



上海實業醫藥科技(集團)有限公司

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LTD.



HALF-YEAR REPORT 2002

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COMPANY INFORMATION

Executive Directors

Lu Ming Fang (*Chairman*)
 Feng Gen Sheng (*Vice Chairman*)
 Li Wei Da (*Vice Chairman*)
 Zhou Jie (*Managing Director*)
 Chen Shu Zi (*Deputy Managing Director*)
 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

Zhou Jie

Qualified Accountant

Chak Kwan, Byron
 BA, ACCA, AHKSA

Executive Committee

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

Audit Committee

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

Authorised Persons to accept services of process and notices

Zhou Jie
 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

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

Auditors

Deloitte Touche Tohmatsu

Legal Advisers

Woo, Kwan, Lee & Lo
 Maples and Calder Asia

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
 5th Floor, Wing On Centre
 111 Connaught Road Central
 Hong Kong

Website Address

SIIC MedTech: <http://www.siicmst.com>
 E-COM Technology:
 <http://www.e-comtech.com>
 Guangdong Biolight: <http://www.bl.com.cn>
 Hangzhou Huqingyutang:
 <http://www.huqingyutang.com>
 Hangzhou Qingchunbao:
 <http://www.cnqcb.com>
 Herborist: <http://www.herborist.com>
 Shanghai Jahwa: <http://www.jahwa.com.cn>
 Shanghai Pharmaceutical Network:
 <http://www.e135.com>
 TCM Port: <http://www.tcm-port.com.cn>

GEM Stock Code

8018

HIGHLIGHTS

- Turnover of the Group rose more than 23.7%.
- Consolidated profits from principal business operations (excluding exceptional income from Shanghai Jahwa in 2001) increased by 5.3%.
- Sales of “Shen Mai Injection”, “Dan Shen Injection”, “Huang Qi Injection” and “Herba Houttuyniae Injection” rose by 6.9%, 16.5%, 26.6% and 34.4% respectively.
- Sales of “Qingchunbao Anti-ageing Tablets” have shown significant growth for consecutive years. During the period, its sales increased by 70.4%, to a total of HK\$177 million.
- The Group acquired a 56% stake in Xiamen Chinese Medicine. Xiamen Chinese Medicine established over thirty years. Its main products include “Xinhuang Tablet”, “Haizhu Chuanxiding Tablet”, “Liuwei Dihuang Pill” and “Shenshu Granule”. All of the above products are sold under the “Dinglu 鼎爐” brand name.
- The Group successfully increased its holding in E-COM Technology to 24.35% and is now the company’s largest shareholder.
- The agreement for the acquisition of a 21.31% stake in MicroPort by the Group has been signed. MicroPort is a China-based company that specialises in the development, production, sale and servicing of advanced medical instruments for micro wounds.

BUSINESS REVIEW

The Board of Directors of SIIC Medical Science and Technology (Group) Limited (the "Group") is delighted to announce an unaudited turnover of HK\$420 million for the six months ended 30th June 2002. This represents a 23.7% increase over the same period in the previous year. Profit from operations for the period rose 22.7% to HK\$88.22 million. Net profit for the period reached HK\$45.52 million. This figure represents a 5.3% increase over the same period in the previous year (excluding exceptional income of HK\$155 million raised by the listing of Shanghai Jahwa United Co. Ltd. ("Shanghai Jahwa") on the Shanghai Stock Exchange A Shares Market in 2001).

Pharmaceutical and Healthcare Products

During the period, sales of the Group's pharmaceutical and healthcare products grew by 6.9% and 64.6% respectively compared with the previous year. The Group continued to be active in the development of pharmaceutical injection products with strong competitive edges and market advantages. Successful products now on the market include "Dan Shen Injection", "Huang Qi Injection" and "Herba Houttuyniae Injection". As part of its plan to strengthen its sales team, the Group organised large-scale training programmes for sales and management staff. The Group encourages its staff to exchange and upgrade their business skills in order to increase morale. Consequently, the sales of principal products such as "Shen Mai Injection", "Dan Shen Injection", "Huang Qi Injection" and "Herba Houttuyniae Injection" increased by 6.9%, 16.5%, 26.6% and 34.4% respectively.

During the period, the Group enhanced marketing activities for its healthcare products through a series of promotional activities, which helped initiate additional growth of 70.4% in the sales of "Qingchunbao Anti-ageing Tablets". The Group will take advantage of traditional Chinese festivals to organise promotional activities for healthcare products. In the meantime, the Group will continue to harvest returns in the beauty care market by launching new marketing programmes for "Qingchunbao Beauty Capsule" in Shanghai and Hangzhou.

