximately 6.09% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and approximately 5.74% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 37,800,000 outstanding options) granted by SIIC MedTech under the Share Option Scheme, out of which 6,000,000 share options, 6,000,000 share options, 4,000,000 share options, 2,500,000 share options and 2,500,000 share options were granted to Mr. Feng Gen Sheng, Mr. Li, Mr. Chen Shu Zi, Mr. Ge and Mr. Wu Jian Zhuang respectively, who are Directors and are presumed parties acting in concert with SIHL (a total of 21,000,000 new Shares, representing approximately 3.38% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and approximately 3.27% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 21,000,000 outstanding options). Details of these share options are as follows:

Date of grant	No. of Shares	Subscription price
20th January 2000	37,800,000	HK\$1.69 per Share

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

Save for these share options, there are no other outstanding warrants, convertible securities or outstanding derivatives of SIIC MedTech as at the Latest Practicable Date. Mr. Li and Mr. Ge have each executed under seal as a deed, subject to the fulfilment of the conditions of the Proposal, an agreement to surrender their respective rights under the share options of SIIC MedTech held by each of them as at the date of the Announcement and to consent to SIIC MedTech cancelling the share options granted to them at no consideration. Mr. Li and Mr. Ge have undertaken not to exercise their respective rights under the share options held by each of them prior to the fulfilment of the conditions of the Proposal.

Share value

The cash consideration of HK\$2.15 per Scheme Share represents:

- a premium of approximately 64.12% to the audited consolidated net asset value per Share of approximately HK\$1.31 as at 31st December 2002;
- a premium of approximately 14.97% over the closing price of HK\$1.87 per Share as quoted on the Stock Exchange on 20th May 2003 (being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 20.79% over the average closing price of approximately HK\$1.78 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 20th May 2003;
- a premium of approximately 24.28% over the average closing price of approximately HK\$1.73 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 20th May 2003;
- a premium of approximately 31.90% over the average closing price of approximately HK\$1.63 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 20th May 2003;
- a premium of approximately 43.33% over the average closing price of approximately HK\$1.50 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 20th May 2003; and
- a premium of approximately 3.61% over the closing price of HK\$2.075 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Historical share price information of the Shares is set out in the paragraph headed “Market prices” in Appendix II to this document.

During the period between 20th November 2002 (being the day six months preceding the Announcement Date) and 20th May 2003 (being the last full trading day prior to the Announcement), the highest and lowest prices for the Shares recorded on the Stock Exchange were HK\$1.87 and HK\$1.32 respectively and the closing price of the Shares as quoted on the Stock Exchange on 20th May 2003 was HK\$1.87. Since 20th May 2003 and up to the Latest Practicable Date, the Shares traded on the Stock Exchange at a daily closing price of HK\$2.075.

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Net tangible assets

As at 31st December 2002, the audited consolidated net tangible assets of the SIIC MedTech Group amounted to approximately HK\$762.1 million, or approximately HK\$1.23 per Share. The Cancellation Price represents a premium of approximately 74.8% to the audited consolidated net tangible asset value per Share as at 31st December 2002.

The unaudited adjusted consolidated net tangible assets of the SIIC MedTech Group as calculated in Appendix I to this document are approximately HK\$759.7 million, equivalent to approximately HK\$1.22 per Share. The Cancellation Price represents a premium of approximately 76.2% to such unaudited adjusted consolidated net tangible asset value per Share.

The statement of the unaudited adjusted consolidated net tangible assets of the SIIC MedTech Group is set out in Appendix I to this document. The unaudited adjusted consolidated net tangible assets are based on the audited consolidated net tangible assets of the SIIC MedTech Group as at 31st December 2002 and adjusted to take into account, amongst others, the final dividend paid out and the unaudited consolidated net profit for the three months ended 31st March 2003.

The Cancellation Price represents:

- (i) a premium of approximately 74.8% over the audited consolidated NTAV per Share of approximately HK\$1.23; and
- (ii) a premium of approximately 76.2% over the unaudited Adjusted Consolidated NTAV per Share of approximately HK\$1.22.

Earnings

The SIIC MedTech Group's audited consolidated profit attributable to the Shareholders for the year ended 31st December 2002 was approximately HK\$87.5 million, representing earnings per Share of approximately HK14.1 cents as shown in the Consolidated Income Statement in Section I of Appendix I to this document. When compared with the SIIC MedTech Group's audited consolidated profit attributable to the Shareholders of approximately HK\$232.7 million in respect of the previous financial year which is equivalent to earnings per Share of approximately HK37.5 cents, this represents a year-on-year reduction in profit attributable to Shareholders of approximately 62.4%.

Based on the earnings per Share for the year ended 31st December 2002, the Cancellation Price would represent a PER for the Shares of approximately 15.25. This represents a premium of approximately 15.01% over the PER of approximately 13.26 based on the closing price of HK\$1.87 per Share on 20th May 2003.

Dividend yield

Based on the Cancellation Price and the dividends for the year ended 31st December 2002, the dividend yield for the Shares would be approximately 1.86%.

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BACKGROUND TO, AND REASONS FOR, THE PROPOSAL

As stated in the Announcement, the directors of SIHL consider that the Proposal will result in a leaner group structure by making SIIC MedTech a wholly-owned subsidiary of SIHL. Upon the completion of the Proposal, SIHL will be able to increase its share in the profit contribution of SIIC MedTech from approximately 65.91% to 100.00%.

In addition, medicine and bio-technology is one of the core businesses of SIHL that SIHL intends to develop. SIHL intends to restructure its medical business, and the Proposal represents a principal step for the restructuring exercise. Upon the Proposal becoming effective, SIHL will be in a more flexible position to formulate the development strategies for the medical business and to expand its medical business in order to enhance the return to its remaining shareholders.

The Directors have been informed by the directors of SIHL that the latter took into consideration the following factors in arriving at the Cancellation Price:

- a premium of approximately 64.12% to the audited consolidated net asset value per Share of approximately HK\$1.31 as at 31st December 2002;
- a premium of approximately 20.79% over the average closing price of approximately HK\$1.78 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 20th May 2003;
- a premium of approximately 24.28% over the average closing price of approximately HK\$1.73 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 20th May 2003;
- a premium of approximately 31.90% over the average closing price of approximately HK\$1.63 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 20th May 2003;
- a premium of approximately 43.33% over the average closing price of approximately HK\$1.50 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 20th May 2003; and
- the final dividend of HK\$0.04 per Share for the year ended 31st December 2002 already recommended by the Directors, paid on 22nd May 2003 and that the Scheme Shareholders will be entitled to keep such dividend.

The Board has decided to put forward the Proposal to the Shareholders (other than the Controlling Parties) for their consideration, as it is their belief that the Proposal provides an opportunity for all of the holders of Scheme Shares to realise their investments in SIIC MedTech at a premium to the prevailing market price of the Shares.

Upon the Scheme becoming effective, SIIC MedTech will become a wholly-owned subsidiary of SIHL. It is the intention of SIHL to maintain the existing business of the SIIC MedTech Group upon the privatisation of SIIC MedTech.

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INFORMATION ON THE SIIC MEDTECH GROUP

History and business

SIIC MedTech is a company incorporated in the Cayman Islands with limited liability, whose shares have been listed on GEM since December 1999. The SIIC MedTech Group is principally engaged in the following sectors: pharmaceutical products and health food, medical retailing, medical equipment, and personal care products in the PRC, as described below.

Historical financial information

A summary of the audited consolidated results of the SIIC MedTech Group for each of the two financial years ended 31st December 2002 and unaudited consolidated results for the three months ended 31st March 2003 is set out below:

	For the three months ended 31st March 2003	For the year ended 31st December	
	<i>HK\$'million</i>	2002	2001
		<i>HK\$'million</i>	<i>HK\$'million</i>
Turnover	325.7	842.4	723.9
Operating profit	53.3	231.8	157.6
Gain on deemed disposal of interest in a jointly controlled entity	—	—	155.7
Impairment loss on interest in a jointly controlled entity	—	(15.3)	—
Profit from ordinary activities before taxation	55.8	241.9	341.1
Profit after taxation (but before minority interests)	40.8	167.5	288.3
Profit attributable to shareholders	21.1	87.5	232.7

Business review

The audited consolidated turnover and operating profit of the SIIC MedTech Group increased by 16.4% to about HK\$842 million and 47.1% to about HK\$232 million respectively, for the year ended 31st December 2002. The improved performance was due to an improved contribution from the SIIC MedTech Group's pharmaceutical products and health food. The SIIC MedTech Group's unaudited consolidated profit for the three months ended 31st March 2003 amounted to about HK\$21.1 million, representing an increase of 11.7% over the same period of the previous year. Its turnover rose by more than 37.2% to about HK\$326 million. The business for the three months ended 31st March 2003 grew steadily.

(i) *Pharmaceutical products and health food*

With the widespread implementation of the PRC's central bidding system for hospital medicine purchases, the SIIC MedTech Group confronted new challenges in selling pharmaceutical products. Facing a highly competitive market, the SIIC MedTech Group drew on all its strengths to meet the challenges of the fast-changing market. In 2002, the sales of the SIIC MedTech Group's four principal injection products, namely "Shen Mai Injection", "Dan Shen Injection", "Herba Houttuyniae

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Injection” and “Huang Qi Injection” achieved strong growth rates of 7.5%, 10.3%, 40.1% and 21.1% respectively over the year of 2001. However, the growth rates were lower for the three month period ended 31st March 2003 as compared to the previous corresponding period, during which the sales of these four principal products rose by 7.4%, 5.9%, 27.7% and 13.1% respectively.

