half-year report 2001

上海實業醫藥科技(集團)有限公司

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED

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A Member of SIIC

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COMPANY INFORMATION

Executive Directors
Zhuo Fu Min *(Chairman)*
Feng Gen Sheng *(Vice Chairman)*
Li Wei Da *(Managing Director)*
Chen Shu Zi
(Deputy Managing Director)
Ge Wen Yao
Wu Jian Zhuang

Independent Non-Executive Directors
Kwok Chin Kung, Robert
Li Ka Cheung, Eric
Lee Ka Sze, Carmelo

Company Secretary
Wong Mei Ling, Marina
ACS, ACIS, MBA, BA (Hons) AC

Compliance Officer
Li Wei Da

Qualified Accountant
Ho Hon Ming, John
BA (Hons) Econ, FCA (UK)

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

Authorised Persons to accept services of process and notices
Li Wei Da
Wong Mei Ling, Marina

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

Head Office and Principal Place of Business
10/F., Shanghai Industrial Investment Building
48–62 Hennessy Road
Wanchai, Hong Kong

Auditors
Deloitte Touche Tohmatsu

Sponsor
BNP Paribas Peregrine Capital Limited

Legal Advisers
Woo, Kwan, Lee & Lo
Pu Dong Law Office
Fangda Partners
Maples and Calder Asia

Hong Kong Branch Share Registrar and Transfer Office
Secretaries Limited
5/F., Wing On Centre
111 Connaught Road Central
Hong Kong

Website Address
SIIC MedTech:
http://www.siicmst.com
Hangzhou Qingchunbao:
http://www.cnqcb.com
Shanghai Jahwa:
http://www.china-jahwa.com
Herborist:
http://www.herborist.com
Shanghai Pharmaceutical Network:
http://www.e135.com
TCM Port:
http://www.tcm-port.com.cn

GEM Stock Code
8018

HIGHLIGHTS

- Profitability is good, with profits after tax exceeding HK$198 million, 5 times higher than the same period last year.

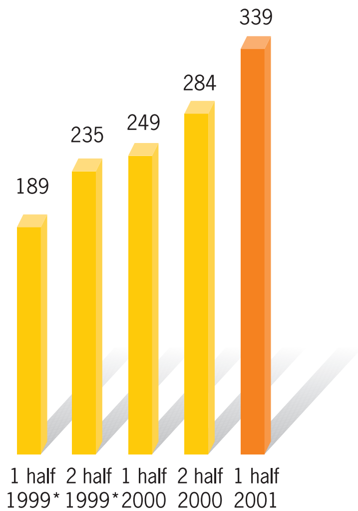
- Hangzhou Qingchunbao has shown particularly robust growth in turnover. The sales of "Qingchunbao" anti-aging tablets reached a historical height and up 131% over the same period last year.

- The growth in Shanghai Jahwa's profitability accelerated distinctly. In spite of the fact that shares of Shanghai Jahwa held by the Group were diluted after the listing, the contribution made by Shanghai Jahwa to the Group markedly increased.

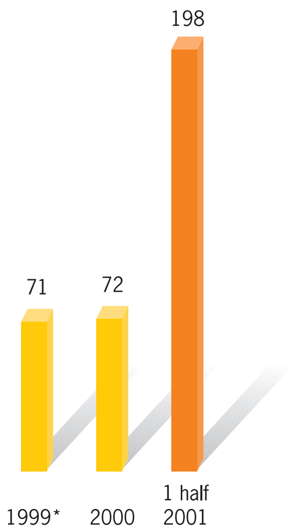
- Net Asset Value up 39%, and earnings per share up 5 times.

- The Group has strong asset base and firm financial foundation with net cash reserves of more than HK$400 million; and the ratio of current assets to current liabilities is over 3.6 times.