In addition to maintaining strong growth for its existing business, the Group has achieved a breakthrough in the acquisition of Chinese medicine business. During the period, the Group has speeded up the progress of negotiations and has concluded an

BUSINESS REVIEW AND PROSPECTS

investment agreement with Xiamen Chinese Medicine Co. Ltd. ("Xiamen Chinese Medicine"). Under the terms of the agreement, the Group will allocate HK\$38.87 million to invest in Xiamen Chinese Medicine and acquire a 56% stake in the company, comprised of newly issued shares. With over thirty years' experience in the field, Xiamen Chinese Medicine produces 40 traditional Chinese medicine-based drugs and other healthcare products. Of which, six products had been certified as State-protected Traditional Chinese Medicine, 21 products were certified as State Basic Medicines and 15 products were listed in the National Essential Health Insurance Medicine Catalogue. Leading Xiamen Chinese Medicine products include "Xinhuang Tablet", "Haizhu Chuanxiding Tablet", "Liuwei Dihuang Pill" and "Shenshu Granule". All of the above products are sold under the "Dinglu 鼎爐" brand name. "Xinhuang Tablet" currently achieves annual sales of around five million boxes. "Haizhu Chuanxiding Tablet" currently sells around two and a half million bottles each year. The major markets for these products are Fujian and in eastern China. Xiamen Chinese Medicine also has a network of sales offices covering the major provinces of China. Xiamen Chinese Medicine's 28,000-square-metre production plant is located in the downtown area of Xiamen Island. The company has been granted GMP certificate for the production of tablets, capsules, granules and pills.

With the assistance of research and development capabilities at the China Academy of Chinese Medicine, the Modern Chinese Medicine Experts Committee and other two research centres in Beijing and Shanghai, the Group will upgrade Xiamen Chinese Medicine's production facilities, technology and product formulations. At the same time, the Group will make use of its experience in marketing, sales and corporate management to open a new business era for Xiamen Chinese Medicine's products which will help to expand the Group's income stream and cement its leadership in the Chinese medicine sector.

With regard to scientific research and development, "Sugar-free Qingreling Granule" was certified for use and officially approved for production. "Shen Mai Injection" has also passed the standards in the state's ninth five-year plan for science and technology. In April this year, the Group joined forces with the University of Hong Kong to apply for a grant from the Innovation and Technology Fund established by the Government of Hong Kong Special Administrative Region. The Group has successfully applied for funding to research the bioactive components of "Shen Mai Injection" and their mechanisms of actions under the "University and Enterprise Cooperation Plan". The

project aims to identify the key ingredients and develop them into a supplementary medicine to treat cardiovascular disease and cancer. This project will provide the foundation for the development of new medicines. Chia Tai Qingchunbao Pharmaceutical Co. Ltd. ("Hangzhou Qingchunbao") will speed up its research and development of new products in order to further enhance its core competitive edge. Planned future developments will focus on the medical treatment of cardiovascular and cerebrovascular diseases, infectious diseases and cancer.

Xiamen Chinese Medicine is currently conducting several joint research and development projects and is working closely with the Xiamen Hospital of T.C.M. to develop a variety of products. They include a Category 3 new drug for acute and chronic superficial gastritis, for which application for phase II clinical test has already been made. The company is also working with Beijing Xiyuan Hospital to develop another new drug called "Vessel Smooth" (血管通). The company has also applied for phase II clinical test for "Vessel Smooth". It is expected that further launches of new products and expansion of newly acquired businesses will generate increased revenue for the Group in the coming years.

In the retailing sector, Hangzhou Huqingyutang Drugstore Co. Ltd. ("Hangzhou Huqingyutang") is growing on a sound and stable basis and has passed the GSP on-the-spot examination conducted by the State Drug Administration. Improvements in Hangzhou Huqingyutang's quality control will further enhance the company's business development. The Group intends to leverage the competitive advantages of Hangzhou Huqingyutang's range of national brands and sales network to promote the sale of its products.

Medical Care and Nursing Products

In the areas of medical care and nursing, Guangdong Biolight Medical Technology Co. Ltd. ("Guangdong Biolight") maintained sustained growth during the period. The company has made a breakthrough in its negotiation with GE Medical Systems Trading and Development (Shanghai) Ltd. ("GE Medical Systems") and the two companies have recently signed a formal agreement. Guangdong Biolight will authorise GE Medical Systems as a sales agent for some of its medical equipment lines in China. The Group will take advantage of the new relationship to expand its sales network and increase its market share.