(ii) *Medical retailing*

In recent years, a wave of industry reforms has greatly stimulated sales of medical products. The reforms include a new domestic medical insurance infrastructure, the separation of medical and pharmaceutical services, the implementation of over-the-counter regulations and the designation of medications for which reimbursements are possible. In 2002, many enterprises in the PRC’s medical retail market sought to expand quickly their market share by dramatically increasing the number of pharmacies. This caused market saturation in some regions. To make matters worse, the aggressive price competition brought financial difficulties to some pharmacies. However, the SIIC MedTech Group’s drugstore, Hangzhou Huqingyutang Drugstore Co. Ltd., an associated company owned as to 24% by SIIC MedTech, did not follow the trend, but focused on cost effectiveness. As a result, it remained profitable in 2002.

(iii) *Medical equipment*

The SIIC MedTech Group is engaged in the trading of medical equipment products through its associated companies, namely MicroPort Medical (Shanghai) Co. Ltd., E-COM Technology Ltd. and Guang Dong Biolight Medical Technology Co. Ltd., which are owned as to 21.31%, 24.35% and 38% by SIIC MedTech, respectively. The SIIC MedTech Group’s total investment in the medical equipment business accounts for less than 10% of its net assets. There are currently three main product groups: modern monitoring and diagnostic equipment, digital angiographic systems and information systems for medical applications, and apparatus for vascular and interventional surgery. Among these products, “MicroPort” brand products, vascular and interventional surgery apparatus achieved the largest sales growth.

(iv) *Personal care products*

The SIIC MedTech Group is also engaged in producing personal care products, through a 28.15% holding in Shanghai Jahwa United Co., Ltd. (“Shanghai Jahwa”). “Liushen” brand products accounts for about 45% of the turnover of the company’s core operation. During 2002, Shanghai Jahwa showed slower growth in sales of some major products. The revenue generated by “Liushen” during 2002 was stable compared with 2001 whereas the sales of the product brands “Cling de Clinf”, “MaXam” and “Herborist” were up by 6%, 13% and 42% respectively. Though the sales revenue was higher than that of the previous year, Shanghai Jahwa is under pressure from falling prices, which are impacting profit margins.

Dividends

A final dividend of HK\$0.04 per Share was paid by SIIC MedTech on 22nd May 2003. Scheme Shareholders are entitled to keep the final dividend paid on 22nd May 2003. No dividend was declared by SIIC MedTech for the three months ended 31st March 2003.

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Liquidity and financial resources

The total net cash of the SIIC MedTech Group, after deducting short-term bank loan of approximately HK\$1.87 million, amounted to approximately HK\$440.56 million as at 31st December 2002.

As of 31st December 2002, the shareholders' fund of the SIIC MedTech Group amounted to approximately HK\$810.16 million (2001: HK\$738.04 million). The SIIC MedTech Group is in a healthy financial position with continuous recurrent income and cash inflow to provide adequate financial resources for funding its ongoing operations.

INFORMATION ON SIHL

SIHL is incorporated in Hong Kong with limited liability, and its shares are listed on the Main Board of the Stock Exchange. SIHL, together with its wholly-owned subsidiaries, CFI, SIIH and SIHL Treasury, hold about 65.91% interest in the issued share capital of SIIC MedTech. The SIHL Group is principally engaged in the following sectors: infrastructure and modern logistics, information technology, medicine and bio-technology, consumer products, and automobile and parts. Mr. Lu Ming Fang, Mr. Li, Mr. Zhou Jie and Mr. Ge are directors of SIHL and also the Directors.

SIIC MedTech had no shareholdings in SIHL as at the Latest Practicable Date and has not dealt for value in the shares or other securities of SIHL during the period starting six months prior to 21st May 2003 and ending on the Latest Practicable Date.

As at 31st December 2002, the audited consolidated net assets of the SIHL Group were approximately HK\$13,497.8 million or approximately HK\$14.42 per share.

FUTURE INTENTIONS

SIHL does not have any intention to discontinue any of the businesses of SIIC MedTech and its subsidiaries in the foreseeable future following the implementation of the Proposal.

Upon the privatisation of SIIC MedTech, SIHL has no intention to make any significant changes to the existing businesses or make significant disposals of assets or interests in the subsidiaries or associated companies of SIIC MedTech in the foreseeable future, other than in the ordinary course of business.

SIHL has no intention to make any significant changes to the employment of the staff of SIIC MedTech and its subsidiaries or any significant redeployment of their fixed assets in the foreseeable future.

SIHL intends that the listing of the Shares on the Stock Exchange will be withdrawn if the Scheme is implemented and be maintained in the event that the Scheme is not approved or is withdrawn or lapses.

INFORMATION RELATING TO THE INTERESTS OF PARTIES ACTING IN CONCERT

As at the Latest Practicable Date, the Controlling Parties owned 408,934,000 Shares, representing approximately 65.91% of the issued share capital of SIIC MedTech. Such Shares will not form part of the Scheme Shares and will not be voted at the Court Meeting. In view of the interests of SIHL in the Proposal, parties who are acting in concert with SIHL, being NEL, NPL and

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Mr. Shen Wei Jia, which/who collectively held, as at the Latest Practicable Date, 9,288,000 Shares (representing approximately 1.50% of the issued share capital of SIIC MedTech), will not vote at the Court Meeting. However, the 9,288,000 Shares held by NEL, NPL and Mr. Shen Wei Jia, will still form part of the Scheme Shares.

In addition, Mr. Feng Gen Sheng, Mr. Chen Shu Zi and Mr. Wu Jian Zhuang, who are Directors, are interested in 6,000,000 share options, 4,000,000 share options and 2,500,000 share options of SIIC MedTech respectively, which can be exercised into 12,500,000 new Shares (12,500,000 new Shares, representing approximately 2.01% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and approximately 1.98% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 12,500,000 outstanding share options). Mr. Feng Gen Sheng, Mr. Li, Mr. Chen Shu Zi, Mr. Ge and Mr. Wu Jian Zhuang are deemed parties acting in concert with SIHL due to their directorships in SIIC MedTech, a subsidiary of SIHL. Mr. Li and Mr. Ge also hold in aggregate 8,500,000 share options of SIIC MedTech as at the Latest Practicable Date. Mr. Li and Mr. Ge have each executed under seal as a deed, subject to the fulfilment of the conditions of the Proposal, an agreement to surrender their respective rights under the share options of SIIC MedTech held by each of them as at the date of Announcement and to consent to SIIC MedTech cancelling the share options granted to them at no consideration. Mr. Li and Mr. Ge have undertaken not to exercise their respective rights under the share options held by each of them prior to the fulfilment of the conditions of the Proposal. Accordingly, no payment will be made to Mr. Li and Mr. Ge in this regard.

Each of the Controlling Parties, NEL, NPL and Mr. Shen Wei Jia have indicated that if the Scheme is approved at the Court Meeting, their respective Shares will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting of SIIC MedTech to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of SIIC MedTech).

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all of the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will, accordingly, cease to have effect as documents or evidence of title.

SIIC MedTech will apply to the Stock Exchange for the withdrawal of the listing of the Shares on GEM immediately following the sanction of the Scheme by the Grand Court, which is expected to take place on Wednesday, 10th September 2003. In such an event, the listing of the Shares on GEM is expected to be withdrawn on Wednesday, 17th September 2003.

The holders of Scheme Shares will be notified of the exact dates on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange become effective by press announcements and also by an announcement published on the GEM website.

If the Scheme is not approved or withdrawn or lapses, it is intended that the listing of the Shares on GEM will be maintained.

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REGISTRATION AND PAYMENT

If the Scheme becomes effective, cheques for the Cancellation Price will be sent to the holders of Scheme Shares whose names appear on the Register at the Record Time. In the case of Shares held in joint names, the cheque will be made payable to the name first appearing on the Register. Cheques will be posted within ten days after the Effective Date.

It is proposed to close the Register immediately after 4:30 p.m. on Wednesday, 10th September 2003, or such other date as may be notified to Independent Shareholders by announcements on the GEM website and press announcement, in order to establish entitlements to the Cancellation Price under the Scheme. The Independent Shareholders or their successors in title should ensure that their Shares are registered or lodged for registration in their names or in the names of their nominees before the Register is closed. The branch share registrar of SIIC MedTech in Hong Kong is Secretaries Limited situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

Assuming that the Scheme becomes effective on Tuesday, 16th September 2003, cheques for the Cancellation Price are expected to be despatched to the holders of Scheme Shares or persons nominated by them on or before Friday, 26th September 2003. As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, SIHL shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in SIIC MedTech's name with a licensed bank in Hong Kong selected by SIIC MedTech. SIIC MedTech shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon in accordance with Clause 3(e) of the Scheme, to persons who satisfy SIIC MedTech that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, SIHL shall be released from any further obligation to make any payments under the Scheme and SIIC MedTech shall thereafter transfer to SIHL the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by the branch share registrar of SIIC MedTech in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, cheques will be sent to the persons whose names appear on the Register at the Record Time at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the Register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither SIHL nor SIIC MedTech will be liable for any loss or delay in transmission.

OVERSEAS SCHEME SHAREHOLDERS

The making of the Proposal to persons not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves appropriately and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders of SIIC MedTech wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of

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any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholders liable to taxation in Hong Kong or in other jurisdictions.