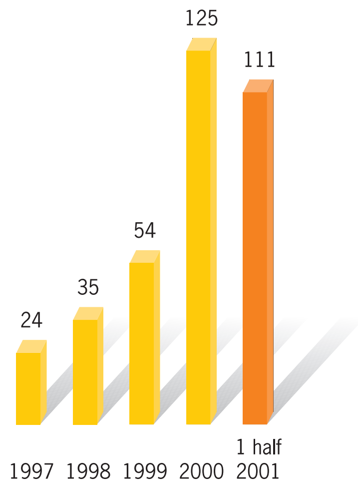
Turnover (HK$ million)



Profit Attributable to Shareholders (HK$ million)



"Qingchunbao" Anti-ageing Tablet Turnover (RMB million)



* Pro forma combined

CONSOLIDATED INCOME STATEMENT

The Board of Directors of SIIC Medical Science and Technology (Group) Limited (the "Company") is pleased to announce that the unaudited consolidated results for the three months and six months ended 30th June 2001 of the Company and its subsidiaries (the "Group") and the comparative figures for the corresponding periods last year are set out below:

		Three months ended 30th June		**Six months ended 30th June**	
		2001	2000	**2001**	2000
		Unaudited	Unaudited	**Unaudited**	Unaudited
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	2	**159,466**	121,745	**339,402**	249,415
Cost of sales		**(60,595)**	(36,419)	**(133,163)**	(79,216)
Gross profit		**98,871**	85,326	**206,239**	170,199
Investment income		**2,630**	4,169	**5,564**	7,714
Distribution costs		**(34,995)**	(36,965)	**(92,671)**	(82,836)
Administration expenses		**(33,775)**	(26,222)	**(47,267)**	(39,597)
Profit from operations	3	**32,731**	26,308	**71,865**	55,480
Finance cost		**—**	(245)	**—**	(1,107)
Gain on deemed disposal of interests in a jointly controlled entity	4	**—**	—	**155,694**	—
Share of profit of an associated company	5	**17,933**	10,445	**17,933**	11,391
Share of (loss)/profit of jointly controlled entities		**235**	—	**(27)**	—
Profit from ordinary activities before taxation		**50,899**	36,508	**245,465**	65,764
Taxation	6	**(10,932)**	(5,136)	**(19,575)**	(9,295)
Profit before minority interests		**39,967**	31,372	**225,890**	56,469
Minority interests		**(13,036)**	(11,932)	**(26,976)**	(23,483)
Profit for the period	1	**26,931**	19,440	**198,914**	32,986
Earnings per share — Basic	7	**4.3 cents**	3.1 cents	**32.1 cents**	5.3 cents

Notes:

1. Basis of preparation

Shanghai Jahwa United Co., Ltd. (上海家化聯合股份有限公司) ("Shanghai Jahwa"), previously a jointly controlled entity of the Group, was listed on the Shanghai Stock Exchange A Shares Market on 15th March 2001 and became an associate since then. In accordance with Hong Kong Statements of Standard Accounting Practice 10 "Accounting for investments in associates", the Company should include only published financial information of its listed associate in its financial statements. Shanghai Jahwa did not publish its financial information for the period ended 31st March 2001. As a result, the income statement of the Group for the three months ended 30th June 2001 included the sharing of results of Shanghai Jahwa for the six months period from 1st January 2001 to 30th June 2001.

2. Turnover

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

3. Profit from operations

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

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

Gain on deemed disposal of interests in a jointly controlled entity represented the exceptional gain on deemed disposal by the Group's interest in Shanghai Jahwa diluted from 40% to 28.15% after the listing of Shanghai Jahwa's shares on the Shanghai Stock Exchange A Shares Market.

5. Share of profit of an associated company

Pursuant to basis of preparation in note 1, share of profit of an associated company of the Group for the three months ended 30th June 2001 included the sharing of results of Shanghai Jahwa for the six months period from 1st January 2001 to 30th June 2001.

6. Taxation

	Three months ended 30th June		Six months ended 30th June	
	2001	2000	**2001**	2000
	Unaudited	Unaudited	**Unaudited**	Unaudited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The charge comprises:				
PRC income tax	**9,576**	3,867	**18,219**	7,891
Share of PRC income tax of an associated company	**1,279**	—	**1,279**	—
Share of PRC income tax of a jointly controlled entity	**77**	1,269	**77**	1,404
	10,932	5,136	**19,575**	9,295

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

The tax holiday for Hangzhou Qingchunbao has expired in 2000. During the period, Hangzhou Qingchunbao has provided for PRC income tax calculated at 24%. Pursuant to an approval received from local tax authorities on 16th September 1998, Hangzhou Qingchunbao was classified as one of the approved "High Technology Entities". Accordingly, Hangzhou Qingchunbao was entitled to a preferential PRC income tax rate of 12% for the six years ended 31st December 2000.