BUSINESS REVIEW AND PROSPECTS

During the period, the Group successfully increased its holding in E-COM Technology Limited ("E-COM Technology") to 24.35% and is now the company's largest shareholder. E-COM Technology's digital imaging system has been adopted by a number of renowned hospitals including Beijing Hospital, General Hospital of PLA (301 Hospital) and the Affiliated One Hospital of Peking University First Hospital. The performance of E-COM Technology during the period has been very encouraging, with the aggregate sum of the nine sales contracts on hand and are in progress as at 30th June 2002 achieving 1.89 times increase over the annual turnover for 2001. The Group has high expectations of E-COM Technology's development prospects, and given the right circumstances will consider further increasing its stake in the company.

The Group also acquired a 21.31% stake in MicroPort Medical (Shanghai) Co. Ltd. (微創醫療器械(上海)有限公司) ("MicroPort") comprised of newly issued shares for a consideration of HK\$23.4 million. It is a China-based company that specialises in the development, production, sale and servicing of advanced medical instruments for micro wounds. MicroPort's major products include coronary stent systems, PTCA balloon dilation catheter, vascular angiographic catheter, guiding catheter and adjunct, abdomen aortic aneurysm stent and thoracic aortic aneurysm stent. MicroPort also manufactures different kinds of non-vascular stent and stent delivery system, plus a range of instruments such as surgical bypass stretch and cervical vertebra prosthetics. The Group and MicroPort have already signed the relevant agreements. This project will further consolidate the Group's strategy of combining the medical and pharmaceutical sectors and will help to create a strong foundation for sharp profit growth in future.

Personal Care Products

In the personal care sector, Shanghai Jahwa achieved a 7.4% increase in turnover over the previous year. Sales of the company's "Liushen" and "Herborist" series of products increased by 13% and 50% respectively during the same period. The "Herborist" range was successfully launched into markets in Xian, Qingdao, Nanjing and Shenzhen, and seven new franchise stores have been opened. In Hong Kong, the company has restructured "Herborist" sales channels so that "Herborist" products are now sold in over one hundred outlets of the Watson's chain.

PROSPECTS

Following China's entry into the World Trade Organisation, the Group is facing a number of new opportunities and challenges. The State Drug Administration is striving to consolidate the mainland medical sector where market competition is increasing. The Group intends to adopt a proactive, open and enterprising attitude in seizing opportunities to build future success. In addition to improving the competitiveness of its existing business, the Group will leverage its unique background and the favourable conditions created by the integrated nature of its parent company to continue to seek out and make more acquisitions. The Group will continue to strengthen and expand its asset base through re-engineering, mergers, consolidations and integration of internal and external resources. The Group's ultimate aim is to build a strong asset platform for continuous development.

To strengthen its internal management, the Group will maintain its sound financial fundamentals and improve company management to enhance corporate leadership, investor relationships and operational transparency. The Group is committed to honing its corporate management and administration. As new business requirements arise, the Group will further improve its human resources by taking on new professionals, to enhance both internal management and competitiveness.

In closing and on behalf of the Board of Directors, I would like to take this opportunity to thank all the staff of the Group for their continued hard work and strong commitment. We are also most grateful for the continued and invaluable support of the Group's shareholders.



Lu Ming Fang

Chairman

Hong Kong, 8th August 2002

TURNOVER

The Group was engaged in the manufacture and sale of Chinese medicine and health supplement products. More than 90% of the Group's turnover, contribution to operating profit and assets was attributed to this business segment and located in the PRC. The unaudited consolidated turnover of the Group for the six months ended 30th June 2002 reached HK\$420 million, a 23.7% increase over that of last year. It is the result of the enhancement of marketing activities for its healthcare products through a series of promotional activities during the period. The sales of main product - "Qingchunbao Anti-ageing Tablets" increased by 70.4% over the corresponding period last year. In addition to maintain the sales of our principal product, "Shen Mai Injection", the Group promoted "Dan Shen Injection", "Huang Qi Injection" and "Herba Houttuyniae Injection". Sales of the products increased by 16.5%, 26.6% and 34.4% respectively.

EARNINGS

The profit from operations of the Group was principally come from Hangzhou Qingchunbao. The unaudited profit attributable to shareholders for the six months ended 30th June 2002 was HK\$45.52 million and the unaudited profit attributable to shareholders for the same period last year was HK\$199 million which comprised two elements: profits from principal business operations and the exceptional income of HK\$155 million from the listing of Shanghai Jahwa on the Shanghai Stock Exchange A Shares Market in 2001. Excluding the said exceptional income, profits from principal business operations of the Group during the period was a 5.3% higher than that of the same period last year.