MEETINGS

The Grand Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modification). In so far as the sanction of the Scheme by the Grand Court is concerned, such a resolution will be deemed to have been passed if a majority in number representing three-fourths in value of the Shares held by the Independent Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. As explained above, however, such a resolution will only be considered to have been passed under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Shareholders other than the Controlling Parties that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 202,178,000 Shares held by the Independent Shareholders as at the date of this document, 10% of such Shares amounted to 20,217,800 Shares.

Immediately following the Court Meeting, the Extraordinary General Meeting will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of the Company). The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the Shareholders present and voting, in person or by proxy, at the Extraordinary General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Extraordinary General Meeting. Each of the Controlling Parties, NEL, NPL and Mr. Shen Wei Jia has indicated that if the Scheme is approved at the Court Meeting, their respective Shares will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve and give effect to the Scheme.

If the Scheme is approved by the requisite majority at the Court Meeting, any Shareholder will be entitled to appear (either in person or by counsel) at the hearing before the Grand Court on Wednesday, 10th September 2003 for the purpose of arguing that the Grand Court should not sanction it.

Notices of the Meetings are set out on pages 105 to 109 of this document. The Meetings will be held on Monday, 11th August 2003 at the respective times specified in such notices.

ACTION TO BE TAKEN BY THE SHAREHOLDERS

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Extraordinary General Meeting are enclosed with this document.

EXPLANATORY STATEMENT

Whether or not you are able to attend the Meetings in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Extraordinary General Meeting in accordance with the instructions respectively printed thereon and to lodge them with the principal place of business of SIIC MedTech in Hong Kong at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, or in the case of the pink form of proxy in respect of the Court Meeting only by facsimile at number (852) 2520 0128 (marked for the attention of The Company Secretary) as soon as possible, but in any case not later than the following respective times. In the case of the pink form of proxy for use at the Court Meeting, you are requested to lodge this form of proxy not later than 10:30 a.m. on Saturday, 9th August 2003, but if it is not so lodged, it may be handed to the chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the Extraordinary General Meeting must be lodged not later than 11:00 a.m. on the same day. The completion and return of a form of proxy for any of the Meetings will not preclude you from attending the relevant Meeting and voting in person if you so wish. In the event that you attend a Meeting after having lodged the form of proxy, that form of proxy will be deemed to have been revoked. Your proxy does not need to be a Shareholder in order to attend and vote at the relevant Meeting(s).

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the Extraordinary General Meeting, the Register will be closed from Thursday, 7th August 2003 to Monday, 11th August 2003 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of SIIC MedTech in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 6th August 2003.

An announcement will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the last day for dealing in the Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

FURTHER INFORMATION

Further information in relation to the Proposal is set out in the Appendices to this document, all of which form part of this Explanatory Statement.

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the SIIC MedTech Group for each of the three financial years ended 31st December 2002:

	Year ended 31st December		
	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000
Turnover	842,386	723,911	533,434
Profit from operations	231,844	157,576	125,483
Share of results of associated companies and jointly controlled company	24,830	27,836	23,490
Gain on deemed disposal of interest in a jointly controlled entity	—	155,694	—
Impairment loss on interest in a jointly controlled entity	(15,300)	—	—
Profit before taxation	241,942	341,102	147,447
Taxation	(74,448)	(52,831)	(20,215)
Profit after taxation	167,494	288,271	127,232
Minority interests	<u>(79,973)</u>	<u>(55,586)</u>	<u>(54,914)</u>
Profit for the year attributable to the Shareholders	<u>87,521</u>	<u>232,685</u>	<u>72,318</u>
Dividends	<u>(27,900)</u>	<u>(18,600)</u>	<u>—</u>
Earnings per Share (HK\$)	<u>0.141</u>	<u>0.375</u>	<u>0.117</u>
Dividend per Share (HK\$)	<u>0.040</u>	<u>0.045</u>	<u>0.030</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE SIIC MEDTECH GROUP FOR THE YEAR ENDED 31ST DECEMBER 2002

Set out below is a summary of the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity of each of the two years ended 31st December 2002 and the consolidated balance sheet as at 31st December 2002 of the SIIC MedTech Group together with the relevant notes as extracted from the audited financial statements of the SIIC MedTech Group for the year ended 31st December 2002.

Consolidated Income Statement*For the year ended 31st December 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		842,386	723,911
Cost of sales		<u>(320,084)</u>	<u>(283,900)</u>
Gross profit		522,302	440,011
Investment income	5	6,075	8,496
Other operating income		3,972	208
Distribution costs		(219,059)	(205,853)
Administrative expenses		<u>(81,446)</u>	<u>(85,286)</u>
Profit from operations	6	231,844	157,576
Finance costs	7	(154)	(4)
Gain on disposal of interest in a jointly controlled entity		1,799	—
Share of results of an associate		24,161	27,577
Share of results of jointly controlled entities		669	259
Amortisation of goodwill on acquisition of jointly controlled entities		(1,077)	—
Impairment loss on interest in a jointly controlled entity	17	(15,300)	—
Gain on deemed disposal of interest in a jointly controlled entity		<u>—</u>	<u>155,694</u>
Profit from ordinary activities before taxation		241,942	341,102
Taxation	9	<u>(74,448)</u>	<u>(52,831)</u>
Profit before minority interests		167,494	288,271
Minority interests		<u>(79,973)</u>	<u>(55,586)</u>
Profit for the year		<u><u>87,521</u></u>	<u><u>232,685</u></u>
Dividends	10	<u><u>27,900</u></u>	<u><u>18,600</u></u>
Earnings per share	11		
— Basic		<u><u>14.1 cents</u></u>	<u><u>37.5 cents</u></u>
— Diluted		<u><u>14.1 cents</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet*At 31st December 2002*

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

Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Share capital	Share premium	Contributed surplus	Goodwill reserve	PRC statutory funds	Translation reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001	62,000	192,130	194,649	(20,725)	14,040	(12)	82,633	524,715
Realised on deemed disposal of interest in a jointly controlled entity	—	—	—	—	(757)	—	—	(757)
Transfers	—	—	—	—	10,595	—	(10,595)	—
Profit for the year	—	—	—	—	—	—	232,685	232,685
Dividends (note 10)	—	—	—	—	—	—	(18,600)	(18,600)
At 31st December 2001	62,000	192,130	194,649	(20,725)	23,878	(12)	286,123	738,043
Impairment loss on goodwill reserve	—	—	—	12,855	—	—	—	12,855
Realised on disposal of interest in a jointly controlled entity	—	—	—	(360)	—	—	—	(360)
Profit for the year	—	—	—	—	—	—	87,521	87,521
Dividends (note 10)	—	—	—	—	—	—	(27,900)	(27,900)
At 31st December 2002	<u>62,000</u>	<u>192,130</u>	<u>194,649</u>	<u>(8,230)</u>	<u>23,878</u>	<u>(12)</u>	<u>345,744</u>	<u>810,159</u>
Attributable to:								
— SIIC MedTech and subsidiaries	62,000	192,130	194,649	(8,230)	19,345	(12)	296,069	755,951
— an associate	—	—	—	—	2,734	—	34,251	36,985
— jointly controlled entities	—	—	—	—	1,799	—	15,424	17,223
	<u>62,000</u>	<u>192,130</u>	<u>194,649</u>	<u>(8,230)</u>	<u>23,878</u>	<u>(12)</u>	<u>345,744</u>	<u>810,159</u>

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

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

Consolidated Cash Flow Statement*For the year ended 31st December 2002*

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit from ordinary activities before taxation	241,942	341,102
Adjustments for:		
Interest income	(5,702)	(7,463)
Rental income	(345)	(1,033)
Interest expense	144	—
Share of results of an associate	(24,161)	(27,577)
Share of results of jointly controlled entities	(669)	(259)
Gain on disposal of interest in a jointly controlled entity	(1,799)	—
Gain on deemed disposal of interest in a jointly controlled entity	—	(155,694)
Amortisation of goodwill	1,226	—
Depreciation and amortisation of property, plant and equipment	14,363	12,711
Loss on disposal of property, plant and equipment	1,090	354
Gain on disposal of investment securities	(28)	—
Impairment loss on interest in a jointly controlled entity	<u>15,300</u>	<u>—</u>
Operating cash flows before movements in working capital	241,361	162,141
Increase in inventories	(13,720)	(3,039)
Decrease (increase) in trade and other receivables	41,085	(18,993)
Increase in trade and other payables	<u>7,915</u>	<u>27,246</u>
Cash generated from operations	276,641	167,355
Taxation paid	(53,605)	(34,148)
Interest paid	<u>(144)</u>	<u>—</u>
NET CASH FROM OPERATING ACTIVITIES	<u>222,892</u>	<u>133,207</u>

Consolidated Cash Flow Statement*For the year ended 31st December 2002*

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

Notes to the Financial Statements

For the year ended 31st December 2002

1. GENERAL

SIIC MedTech is a listed public limited company incorporated in the Cayman Islands. The shares are listed on GEM. Its ultimate holding company is Shanghai Industrial Investment (Holdings) Company Limited, incorporated in Hong Kong.

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

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

In the current year, the SIIC MedTech Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash flow statements

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

Employee benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

All significant intercompany transactions and balances between SIIC MedTech Group enterprises are eliminated on consolidation.