Shanghai Jahwa was in its fifth profitable year in 2000. Its entitlement to a 50% relief from PRC income tax at the applicable tax rate of 27% expired. However, the extension of Shanghai Jahwa's entitlement to a 50% relief from PRC income tax for a further three years ending 2003 was approved by the relevant tax authority in 2001. Its subsidiaries are, however, subject to PRC income tax calculated at 33%. Pursuant to basis of preparation in note 1, taxation of the Group for the three months ended 30th June 2001 included the sharing of PRC income tax of Shanghai Jahwa for the six months period from 1st January 2001 to 30th June 2001.

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

7. Earnings per share

The calculation of the basic earnings per share is based on the profit for the six months and three months ended 30th June 2001 of HK$198,914,000 and HK$26,931,000 respectively (six months and three months ended 30th June 2000: HK$32,986,000 and HK$19,440,000) and the weighted average of 620,000,000 shares (six months and three months ended 30th June 2000: 620,000,000 shares) in issue for the six months and three months ended 30th June 2001.

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

BUSINESS REVIEW

SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech" or "the Company") announces unaudited consolidated profit for the six months ended 30th June 2001 of over HK$198 million, representing an increase of 5 times over the same period last year. During the period, the Group's profit from its principal business operations, excluding the HK$155 million exceptional income from the listing of Shanghai Jahwa on the Shanghai Stock Exchange A Shares Market, increased compared to the corresponding period last year.

During the period, both Hangzhou Qingchunbao and Shanghai Jahwa were performing exceptionally well. The pre-tax profit of Hangzhou Qingchunbao increased by approximately 30%. The growth in Shanghai Jahwa's profitability accelerated distinctly. In spite of the fact that shares of Shanghai Jahwa held by the Group were diluted after the listing, there was a marked increase in the contribution made by Shanghai Jahwa to the Group.

Raw Material

The production process for fresh barbary wolfberry granules developed by the Group was finalised during the period, and the Group is preparing for certification. Compared with other barbary wolfberry fruit products on the market, our barbary wolfberry granules are characterised by their manageable and testable ingredients, consistent quality, and advanced form, in line with modern pharmaceutical practice and international market requirements. The Group is now selecting equipment and preparing for production. The plant is expected to start operation next year.

Research and Development

Hangzhou Qingchunbao persists in its principle of remaining market-oriented when developing new products, which means it selects projects according to current and potential market demand. It has successfully developed "Ipriflavone" tablets for the treatment and prevention of osteoporosis, the first such Category 2 medicine to be approved by the State Drug Administration. Osteoporosis is a common disease causing loss of bone mass. Currently, drugs for the treatment of osteoporosis are classified as either bone-absorption inhibitors or bone-forming accelerators. Ipriflavone is a synthetic flavone that works directly on the bone as a plant oestrogen hormone medicine. While preventing bone absorption, it also enhances hormone levels and stimulates the thyroid gland to release calcitonin, thus achieving a curative effect. The fact that Ipriflavone has applications in both treatment classes guarantees it a promising future.

"Anntiflu" capsule has passed the municipal health supplement examination organised by the Municipal Ministry of Health, and is expected to obtain production approval from the State of Ministry of Health. The Company has decided to let its subsidiary, Hangzhou Qingchunbao, organise production and sales distribution. Echinacea is the raw material for "Anntiflu" capsule and is produced in line with GAP regulations and quality control standards. The production facility has obtained GMP certification and, Echinacea products are widely recognised on the international market. On these virtues, the Group believes that "Anntiflu" capsule will be well received by the local and overseas markets.

As Chinese medicine, plant medicine and traditional medicine are increasingly recognised by the international community, the promotion and re-invention of the traditional Chinese medicine industry by the application of modern technology is expected to become an important development trend. In the first quarter, the Group and the China Academy of Traditional Chinese Medicine signed an agreement to re-develop high quality traditional Chinese medicine. Five products selected from the "Catalogue of Medicines Covered by the State Basic Medical Insurance" will be offered in enhanced forms and have their production methods updated. The design of these five products has passed a number of repeated trials, and the preliminary draft has been finalised. Details will be submitted to the Group for further development.