Goodwill

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

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

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

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

Investments in subsidiaries

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

Interests in associates

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

Interests in joint ventures

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

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

Turnover

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

Revenue recognition

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

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

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

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

Investment properties

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Impairment

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

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

Investment securities

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

Inventories

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

Research and development expenditure

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

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

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

Retirement benefits costs

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

Taxation

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

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

Operating leases

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

4. SEGMENT INFORMATION

For the years ended 31st December 2002 and 2001, the SIIC MedTech Group was engaged in the manufacture and sale of Chinese medicine and health supplement products. More than 90% of the SIIC MedTech Group's turnover, contribution to operating profit and assets was attributable to this business segment and located in the PRC.

5. INVESTMENT INCOME

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

6. PROFIT FROM OPERATIONS

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

7. FINANCE COSTS

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

8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

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

The emoluments of the Directors were within the following bands:

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

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

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

Employees' emoluments

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

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

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

	2002	2001
	<i>Number of individuals</i>	<i>Number of individuals</i>
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	<u>1</u>	<u>—</u>

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

9. TAXATION

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
PRC income tax		
— current year provision	66,862	40,794
— underprovision in prior year	<u>7,186</u>	<u>2,696</u>
	<u>74,048</u>	<u>43,490</u>
Deferred taxation (<i>note 26</i>)		
— current year provision	(4,000)	3,824
— effect of change in tax rate	<u>—</u>	<u>2,100</u>
	<u>(4,000)</u>	<u>5,924</u>
Share of PRC income tax of an associate	4,369	3,280
Share of PRC income tax of jointly controlled entities	<u>31</u>	<u>137</u>
	<u>74,448</u>	<u>52,831</u>

正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) (“Hangzhou Qingchunbao”), the major subsidiary of SIIC MedTech having an assessable profit, is subject to a PRC income tax rate of 24% (2001 : 24%).

Pursuant to an approval received from local tax authorities in September 2001, Shanghai Jahwa, an associate of the SIIC MedTech Group, was classified as one of the approved “High Technology entities”. Accordingly, Shanghai Jahwa is entitled to a preferential PRC income tax rate of 13.5% for the three years ending 31st December 2003.

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

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

	2002	2001
Earnings:		
Profit for the year and earnings for the purpose of basic and diluted earnings per Share	<u>HK\$87,521,000</u>	<u>HK\$232,685,000</u>
Number of Shares:		
Weighted average number of ordinary Shares for the purpose of basic earnings per Share	620,000,000	620,000,000
Effect of dilutive potential ordinary Shares — share options	<u>230,382</u>	<u>—</u>
Weighted average number of ordinary Shares for the purpose of diluted earnings per Share	<u>620,230,382</u>	<u>620,000,000</u>

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

12. INVESTMENT PROPERTY

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

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

14. GOODWILL

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

The amortisation period adopted for goodwill is 20 years.

15. INTERESTS IN SUBSIDIARIES

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

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

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

16. INTEREST IN AN ASSOCIATE

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

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

Name of associate	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the SIIC MedTech Group	Principal activities
Shanghai Jahwa	PRC	28.15%	Manufacture, distribution and sales of personal care and cosmetics products

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

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

Note:

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

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

The amortisation period adopted for goodwill is 20 years.

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

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

18. INVESTMENT SECURITIES

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

19. LOANS RECEIVABLE

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

20. INVENTORIES

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

The inventories were carried at cost.

21. TRADE AND OTHER RECEIVABLES

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

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

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

22. TRADE AND OTHER PAYABLES

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

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

23. SHARE CAPITAL

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

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

24. SHARE OPTION SCHEMES

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

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

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

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

No employee of SIIC MedTech shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and,

issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Initial Share Option Scheme.

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

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

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

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

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

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

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

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

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

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

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

The following table discloses the total entitlements of Directors and employees under the SIHL Initial Share Option Scheme:

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

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

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

Details of share option exercised:

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

- (c) To be in line with the changes in the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") in relation to share option schemes and to provide SIIC MedTech with a flexible means of giving incentive to, rewarding, remunerating, compensating, and/or providing benefits to the participants and for such other purposes as the Board may approve from time to time, the Shareholders and Shareholders of SIHL, have on 6th May 2002 and 31st May 2002 respectively approved the termination of the Initial Share Option Scheme and adopted the new share option scheme (the "New Share Option Scheme") at their respective extraordinary general meetings. Upon termination of the Initial Share Option Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the Initial Share Option Scheme shall remain in force. The outstanding options granted under the Initial Share Option Scheme shall continue to be subject to the provisions of the Initial Share Option Scheme and the provisions of Chapter 23 of the GEM Listing Rules which took effect from 1st September 2001 and the adoption of the New Share Option Scheme will not in any event affect the terms in respect of such outstanding options. The New Share Option Scheme will remain in force for a period of 10 years commencing on the date on which it is adopted by resolution of SIIC MedTech in extraordinary general meeting.

According to the New Share Option Scheme, the Board may grant options to any participants including directors and employees of SIIC MedTech, its subsidiaries, its associated companies, its jointly controlled entities and its related companies (the “Participants”); any executive or employee of any business consultant and professional advisers to the Participants, as absolutely determined by the Board, to subscribe for shares in SIIC MedTech for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant. The Board may at its absolute discretion determine the period during which an option may be exercised, such period should expire no later than 10 years from the date of grant of the option. The Board may also provides restrictions on the exercise of an option during the period an option may be exercised. The exercise price is determined by the Directors, and shall not be less than (i) the highest of the closing price of SIIC MedTech’s Shares on the date of grant, (ii) the average closing price of SIIC MedTech’s Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share.

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

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

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

According to the SIHL New Share Option Scheme, the Board of Directors of SIHL may grant options to any director and employee of each member of the SIHL Group (including a company in which (i) SIHL is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board, SIHL is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the SIHL Group, to subscribe for shares in SIHL for a consideration of HK\$1 for each lot of share options granted. Share options granted should be accepted within 30 days from the date of grant. The Board may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of the adoption of the SIHL New Share Option Scheme. The Board may also provides restrictions on the exercise of a share option during the period a share option may be exercised. The exercise price is determined by the Board of Directors of SIHL, and shall be at least the highest of: (i) the closing price of SIHL’s shares on the date of grant; (ii) the average closing price of the SIHL’s shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

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

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

The following table discloses the total entitlement of Directors and employees under the SIHL New Share Option Scheme:

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

25. RESERVES

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

The contributed surplus represents the difference between the net assets of the subsidiaries acquired by SIIC MedTech and the nominal value of Shares issued at the time of a group reorganisation.

SIIC MedTech's reserves available for distribution represent the share premium, contributed surplus and accumulated profits. Under the Companies Law (2003 Revision) Chapter 22 of the Cayman Islands, the share premium of SIIC MedTech is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend SIIC MedTech is able to pay its debts as they fall due in the ordinary course of business. Accordingly, SIIC MedTech's reserves available for distribution to shareholders as at 31st December 2002 amounted to approximately HK\$467 million (2001: HK\$447 million).

26. DEFERRED TAXATION

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

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

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

27. ACQUISITION OF A SUBSIDIARY

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

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

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

28. OPERATING LEASE ARRANGEMENTS

The SIIC MedTech Group as a lessee

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

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

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

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

The SIIC MedTech Group as a lessor

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

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

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

29. COMMITMENTS

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

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

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

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

SIIC MedTech had no significant capital commitments at the balance sheet date.

30. CONTINGENT LIABILITIES

	SIIC MEDTECH	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to a bank in respect of banking facilities extended to a subsidiary	39,000	39,000

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

31. PLEDGE OF ASSETS

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

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

32. RETIREMENT BENEFITS SCHEMES

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

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

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

33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected parties

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

Transactions:

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

Balances:

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

Notes:

- (i) The rental, management fees and air-conditioning charges were charged in accordance with the relevant tenancy agreement and the prevailing rent is equivalent or approximate to the open market rental as certified by an independent firm of professional property valuer.

(ii) On 29th May 2002, SIMST eMedical Network Limited (“SIMST”), a wholly-owned subsidiary of SIIC MedTech and SITVC, a wholly-owned subsidiary of SIHL entered into a share transfer agreement, pursuant to which SIMST acquired a 13.35% interest in E-COM Technology from SITVC at a consideration of HK\$9.0 million. Details of this acquisition were included in a published announcement on the same date.

(iii) The amounts were unsecured, non-interest bearing and had no fixed repayment terms.

(b) Details of operating lease commitments with a connected party are set out in note 28.