Production

To cope with growing sales of "Qingchunbao" anti-aging tablets and the regular launch of new products, Hangzhou Qingchunbao has completed the expansion of its health supplement production line, and the new line has started operations. The production line for Ningxia barbary wolfberry fruit products is under preparation; plant construction will be completed in time for the launch of fresh barbary wolfberry granules.

Sales

The turnover of Hangzhou Qingchunbao reached a historical height. In the first half of this year, sales rose by approximately 36% to RMB363 million; this rapid growth was underpinned by Hangzhou Qingchunbao's diligence and innovation. "Qingchunbao" anti-aging tablets have been in existence for 22 years. The sustained growth in sales is attributable to the adoption of the market-oriented strategic planning by Hangzhou Qingchunbao. It first concentrated on the principal markets in the nation for health supplement products, and then radiated towards neighbouring cities, which has led to a lasting expansion in sales.

"Qingchunbao" anti-aging tablets represent the essence of traditional medicine matching up with sophisticated production technique, quality testing and operational management. The fact that "Qingchunbao" anti-aging tablets are made from genuine traditional medicine without compromising its reasonable price and obvious curative effects has led to an ever-increasing share of the domestic market for health supplements. Following the robust growth in previous years, sales in the first half of this year increased by approximately 131% compared with the same period last year.

Another new product developed by Hangzhou Qingchunbao, "Azithromycin" dispersible tablets, has shown a steady growth in sales since it was launched last September, and the market is still expanding. A Category 4 medicine, "Azithromycin" dispersible tablets are applicable for the following infections caused by sensitive bacteria: infection of the upper respiratory tract, such as otitis media, naso-sinusitis, pharyngitis and tonsillitis; and infections of the lower respiratory tract, such as bronchitis and pneumonia. "Azithromycin" dispersible tablets can be swallowed or dissolved in water. The instructions for use are simple, and these tablets are suitable for both the elderly and children. The market potential is huge.

Shanghai Jahwa has concentrated on product management for many years. Technical exchanges and cooperation with international companies at the start of the 1980s enabled Shanghai Jahwa to absorb international business management practices. A management strategy focusing on both scientific research and market development with Shanghai Jahwa characteristics was created. Faced with China's impending entry to the Word Trade Organisation ("WTO") and increasing economic globalisation, Shanghai Jahwa has used its excellent track record to enter the capital markets, thereby enhancing its competitiveness and strength. A strategy that optimising both business operation and assets management was then formulated, which creates a solid foundation for the sustainable development of the company in the future.

After Shanghai Jahwa successfully went public this March, its business operation expanded continuously. In the first half of the year, the cosmetic market was very active. Various large companies accelerated the pace for launching new products. Competition among supermarkets, hypermarkets and department stores has entered a new stage, and the household consumption of cosmetics has risen sharply. Shanghai Jahwa made good use of the opportunity and strive to enlarge the market share of its leading brands. Characterised by the combination of traditional Chinese herbs and modern scientific technology, “Herborist” personal care products provide consumers with personal service in specialist stores. Consequently, domestic sales of “Herborist” products have more than doubled compared with the same period last year. Shanghai Jahwa has opened two “Herborist” specialist stores in Causeway Bay and Mongkok, which is the first step towards the internationalisation of personal care products made from Chinese herbal medicines. Currently, “Herborist” is considering exploring international markets via a franchising system.

Medicare Services

The telemedicare business uses the latest information and network technology to provide medical services combining traditional and modern methods. Since networks can shorten communication time, accelerate information flow and reduce cost, it is predicted that the application of network technology in the medicare field will increase in popularity. At the beginning of this year, a telesystem demonstration was conducted in Shanghai, which was met with enthusiasm by the audience. The Shanghai Civil Affairs Bureau and the Group have started negotiations on installing some 100 telemedicare systems in Shanghai communities. Currently, the Group is working vigorously to minimise the total costs by starting with localised systems before expanding the technology in the domestic market.