(II) Related party, other than connected party

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

Transactions:

Name of company	Nature of transactions	2002 HK\$'000	2001 HK\$'000
<i>Minority shareholders of SIIC MedTech's PRC subsidiary, Hangzhou Qingchunbao:</i>			
中國(杭州)青春寶集團有限公司 (China (Hangzhou) Qingchunbao Group Co., Ltd.) (“China Qingchunbao”) and its subsidiaries	Sales of finished medicine and health products (<i>note i</i>)	50	41
	Purchase of materials (<i>note ii</i>)	358	2,621

An associate:

Shanghai Jahwa	Interest received (<i>note iii</i>)	<u>248</u>	<u>108</u>
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Balances:

Name of company	Nature of transactions	2002 HK\$'000	2001 HK\$'000
China Qingchunbao and its subsidiaries	Balance at 31st December		
	— trade receivables (<i>note iv</i>)	99	147
	— trade payable (<i>note iv</i>)	37	1,116
	— dividend payable (<i>note iv</i>)	—	50,000
Shanghai Jahwa	Balance at 31st December	8,120	4,000
	— loan receivable (<i>note iii</i>)		

Jointly controlled entities:

E-COM Technology	Balance at 31st December	6,071	—
	— trade receivable (<i>note iv</i>)		
Huqingyutang Drugstore	Balance at 31st December	2,336	—
	— non-trade receivable (<i>note iv</i>)		

Notes:

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

34. SUBSIDIARIES

Details of SIIC MedTech's subsidiaries at 31st December 2002 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and nominal value fully paid share capital/ registered capital	Attributable proportion of issued/registered capital held by SIIC MedTech		Principal activities
			Directly	Indirectly	
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.)	PRC	RMB128,500,000	—	55%	Manufacture and sale of Chinese medicine and health supplement products
廈門中藥廠有限公司 (Xiamen Traditional Chinese Medicine Co., Ltd.)	PRC	RMB47,830,000	—	56%	Manufacture and sale of Chinese medicine and health supplement products
寧夏上實保健品有限公司 (Ningxia SIIC Viopes Nutraceuticals Co., Limited)	PRC	RMB10,000,000	59%	—	Manufacture and trading of Chinese Medicinal products
北京上實中藥有限公司 (Beijing SIIC Phytopharmaceuticals Co., Ltd.)	PRC	US\$250,000	100%	—	Research and development of Chinese medicine and natural products
上海醫創中醫藥科研開發中心 有限公司 (Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co., Ltd.)	PRC	RMB3,000,000	55%	—	Research and development of Chinese medicine and natural products

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and nominal value fully paid share capital/ registered capital	Attributable proportion of issued/registered capital held by SIIC MedTech		Principal activities
			Directly	Indirectly	
SIIC MedTech Research and Development Limited	Hong Kong	HK\$2	100%	—	Research and development of Chinese medicine and natural products
Green Source Medical Trading Limited	British Virgin Islands/Hong Kong	US\$1	100%	—	Trading of pharmaceutical products
SIIC-CYBeR Pacificare Limited	British Virgin Islands	US\$750,000	—	66.67%	Marketing of medicare system units
SIIC MedTech Health Products Limited	Hong Kong	Ordinary shares — US\$2 Non-voting deferred shares — US\$2	—	100%	Investment holding
World Honest Investments Limited	Hong Kong	HK\$10,000	—	100%	Investment holding
Golden News Enterprises Limited	British Virgin Islands	US\$60	—	100%	Investment holding
SIMST Medical Science and Technology Development Limited	British Virgin Islands	US\$1	100%	—	Investment holding
SIMST eMedical Network Limited	British Virgin Islands	US\$1	100%	—	Investment holding
S.I. Daily Chemical Holdings Ltd.	British Virgin Islands	US\$56,250	100%	—	Investment holding

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

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

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

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

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

Consolidated results for the year:

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

Consolidated financial position:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Non-current assets	458,947	320,258
Current assets	1,062,996	1,183,407
Current liabilities	(368,840)	(420,141)
Non-current liabilities	(8,073)	(9,000)
Minority interests	<u>(39,797)</u>	<u>(4,174)</u>
Net asset	<u>1,105,233</u>	<u>1,070,350</u>
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets attributable to the SIIC MedTech Group in accordance with accounting principles generally accepted in Hong Kong	<u>296,700</u>	<u>284,012</u>

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

Financial Summary

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

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

	At 31st December			
	1999	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES				
Non-current assets	233,352	258,557	448,510	573,654
Current assets	513,074	543,263	621,764	683,741
Current liabilities	134,901	118,135	204,723	232,990
Non-current liabilities	2,100	2,100	8,024	4,024
Minority interests	<u>136,291</u>	<u>156,870</u>	<u>119,484</u>	<u>210,222</u>
Net assets	<u>473,134</u>	<u>524,715</u>	<u>738,043</u>	<u>810,159</u>

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

**3. UNAUDITED QUARTERLY CONSOLIDATED RESULTS FOR THE SIIC MEDTECH GROUP
FOR THE THREE MONTHS ENDED 31ST MARCH 2003**

The following is the unaudited quarterly consolidated results of the SIIC MedTech Group extracted from the quarterly report of SIIC MedTech for the three months ended 31st March 2003 and 2002:

	<i>Note</i>	Unaudited Three months ended 31st March	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	325,740	237,420
Cost of sales		<u>(118,094)</u>	<u>(84,587)</u>
Gross profit		207,646	152,833
Investment income		645	1,368
Other income		141	—
Distribution costs		(115,697)	(83,007)
Administrative expenses		<u>(39,419)</u>	<u>(24,766)</u>
Profit from operations		53,316	46,428
Finance costs		(70)	—
Share of results of an associate		3,337	3,795
Share of results of jointly controlled entities		(286)	(352)
Amortisation of goodwill on acquisition of jointly controlled entities		<u>(504)</u>	<u>—</u>
Profit from ordinary activities before taxation		55,793	49,871
Taxation	3	<u>(14,949)</u>	<u>(12,546)</u>
Profit before minority interests		40,844	37,325
Minority interests		<u>(19,777)</u>	<u>(18,461)</u>
Profit for the period		<u>21,067</u>	<u>18,864</u>
Dividends	4	<u>24,800</u>	<u>27,900</u>
Earnings per Share — Basic	5	<u>HK3.4 cents</u>	<u>HK3.0 cents</u>

Notes:

1. BASIS OF PREPARATION

The principal accounting policies adopted in preparing the unaudited consolidated results of the SIIC MedTech Group conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants. The consolidated income statement has been prepared under the historical cost convention as modified for revaluation of certain properties.

2. TURNOVER

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

For the period ended 31st March 2003 and 2002, the SIIC MedTech Group was engaged in the manufacture and sale of Chinese medicine and health supplement products. More than 90% of the SIIC MedTech Group's turnover, contribution to operating profit and assets was attributable to this business segment and located in the PRC.

3. TAXATION

	Three months ended	
	31st March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
PRC income tax	14,676	12,077
Share of PRC income tax of an associate	138	452
Share of PRC income tax of jointly controlled entities	<u>135</u>	<u>17</u>
	<u>14,949</u>	<u>12,546</u>

Hangzhou Qingchunbao, the major subsidiary of SIIC MedTech, having an assessable profit, is subject to a PRC income tax rate of 24% (2002: 24%).

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

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

The SIIC MedTech Group had no significant unprovided deferred taxation for the period.

4. DIVIDENDS

	Three months ended	
	31st March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
2002 final dividend of HK4 cents per share (31st March 2002: 2001 final dividend of HK3 cents and special final dividend of HK1.5 cents per share, totally HK4.5 cents per share)	<u>24,800</u>	<u>27,900</u>

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the following data:

	Three months ended 31st March	
	2003 HK\$'000	2002 HK\$'000
Earnings:		
Net profit for the period and earnings for the purpose of basic earnings per Share	<u>HK\$21,067,000</u>	<u>HK\$18,864,000</u>
Number of Shares:		
Weighted average number of ordinary Shares for the purpose of basic earnings per Share	<u>620,000,000</u>	<u>620,000,000</u>

Diluted earnings per Share is not presented as there were no dilutive potential ordinary shares in existence during the period.

6. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	PRC statutory funds HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
The SIIC MedTech Group							
At 1st January 2002	192,130	194,649	(20,725)	23,878	(12)	286,123	676,043
Net profit for the period	—	—	—	—	—	18,864	18,864
Dividends (note 4)	—	—	—	—	—	(27,900)	(27,900)
At 31st March 2002	<u>192,130</u>	<u>194,649</u>	<u>(20,725)</u>	<u>23,878</u>	<u>(12)</u>	<u>277,087</u>	<u>667,007</u>
The SIIC MedTech Group							
At 1st January 2003	192,130	194,649	(8,230)	23,878	(12)	345,744	748,159
Transfer	—	—	—	12,287	—	(12,287)	—
Net profit for the period	—	—	—	—	—	21,067	21,067
Dividends (note 4)	—	—	—	—	—	(24,800)	(24,800)
At 31st March 2003	<u>192,130</u>	<u>194,649</u>	<u>(8,230)</u>	<u>36,165</u>	<u>(12)</u>	<u>329,724</u>	<u>744,426</u>

4. SHARE CAPITAL

The authorised and issued share capital of SIIC MedTech as at the date of this document are as follows:

	Number of Shares '000	Nominal value HK\$'000
Authorised	1,000,000	100,000
Issued and fully paid	620,400	62,040

On 28th May 2003 and 11th July 2003, 300,000 Shares and 100,000 Shares were issued as a result of the exercise of 300,000 share options and 100,000 share options, respectively, by two employees of SIIC MedTech pursuant to the Share Option Scheme.

Each of the Share ranks *pari passu* in all respects, including entitlements to dividends, voting rights and return of capital.

As at the Latest Practicable Date, there were 37,800,000 outstanding share options (37,800,000 new Shares, representing approximately 6.09% of the existing issued share capital of SIIC MedTech as at the Latest Practicable Date and 5.74% of the enlarged issued share capital of SIIC MedTech, would be issued on exercise in full of 37,800,000 outstanding share options) granted by SIIC MedTech. Save for the share options, there are no warrants, convertible securities or outstanding derivatives in issue.

None of the unissued share or loan capital of SIIC MedTech is subject to any warrants, options or conversion rights and it has not been agreed, conditionally or unconditionally, to put any of the unissued share or loan capital of SIIC MedTech under any warrants, options or conversion rights.

5. INDEBTEDNESS

At the close of business on 30th April 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the SIIC MedTech Group had outstanding borrowings of approximately HK\$4.6 million, of which a bank borrowing of approximately HK\$1.9 million was secured by plants and machinery with carrying value of approximately HK\$3.8 million. The remaining unsecured borrowings comprised a loan from a minority shareholder of approximately HK\$1.9 million which carried interest at commercial rate and an interest free advance from an intermediate holding company of approximately HK\$0.8 million.

In addition, at 30th April 2003, the SIIC MedTech Group pledged a bank deposit of approximately HK\$10.2 million to a bank in order to secure facilities granted to a jointly controlled entity.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business of the SIIC MedTech Group, the SIIC MedTech Group did not have any outstanding mortgages, charges, debentures, loan capital or other similar indebtedness, or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30th April 2003.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30th April 2003. The Directors have confirmed that there has been no material changes in SIIC MedTech's indebtedness and contingent liability positions since 30th April 2003.

6. MATERIAL CHANGES

Save as discussed in the unaudited quarterly consolidated results of the SIIC MedTech Group for the three months ended 31st March 2003, there has been no known material change in the financial or trading position or prospects of the SIIC MedTech Group since 31st December 2002, the date to which the latest published audited consolidated financial statements of the SIIC MedTech Group were made up.

7. STATEMENT OF ADJUSTED CONSOLIDATED NTAV

Set out below is a statement of the Adjusted Consolidated NTAV, which was arrived at based on the consolidated NTAV and adjusted as follows:

	<i>HK\$'000</i>
Consolidated NTAV of the SIIC MedTech Group as at 31st December 2002 (Note)	762,137
Adjustments:	
Less: Final dividend of HK\$0.04 per Share paid out	(24,800)
Add: Attributable profit for the three months ended 31st March 2003	21,067
Goodwill amortization for the three months ended 31st March 2003	623
Exercise of share options	<u>676</u>
Adjusted Consolidated NTAV	<u><u>759,703</u></u>
	<i>HK\$</i>
Adjusted Consolidated NTAV per Share (based on 620,400,000 Shares in issue as at the Latest Practicable Date)	<u><u>1.22</u></u>

Note: The consolidated NTAV was arrived at after deducting goodwill of HK\$48,022,000 from the audited consolidated net asset value of HK\$810,159,000 as stated in SIIC MedTech's annual report for the year ended 31st December 2002. The exclusion of goodwill, being intangible asset of SIIC MedTech, is mainly for the computation of consolidated NTAV.

RESPONSIBILITY STATEMENT

The information in this document relating to the SIIC MedTech Group has been supplied by the Directors. The issue of this document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the SIHL Group apart from the SIIC MedTech Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than that relating to the SIHL Group apart from the SIIC MedTech Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

The information in this document relating to the SIHL Group has been supplied by the directors of SIHL (except for Dr. Lee Quo Wei, due to health reasons). The issue of this document has been approved by the directors of SIHL (except for Dr. Lee Quo Wei, due to health reasons), who jointly and severally accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

MARKET PRICES

The Shares are traded on the Stock Exchange.

The table below shows the respective closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement; (ii) on 20th May 2003 (being the last full trading day immediately preceding the date of the Announcement); and (iii) on the Latest Practicable Date.

Date	Price per Share <i>HK\$</i>
29th November 2002	1.37
31st December 2002	1.34
30th January 2003	1.50
28th February 2003	1.53
31st March 2003	1.56
30th April 2003	1.71
20th May 2003	1.87
Latest Practicable Date	2.075

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period from 21st November 2002, being the date six months prior to the date of the Announcement, to the Latest Practicable Date were HK\$2.075 on the trading days between 22nd May 2003 and 15th July 2003 (both days inclusive), and HK\$1.32 on 16th December 2002 respectively.

DISCLOSURE OF INTERESTS

For the purpose of this section, the “Offer Period” means the period from 21st May 2003 to the Latest Practicable Date, both days inclusive, the “Disclosure Period” means the period beginning from the six months prior to the Offer Period and ending with the Latest Practicable Date, both days inclusive, and “interested” and “interests” have the meanings respectively ascribed thereto in the SFO.

(a) Interests and dealings in the Shares

- (i) As at the Latest Practicable Date, SIHL, together with its wholly-owned subsidiaries, were interested in 408,934,000 Shares.
- (ii) As at the Latest Practicable Date, the interests of the Directors in the Shares and underlying shares of the Company or any of its associated corporations, within the meaning of the SFO, which were notified to SIIC MedTech and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by SIIC MedTech pursuant to Section 352 of the SFO or which were notified to SIIC MedTech and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the Rules Governing the Listing of Securities on GEM relating to securities transactions by Directors, were as follows:

Name of Director	Number of Shares held and nature of interest				Total
	Personal interest	Family interest	Corporate interest	Other interests	
Shen Wei Jia	225,000	—	—	—	225,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest or short positions in any Shares, underlying shares or debentures of SIIC MedTech or any associated corporations, within the meaning of the SFO, which would have to be notified to SIIC MedTech and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the Rules Governing the Listing of Securities on GEM relating to securities transactions by Directors, to be notified to SIIC MedTech and the Stock Exchange. None of the Directors dealt for value in any Shares during the Disclosure Period.

- (iii) As at the Latest Practicable Date, the Excluded Parties had the following interest in the Shares:

Name of Excluded Parties	Number of Shares held and nature of interest				Total
	Personal interest	Family interest	Corporate interest	Other interests	
NEL	—	—	8,088,000	—	8,088,000
NPL	—	—	975,000	—	975,000
Shen Wei Jia	225,000	—	—	—	225,000

Save as disclosed above, none of the Excluded Parties had any interest in the Shares as at the Latest Practicable Date. Save as disclosed in sub-paragraph (v) below, none of the Excluded Parties dealt for value in any Shares during the Disclosure Period.

Save as disclosed above, neither SIHL nor any of the parties acting in concert with SIHL owned or controlled any Shares as at the Latest Practicable Date.

- (iv) As at the Latest Practicable Date, the following Directors were interested in the share options of SIIC MedTech:

Name of Director	Month of grant	Exercise price per Share	Balance of options as at the Latest Practicable Date
Feng Gen Sheng	January 2000	1.69	6,000,000
Li Wei Da (<i>Note</i>)	January 2000	1.69	6,000,000
Chen Shu Zi	January 2000	1.69	4,000,000
Ge Wen Yao (<i>Note</i>)	January 2000	1.69	2,500,000
Wu Jian Zhuang	January 2000	1.69	2,500,000

Note: Mr. Li and Mr. Ge have each executed under seal as a deed, subject to the fulfilment of the conditions of the Proposal, an agreement to surrender their respective rights under the share options of SIIC MedTech held by each of them as at the date of Announcement and to consent to SIIC MedTech cancelling the share options granted to them at no consideration. Mr. Li and Mr. Ge have undertaken not to exercise their respective rights under the share options held by each of them prior to the fulfilment of the conditions of the Proposal.

- (v) Set out below are the dealings in Shares by SIHL and parties acting in concert with SIHL, during the Disclosure Period:

Acquisitions

By NEL

Date	No. of Shares	Average Price per Share
7th March 2003	290,000	1.44
10th March 2003	358,000	1.40
17th March 2003	68,000	1.50
19th March 2003	978,000	1.49
20th March 2003	104,000	1.49
21st March 2003	44,000	1.48
24th March 2003	160,000	1.49
25th March 2003	150,000	1.46
26th March 2003	84,000	1.48
3rd April 2003	130,000	1.62
4th April 2003	50,000	1.64
9th April 2003	935,000	1.71
10th April 2003	290,000	1.72
11th April 2003	100,000	1.73
14th April 2003	100,000	1.71
15th April 2003	352,000	1.70
16th April 2003	210,000	1.72
17th April 2003	270,000	1.71
22nd April 2003	40,000	1.71
23rd April 2003	125,000	1.70
24th April 2003	138,000	1.70
25th April 2003	234,000	1.69
28th April 2003	<u>35,000</u>	<u>1.70</u>
Total	<u>5,245,000</u>	<u>1.60</u>

By NPL

Date	No. of Shares	Average Price per Share
10th April 2003	200,000	1.72
15th April 2003	200,000	1.70
16th April 2003	40,000	1.72
23rd April 2003	30,000	1.69
24th April 2003	<u>81,000</u>	<u>1.70</u>
Total	<u>551,000</u>	<u>1.71</u>

By SIHL Treasury

Date	No. of Shares	Average Price per Share
25th March 2003	25,000	1.47
26th March 2003	5,000	1.47
27th March 2003	583,000	1.54
28th March 2003	10,000	1.56
31st March 2003	348,000	1.56
1st April 2003	207,000	1.55
2nd April 2003	65,000	1.59
3rd April 2003	2,414,000	1.63
4th April 2003	2,114,000	1.67
7th April 2003	1,829,000	1.71
8th April 2003	<u>2,716,000</u>	<u>1.73</u>
Total	<u>10,316,000</u>	<u>1.67</u>

Save as disclosed above, neither SIHL nor any parties acting in concert with SIHL has dealt for value in Shares during the Disclosure Period.

- (vi) As at the Latest Practicable Date, no subsidiary of SIIC MedTech, pension fund of SIIC MedTech or of any subsidiary of SIIC MedTech or any advisers of SIIC MedTech owned or controlled any Shares or dealt for value in any Shares during the Disclosure Period.
- (vii) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between SIHL or any person acting in concert with SIHL and any other person.
- (viii) As at the Latest Practicable Date, no person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with SIIC MedTech or SIHL or with any person acting in concert with SIIC MedTech or SIHL or with any person who is an associate of SIIC MedTech by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code owned or controlled any Shares or dealt for value in any Shares during the Disclosure Period.
- (ix) As at the Latest Practicable Date, there was no interest in any Shares which was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with SIIC MedTech and no such fund manager dealt for value in any Shares during the Disclosure Period.