PROSPECTS

The State is deepening its reform of the healthcare system and, particularly when China enters the WTO and has to meet WTO’s requirements, the country will have to make relatively dramatic changes in aspects ranging from economic management to market development. Therefore we expect the domestic pharmaceutical industry as a whole to be exposed to massive adjustments and opportunities.

SIIC MedTech's scale of operation has continued to expand since going public. Businesses of Hangzhou Qingchunbao and Shanghai Jahwa are developing rapidly. Both of them surpassed record again in the first half of this year. How to sustain this high growth is a challenge SIIC MedTech will have to tackle. The Company will continue its efforts towards new challenge and will consider injecting new elements and ideas into its fellow companies, so as to maintain business growth. The Company is making use of its development capabilities to develop new products that both suit modern pharmaceutical consumption and meet international market demand. The products will then be injected to its fellow subsidiary to take advantage of its production capability, which conforms to GMP standards, and its mature sales network to improve overall resource allocation. "Anntiflu" capsule is the first such achievement. The re-development of the 5 selected products with the China Academy of Traditional Chinese Medicine will follow this development strategy, thereby venturing into the new market for modernised and internationalised Chinese medicine.

SIIC MedTech will grasp the investment opportunities currently available for high growth businesses. It will concentrate more on acquisition and will be actively engaged in exploring the bio-pharmaceutical business. By emphasising long term development, focusing on our core business and identifying growth opportunities, we are confident that we will continue to add value for our shareholders.

Finally, on behalf of the Board of Directors, I wish to thank our shareholders for their strong support and all the staff of the Company for their continuing hard work.

Zhuo Fu Min
Chairman

Hong Kong, 1st August 2001

COMPARISON OF BUSINESS PROGRESS

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

Business objective of the first half of 2001 as disclosed in the Prospectus			Actual business progress up to the first half of 2001
Hangzhou Qingchunbao			
• *Sale of principal products*			The product mix of Hangzhou Qingchunbao has been revised to meet the market demand. Hence, the allocation of resources was adjusted in order to obtain higher economic value. Dan Shen Injection and Huang Qi Injection are two of the major products of Hangzhou Qingchunbao. Their sales volume were approximately 28% and 86% higher than the same period in 2000 respectively.
Shen Mai Injection	:	6,420,000 vials	7,354,000 vials
Stomach Recuperation Granules	:	2,667,000 boxes	2,751,000 boxes
Granules Niaoganning	:	748,000 boxes	915,000 boxes
Granules Qingreling	:	473,000 boxes	667,000 boxes
Qingchunbao Anti-ageing Tablet	:	1,451,000 bottles	7,810,000 bottles

Business objective of the first half of 2001 as disclosed in the Prospectus	Actual business progress up to the first half of 2001
• *Development of marketing channels*	
Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products.	Hospital, clinics and drug distributors are the principal marketing channels. A change in the marketing strategy of health supplement products readdressed focus to large-scale distributors and supermarkets. Higher sales turnover was recorded. In addition, the increase in the number of sales outlets of Luen Wah Supermarket indirectly extended the sales network of Hangzhou Qingchunbao.
Retail distribution outlets, including those with supermarket chains and other over-the-counter outlets, will increase to about 12.	
The marketing team will have a total staff number of about 650.	The marketing team has a total staff number of about 627.
• *Production and facilities*	
Premises located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Consistent with the business objective specified in the Prospectus.
Commence implementation of GMP compliance procedures with granule workshop.	Consistent with the business objective specified in the Prospectus.
• *Research and Development*	
Project No: 202X-99-02	
Review completed by provincial level State Drug Administration.	As the PRC Government has increased the technology standards for new Category 4 medicines, this project was therefore unable to proceed further.

Business objective of the first half of 2001 as disclosed in the Prospectus	Actual business progress up to the first half of 2001
Shen Kang Ning Coated Tablet	
Commence production based on new quality and manufacturing standards.	Relevant production approval has been obtained. Production schedule and marketing plan are under in depth consideration and examination.
Research and development base	
• *Shanghai research and development base*	
Continue research and development projects transferred from Shanghai University of Traditional Chinese Medicine ("SUTCM") and new projects.	The two projects acquired from SUTCM which have the medical application of osteoporosis and paediatric asthma were under experimentation. The approval process was in progress. The Group will select second batch of research and development projects from SUTCM.
Amount to be incurred: HK$8 million	The consideration for the acquisition of the two medicine projects together with the relevant research and development expenses in an aggregate amount of RMB8.5 million was paid during the period.
• *Beijing research and development base*	
Continue existing research and development projects. Commence new projects if available.	The first achievement of the Group's research and development afford, the "Anntiflu" capsule, passed the examination by the Municipal Ministry of Health for health and supplement products. The relevant production approval will be obtained shortly.