(b) Interests and dealings in the SIHL Shares

- (i) As at the Latest Practicable Date, the following Directors had interests in the SIHL shares:

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

- (ii) As at the Latest Practicable Date, the following Directors were interested in the share options of SIHL:

Name of Director	Month of grant	Exercise price per share	Balance of options as at the Latest Practicable Date
Lu Ming Fang	July 2001	10.432	1,500,000
Feng Gen Sheng	October 2002	11.710	400,000
Chen Shu Zi	July 2001	10.432	1,500,000
	October 2002	11.710	350,000
Shen Wei Jia	September 2002	11.710	200,000
Wu Jian Zhuang	October 2002	11.710	200,000

Save as disclosed above, none of the Directors and the SIIC MedTech Group had any interest in any SIHL shares as at the Latest Practicable Date and none of the Directors and the SIIC MedTech Group dealt for value in any SIHL shares or options, derivatives or convertible securities of SIHL during the Disclosure Period.

(c) Other interests

- (i) No benefit is or will be paid to any Director as compensation for loss of office or otherwise in connection with the Scheme.
- (ii) As at the Latest Practicable Date, save for Mr. Li and Mr. Ge have undertaken to surrender their respective rights under the share options of SIIC MedTech held by each of them and all of the holders of share options, including Mr. Feng Gen Sheng, Mr. Chen Shu Zi and Mr. Wu Jian Zhuang, have agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the Share Option Scheme, there was no agreement, arrangement or understanding (including any compensation arrangement) or intention to enter into any agreement, arrangement or understanding (including any compensation arrangement) between SIHL or any person acting in concert with SIHL and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Scheme.

- (iii) No agreement or arrangement exists between any Director and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.
- (iv) No material contract has been entered into by SIHL in which any Director has a material personal interest.
- (v) None of the Directors has a service contract in force with any member of the SIIC MedTech Group which has more than twelve months to run or which was entered into or amended within six months before the date of the Announcement.
- (vi) Mr. Lee Ka Sze, Carmelo is a partner of Woo, Kwan, Lee & Lo, legal adviser to SIIC MedTech on Hong Kong law in relation to the Proposal. Woo, Kwan, Lee & Lo will receive normal professional fees in connection with matters relating to the Proposal.
- (vii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding or intention to enter into any agreement, arrangement or understanding between SIHL or any person acting in concert with it and any other person for the transfer of the beneficial interests in the Scheme Shares under the Scheme.

MATERIAL CONTRACTS

Neither SIIC MedTech nor any of its subsidiaries within the two years prior to the Latest Practicable Date had entered into any contracts which are or may be material other than in the ordinary course of the business carried on or intended to be carried on by the SIIC MedTech Group.

LITIGATION

As at the Latest Practicable Date, neither SIIC MedTech nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to any of the Directors to be pending or threatened by or against SIIC MedTech or any of its subsidiaries.

MISCELLANEOUS

- (a) The beneficial interests in the Shares of the parties deemed to be acting in concert with the offeror, SIHL, are set out in the section headed “Information Relating to the Interests of Parties Acting in Concert” on pages 46 to 47 of this document. Those parties, which are companies, are SIIH, SIHL Treasury and CFI (all of which are wholly-owned subsidiaries of SIHL), NEL and NPL (both of which are wholly-owned subsidiaries of SIIC). Their addresses and the names of their directors are set out below:

Name	Address	Directors
SIHL	26/F., Harcourt House 39 Gloucester Road Wanchai, Hong Kong	Cai Lai Xing, Chen Wei Shu, Lu Ming Fang, Lu Da Yong, Li Wei Da, Lu Yu Ping, Qian Shi Zheng, Zhou Jie, Ge Wen Yao, Huang Yan Zheng, Yao Fang, Lee Quo Wei, Lo Ka Shui, Woo Chia-Wei, Leung Pak To, Francis
SIIH	26/F., Harcourt House 39 Gloucester Road Wanchai, Hong Kong	Lu Da Yong, Qian Shi Zheng
SIHL Treasury	26/F., Harcourt House 39 Gloucester Road Wanchai, Hong Kong	Lu Ming Fang, Lu Da Yong, Qian Shi Zheng
CFI	26/F., Harcourt House 39 Gloucester Road Wanchai, Hong Kong	Lu Ming Fang, Li Wei Da, Zhou Jie, Chen Shu Zi
NEL	26/F., Harcourt House 39 Gloucester Road Wanchai, Hong Kong	Lu Da Yong, Zheng Zhi Ping, Zhang He Shi, Zhuo Fu Min
NPL	26/F., Harcourt House 39 Gloucester Road Wanchai, Hong Kong	Lu Da Yong, Zheng Zhi Ping

The ultimate controlling shareholder of SIHL, SIIH, SIHL Treasury, CFI, NEL and NPL is SIIC. The directors of SIIC are Mr. Cai Lai Xing, Mr. Chen Wei Shu, Mr. Wang Rong Feng, Mr. Lu Da Yong, Mr. Qu Ding, Mr. Zhu Ming Hua, Mr. Ding Zhong De, Mr. Chen Zeng Tang, Mr. Cao Fu Kang, Mr. Liu Xiao Shan, Mr. Chen Shao Qing, Mr. Fu Wei Guo, Mr. Lu Bing Sun, Mr. Chen Jin Bang, Ms. Shen Li Qin and Mr. Wen Song Quan.

The address of Mr. Shen Wei Jia, who is deemed to be acting in concert with SIHL is at 21/F., Golden Bell Plaza, No. 98 Huai Hai Road (M), Shanghai 200021, the PRC.

- (b) The registered office of SIHL is 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (c) The principal place of business of BNP Paribas Peregrine is 36th Floor, Asia Pacific Finance Tower, 3 Garden Road, Central, Hong Kong.
- (d) All costs, charges and expenses of and incidental to the Scheme and the costs of carrying the Scheme into effect will be borne by SIHL.
- (e) The English text of this document and the forms of proxy shall prevail over the Chinese text.
- (f) All announcements in relation to the Proposal will be published on the GEM website and as a paid announcement in at least one leading English Language newspaper and one leading Chinese Language newspaper, being in each case a newspaper which is a published daily and circulating generally in Hong Kong.

EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualifications
BNP Paribas Peregrine	Deemed licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
ING	Exempt dealer under the repealed Securities Ordinance and is deemed licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

CONSENTS

BNP Paribas Peregrine and ING have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of their opinions or letters, as the case may be, and the references to their names, opinions or letters in the form and context in which they respectively appear.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of the Solicitors for SIIC MedTech, Woo, Kwan, Lee & Lo, at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and restated articles of association of SIIC MedTech;
- (b) the memorandum and articles of association of SIHL;
- (c) the audited consolidated financial statements of the SIIC MedTech Group for each of the years ended 31st December 2001 and 2002 and the unaudited quarterly report of the SIIC MedTech Group for the three months ended 31st March 2003;
- (d) the letter from ING to the Independent Board Committee, the text of which is set out on pages 16 to 36 of this document;
- (e) the letters of consent referred to in this Appendix; and
- (f) deeds of undertaking executed by Mr. Li and Mr. Ge.

SCHEME OF ARRANGEMENT

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO: 424 OF 2003**

**In the Matter of
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
and In the Matter of
SECTION 86 OF THE COMPANIES LAW (2003 REVISION)**

**Scheme of Arrangement
between
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
and
the holders of Scheme Shares
(as hereinafter defined)**

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“CFI”	Central Force Investments Limited, a company incorporated in the British Virgin Islands with limited liability
“Controlling Parties”	SIHL together with SIH, SIHL Treasury and CFI, all wholly-owned subsidiaries of SIHL and beneficially interested in an aggregate of approximately 65.91% of the issued capital of SIIC MedTech as at the date of this Scheme
“Court”	the Grand Court of the Cayman Islands
“Effective Date”	the date on which this Scheme becomes effective in accordance with Clause 6 of this Scheme
“Excluded Parties”	NEL, NPL and Shen Wei Jia, all beneficially interested in an aggregate of approximately 1.50% of the issued capital of SIIC MedTech as at the date of this Scheme
“holder”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“NEL”	Nanyang Enterprises Limited, a company incorporated in Hong Kong with limited liability
“NPL”	Nanyang Enterprises Properties Limited, a company incorporated in Hong Kong with limited liability
“Record Time”	5:00 p.m. Hong Kong time on the day immediately preceding the Effective Date

SCHEME OF ARRANGEMENT

“Register”	the register of members of SIIC MedTech
“Scheme”	this scheme of arrangement under Section 86 of the Companies Law (2003 Revision) of the Cayman Islands in its present form or with or subject to any modification thereof or addition thereto or condition(s) approved or imposed by the Court
“Scheme Share(s)”	the Shares in issue as at the Record Time other than those beneficially owned by the Controlling Parties
“Share(s)”	ordinary shares of HK\$0.10 each in the capital of SIIC MedTech
“SIHL”	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability
“SIHL Treasury”	SIHL Treasury Limited, a company incorporated in Hong Kong with limited liability
“SIIC MedTech”	SIIC Medical Science and Technology (Group) Limited, a company incorporated in the Cayman Islands with limited liability
“SIIH”	S.I. Infrastructure Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“HK\$”	Hong Kong dollars

- (B) The authorised share capital of SIIC MedTech at the date of this Scheme is HK\$100,000,000 divided into 1,000,000,000 Shares, 620,400,000 of which have been issued and are fully paid and the remainder are unissued.
- (C) The primary purpose of this Scheme is that all of the Scheme Shares should be cancelled and that SIIC MedTech should become a wholly-owned subsidiary of SIHL.

SCHEME OF ARRANGEMENT

- (D) As at the date of this Scheme, an aggregate of 408,934,000 Shares are beneficially owned by the Controlling Parties and registered as follows:

Name of Controlling Parties	Name of registered holders	Number of Shares
SIHL	HKSCC Nominees Limited	19,119,000
SIIH	HKSCC Nominees Limited	4,261,000
SIHL Treasury	HKSCC Nominees Limited	13,554,000
CFI	HKSCC Nominees Limited	372,000,000

Each of the Controlling Parties has undertaken that in relation to such Shares in which it is beneficially interested, each of such Shares will remain so registered and beneficially interested until the date on which this Scheme becomes effective, is withdrawn or lapses.

- (E) As at the date of this Scheme, an aggregate of 9,288,000 Shares are beneficially owned by the Excluded Parties and registered as follows :

Name of Excluded Parties	Name of registered holders	Number of Shares
NEL	HKSCC Nominees Limited	8,088,000
NPL	HKSCC Nominees Limited	975,000
Shen Wei Jia	HKSCC Nominees Limited	225,000

Each of the Excluded Parties, being deemed to be acting in concert with SIHL under The Code on Takeovers and Mergers has undertaken that in relation to such Shares in which each of them is beneficially interested, all such Shares will remain so registered and beneficially interested until the date on which this Scheme becomes effective, is withdrawn or lapses and will procure that such Shares will not be present or have their votes cast at the meeting convened by direction of the Court for the purpose of considering and, if thought fit, approving this Scheme.

- (F) SIHL and each of the Controlling Parties and Excluded Parties have agreed to appear by Counsel at the hearing of the Petition to sanction this Scheme and to undertake to the Court to be bound thereby and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date :
 - (a) the authorised and issued share capital of SIIC MedTech shall be reduced by cancelling and extinguishing the Scheme Shares; and
 - (b) SIIC MedTech shall apply the credit arising in its books of account as a result of the reduction of its share capital referred to in sub-clause (a) of this Clause 1 to a reserve account in the books of account of SIIC MedTech.

SCHEME OF ARRANGEMENT

PART II

Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, SIHL shall pay or cause to be paid to each holder of Scheme Shares (as appearing in the Register at the Record Time) HK\$2.15 for each Scheme Share held.

PART III

General

3. (a) Not later than ten days after the Effective Date, SIHL shall send or cause to be sent to the holders of Scheme Shares (as appearing in the Register at the Record Time) cheques in respect of the sums payable to such holders pursuant to Clause 2 of this Scheme.
- (b) Unless indicated otherwise in writing to the branch share registrar of SIIC MedTech in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such holders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) Cheques shall be posted at the risk of the addressees and neither SIIC MedTech nor SIHL shall be responsible for any loss or delay in transmission.
- (d) Each such cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to SIHL for the monies represented thereby.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph (b) of this Clause 3, SIHL shall have the right to cancel or countermand payment of any such cheque which has not then been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in SIIC MedTech's name with a licensed bank in Hong Kong selected by SIIC MedTech. SIIC MedTech shall hold such monies until the expiration of six years from the Effective Date and shall prior to such date make payments thereof of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy SIIC MedTech that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been cashed. Any payments made by SIIC MedTech hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of any interest or withholding tax or any other deduction required by law. SIIC MedTech shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of SIIC MedTech to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

SCHEME OF ARRANGEMENT

- (f) On the expiration of six years from the Effective Date, SIHL shall be released from any further obligation to make any payments under this Scheme and SIIC MedTech shall transfer to SIHL the balance, if any, of the sums standing to the credit of the deposit account referred to in paragraph (e) of this Clause 3 including accrued interest subject, if applicable, to the deduction of interest tax or any withholding tax or any other deduction required by laws.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
4. Each certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of SIIC MedTech to deliver up the same to SIIC MedTech for the cancellation thereof.
 5. All mandates or relevant instructions in force at the Record Time relating to any of the Scheme Shares shall cease to be valid and effective mandates or instructions.
 6. This Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under Section 86 of the Companies Law (2003 Revision) of the Cayman Islands, and confirming, under Section 16 of the same Law, the reduction of share capital provided for in this Scheme, together with a minute relating to the share capital of SIIC MedTech and containing the particulars required by Section 17 of the same Law, shall have been duly registered by the Registrar of Companies in the Cayman Islands.
 7. Unless this Scheme shall have become effective on or before 30th September 2003 or such later date, if any, as the Court on application of SIIC MedTech or SIHL may allow, this Scheme shall lapse.
 8. SIIC MedTech and SIHL may jointly consent for and on behalf of the Controlling Parties and holders of Scheme Shares to any modification of or addition to the Scheme or to any condition which the Court may think fit to approve or impose.
 9. All costs, charges and expenses of and incidental to this Scheme and the costs of carrying this Scheme into effect will be borne by SIHL.

Dated 18th July 2003

NOTICE OF COURT MEETING

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO. 424 OF 2003**

**IN THE MATTER OF
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
and
IN THE MATTER OF
THE COMPANIES LAW (2003 REVISION) OF THE CAYMAN ISLANDS**

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 15th July 2003 (the “Order”) made in the above matters, the Court has directed a meeting (the “Meeting”) to be convened of the holders of ordinary shares of HK\$0.10 each in the capital of SIIC Medical Science and Technology (Group) Limited (the “Company”) other than those of such shares beneficially owned by Shanghai Industrial Holdings Limited, Central Force Investments Limited, S.I. Infrastructure Holdings Limited and SIHL Treasury Limited for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement proposed to be made between the Company and the holders of the Scheme Shares (as defined in the scheme of arrangement hereinafter mentioned (the “Scheme”)) and that the Meeting will be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 11th August 2003 at 10:30 a.m. at which place and time all such holders of ordinary shares of HK\$0.10 each in the capital of the Company are requested to attend.

A copy of the Scheme and a copy of an explanatory statement explaining the effect of the Scheme are incorporated in the document of which this Notice forms part.

The above-mentioned holders of ordinary shares of HK\$0.10 each in the capital of the Company may vote in person at the Meeting or they may appoint one or more proxies (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed herewith.

In the case of joint holders, the vote of the most senior holder who tenders a vote, whether personally or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names of the joint holders stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged with the principal place of business of the Company in Hong Kong, by hand or by post, at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, or by facsimile at number (852) 2520 0128 (marked for the attention of The Company Secretary) not less than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the chairman of the Meeting at the Meeting.

By the Order, the Court has appointed Mr. Kwok Chin Kung, Robert, a director of the Company, or failing him, Mr. Li Ka Cheung, Eric, a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the results thereof to the Court.

NOTICE OF COURT MEETING

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

Dated 18th July 2003.

Maples and Calder
P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
Attorneys for the Company



上海實業醫藥科技(集團)有限公司*

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of SIIC Medical Science and Technology (Group) Limited (the "Company") will be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 11th August 2003 at 11:00 a.m. (or as soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

SPECIAL RESOLUTION

"THAT:

- (A) the proposed scheme of arrangement (the "Scheme") between the Company and the holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, subject to any modifications, additions or conditions as may be approved or imposed by the Grand Court of the Cayman Islands, be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in sub-paragraph (i) to a reserve account in the books of account of SIIC MedTech; and
- (C) the directors of the Company be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the Grand Court of the Cayman Islands may see fit to impose;

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (D) with effect from the date on which this resolution is passed, the Articles of Association of the Company be amended by the adoption and inclusion of the following new Article 182, immediately following the existing Article 181 :

“This Article applies if:

- (1) a compromise or arrangement (a “Scheme”) is proposed between the Company and its shareholders or any class of them pursuant to Section 86 of the Companies Law (2003 Revision) of the Cayman Islands (the “Section”) whether or not such Scheme includes a reduction of the Company’s share capital, and
- (2) the Grand Court of the Cayman Islands directs a meeting or meetings of the Company’s shareholders or any class of them pursuant to the Section (“Court Meeting(s”).

If the Company issues any share(s) (or, where the proposed scheme is between the Company and any class of its shareholders, any share(s) in any such class) between the day of any such Court Meeting(s) and 5:00 p.m. on the day preceding the date upon which such Scheme shall become effective, then such share(s) shall be subject to the provisions of such Scheme. Provided that, any such new share shall only be subject to a reduction of the Company’s share capital that is part of such Scheme if such new share has been issued before 5:00 p.m. on the date on which such reduction of capital becomes effective.”

By Order of the Board
Wong Mei Ling, Marina
Company Secretary

Hong Kong, 18th July 2003.

Principal place of business in Hong Kong:

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

Notes:

1. A white form of proxy for use at this meeting is enclosed herewith.
2. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him/her. A proxy need not be a member of the Company.
3. In order to be valid, the white form of proxy together with any power of attorney or other authority (if any) under which it is signed, or notarially certified copy of such power of attorney, must be deposited at the principal place of business of the Company in Hong Kong, at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding this meeting or any adjournment thereof.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at this meeting and, in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any share in the Company, any one of such joint holders may vote at this meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at this meeting personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.