Business objective of the first half of 2001 as disclosed in the Prospectus	Actual business progress up to the first half of 2001
Anticipated commencement of clinical trial on certain pharmaceutical products.	One of the two health supplement development projects for the treatment of liver complaints has been submitted to the State Ministry of Health.
Amount to be incurred: HK$7 million	An aggregate amount of RMB200,000 was incurred. Balance of the intended funding was held as short-term deposits.
• *Hong Kong research and development base*	
Commence projects on the testing and analysing of Chinese medicine and formulating quality standards targeting for overseas market. Gradual expansion of the testing and analysing facility as appropriate.	The research project entitled, "Critical issues affecting the entry of Chinese Medicine, Plant Medicine and Health Supplement Products into International Markets: Rules and Regulations, Management, and Sales Channels", conducted by the Institute for the Advancement of Chinese Medicine at Hong Kong Baptist University at our behest was completed during the period. The report helps understanding of international markets, the building of international channels and the development of new products. The Group is considering further expansion of its presence in international markets.
Amount to be incurred: HK$7 million	There was no funding requirement during the period. The intended funding was held as short-term deposits.

Business objective of the first half of 2001 as disclosed in the Prospectus	Actual business progress up to the first half of 2001
Production of pharmaceutical products	
• *Establishment of a production base in Hong Kong*	
Hong Kong good manufacturing practice certification obtained. Commence trial production.	Cost and benefit analysis of various proposals associated with the establishment of a production base in Hong Kong are still under review. Product type and the development progress of the overseas market are the determinants of this project.
• *Joint ventures with reputable Chinese medicine enterprises*	
Continue to locate suitable joint venture candidates and enter into joint venture agreements if appropriate.	Consistent with the business objective specified in the Prospectus.
• *Alliance with international pharmaceutical companies*	
Introduce products in the European market.	The Group will continue to locate other international alliance possibilities.
Marketing and sales	
• *Expand and strengthen its distribution network in the PRC*	
Continue the operation of the acquired PRC Company.	The Group will continue to locate appropriate acquisition target.

Business objective of the first half of 2001 as disclosed in the Prospectus	Actual business progress up to the first half of 2001
• *E-commerce*	
Continue to improve the content and e-commerce opportunities of this website. Expand to other major coastal cities, Hong Kong and Macau. Trial run on e-commerce function. Expected daily hit rate on the website will be about 5,000 times.	The PRC Government has approved the agreement signed last year for the acquisition of a 20% interest in Shanghai Pharmaceutical Network at a consideration of RMB12 million. The company runs a website, www.e135.com, which has been authorised by the relevant Government authorities. Business operation was commenced. It is an application service provider rendering technical support to the Chinese medicines exchange platform. The Group considered that the foundation and the prospect of such website are among the best in the PRC. The investment in this website has already materialised the Company's objective of engaging in e-commerce business.
Amount to be incurred: HK$2 million.	Since the plan was changed strategically, a variance resulted between the actual amount and the planned amount.

Business objective of the first half of 2001 as disclosed in the Prospectus	**Actual business progress up to the first half of 2001**
• *Over-the-counter sales*	
Commence preliminary negotiation with overseas chain stores to further expand the Group's over-the-counter distribution capacity.	Negotiation with overseas chain stores was commenced. Preliminary agreement is expected to be finalised by the end of this year.
Amount to be incurred: HK$2.5 million	There was no funding requirement during the period. The intended funding was held as short-term deposits.
Chinese medicine clinical centre	
Continue to expand the number of clinics if appropriate.	The project will proceed further upon the announcement of the policies and regulations relating to Chinese medicine clinical centre by the Government of the Hong Kong Special Administrative Region.
Amount to be incurred: HK$1.5 million	There was no funding requirement during the period. The intended funding was held as short-term deposits.

DIVIDEND

In order to ensure sufficient capital for future business development, the Board of Directors has resolved not to declare the payment an interim dividend for the six months ended 30th June 2001 (30th June 2000: Nil). Subject to the approval of the shareholders, the Directors will declare the payment of a final dividend for the year ending 31st December 2001.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2001, none of the Directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Name of director	**Month of grant**	**Exercise price per share** *HK$*	**Number of share options**
Zhuo Fu Min	January 2000	1.69	8,000,000
Feng Gen Sheng	January 2000	1.69	6,000,000
Li Wei Da	January 2000	1.69	6,000,000
Chen Shu Zi	January 2000	1.69	4,000,000
Ge Wen Yao	January 2000	1.69	2,500,000
Wu Jian Zhuang	January 2000	1.69	2,500,000

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

(b) Pursuant to the share option scheme of Shanghai Industrial Holdings Limited ("SIHL"), an intermediate holding company of the Company, as at 30th June 2001, certain Directors of the Company have personal interests in share options to subscribe for shares in SIHL which have been granted to them as follows:

Name of director	**Month of grant**	**Exercise price per share** *HK$*	**Outstanding at 1st January 2001**	**Expired during the period**	**Outstanding at 30th June 2001**
Zhuo Fu Min	January 1999	9.568	1,400,000	—	1,400,000
Li Wei Da	April 1997	30.912	2,000,000	2,000,000	—
	January 1999	9.568	1,200,000	—	1,200,000
Wu Jian Zhuang	January 1999	9.568	1,000,000	—	1,000,000

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

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

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2001, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following parties are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") *(note)*	396,869,000
Shanghai Industrial Investment Treasury Company Limited ("STC") *(note)*	396,393,000
Shanghai Investment Holdings Limited ("SIH") *(note)*	396,393,000
Shanghai Industrial Holdings Limited ("SIHL") *(note)*	396,393,000
Central Force Investments Limited ("CFI")	372,000,000

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

Nanyang Enterprises Limited ("NEL") and Nanyang Enterprises Property Limited ("NEPL") are the beneficial owners of 276,000 and 200,000 ordinary shares of the Company respectively. SIIC owns 100% of NEL, NEPL and STC. Accordingly, SIIC is deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by NEL, NEPL and STC.

Save as disclosed above, as at 30th June 2001, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company.

SPONSOR'S INTERESTS

To the best knowledge of the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP Paribas Peregrine"), its directors, employees or associates, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th June 2001.

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

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

AUDIT COMMITTEE

The audit committee comprises Messrs. Li Ka Cheung, Eric, Kwok Chin Kung, Robert and Lee Ka Sze, Carmelo. In the audit committee meeting held in July 2001, the results and financial position, major accounting and internal auditing issues of the Group for the six months ended 30th June 2001 were reviewed.

COMPETING INTERESTS

The ultimate holding company of the Company, Shanghai Industrial Investment (Holdings) Co., Ltd. has interest in SIIC Investment (Shanghai) Co., Ltd. ("SIICI") and Shanghai Industrial United Holdings Co., Ltd. ("Shanghai

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

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd. ("SMU Biotech") and Shanghai SIIC Kehau Biopharmaceutical Co., Ltd. ("SIIC Biopharmaceutical"). SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection, which is used for emergency treatment to dissolve blood clog from myocardial infection. SIIC Biopharmaceutical is principally engaged in research and development of EPO, which has a medical application for increasing erythrocyte. Shanghai United is a conglomerate engaging in three principal areas of business being high technology, supermarket chain, and textile manufacturing. Shanghai United's investments in high technology enterprises comprise medical and pharmaceutical related operations. Shanghai United has interest in Shanghai Medical Equipment Co., Ltd. ("Med Equipment"), a medical device company, SIIC Kehua Biology Company Limited ("Kehua Biology"), Zhejiang Zuoli Pharmaceutical Company Ltd. ("Zuoli") and Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. ("SIUHP"). Med Equipment is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. Kehua Biology is engaged in the development, production and distribution of clinical diagnosis reagent and related products. Its main products include hepatitis B testing agent, hepatitis C antibody diagnosis testing agent and HIV antigen. Zuoli and SIUHP are engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products.

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

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

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

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