SHARE OF PROFIT OF AN ASSOCIATED COMPANY

During the period, share of profits of an associated company of the Group decreased compared with the same period last year, as in last year the share of profit of an associated company included the sharing of the one-off interest income on application monies received on listing of Shanghai Jahwa.

DEBT-EQUITY STRUCTURE

As at 30th June 2002, the Group had total bank balances and cash of HK\$464 million. The Group does not have any bank debt and charges. Its net assets reached HK\$756 million. The strong and stable debt-equity position has greatly supported development of the Group's business. However, the Group will optimise its capital structure in order to meet business development requirements and to lower overall capital costs.

FINANCIAL LIQUIDITY, RESOURCES AND CAPITAL STRUCTURE

During the period, the Group's main source of funds was cash generated by its business operations. As at 30th June 2002, total assets reached HK\$1,210 million, of

FINANCIAL POSITION

which HK\$723 million was current assets. The ratio of current assets to current liabilities is 2.48 times. Net cash inflow from operating activities amounted to HK\$81.96 million. Bank balances and cash reached HK\$464 million, a 10.5% increase over the beginning of the period. The currencies in which cash held by the Group are mainly Renminbi. During the period, there is no change in the Company's share capital. The financial position of the Group is sound.

RETURN ON CAPITAL EMPLOYED

During the period, the average Return on Capital Employed of the Group was 12.2%. After the listing of Shanghai Jahwa's shares on the Shanghai Stock Exchange A Shares Market in 2001, the Group's interests in Shanghai Jahwa were diluted from 40% to 28.15%. A gain on deemed disposal of interests was generated which boosted the average Return on Capital Employed of the Group to 36.9% in the same period last year.

FOREIGN EXCHANGE POLICY

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period. During the period, the Group did not conclude any forward foreign currency agreements aimed at limiting our exposure to adverse fluctuations in foreign currency exchange rates. The Group will constantly review the situation and if appropriate, will carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

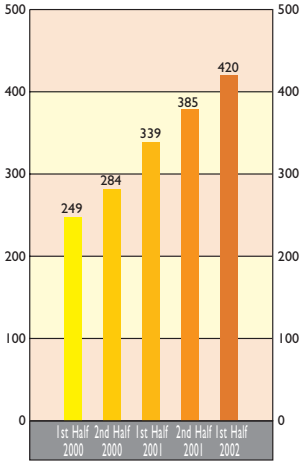
MATERIAL ACQUISITIONS AND DISPOSALS DURING THE PERIOD AND FUTURE PLANS FOR MATERIAL INVESTMENTS

During the period, save as disclosed in this Report under the section headed "Business Review", the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies during the period. Details of future investment plan of the Group are disclosed in this Report under the section headed "Prospects". Internal resources and/or balance of the proceeds of the issue of New Shares (as defined in the Prospectus) and/or financing from capital market and/or debt financing will be used by the Group to meet the funding requirement for business expansion plan, capital expenditure and acquisition projects.

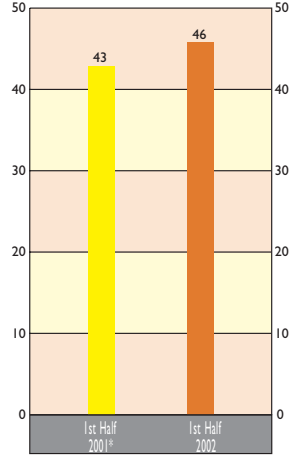
CONTINGENT LIABILITIES

The Group had no significant contingent liabilities during the period.

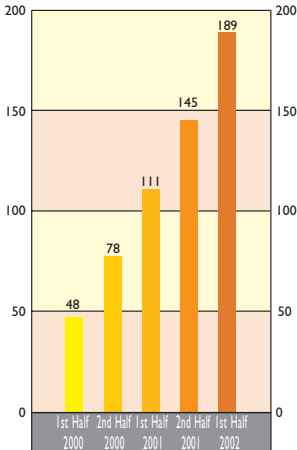
Turnover (HK\$ million)



Profit Attributable to Shareholders (HK\$ million)



Qingchunbao Anti-ageing Tablet Turnover (RMB million)



* Excluding gain on deemed disposal of Shanghai Jahwa

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永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE BOARD OF DIRECTORS OF SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 14 to 24.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

INDEPENDENT REVIEW REPORT

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30th June, 2001 and the condensed consolidated income statements for each of the three month periods ended 30th June 2002 and 2001, and the condensed consolidated cash flow statement and condensed statement of changes in equity for the six months ended 30th June, 2001 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.



Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 8th August 2002

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements for the three months and six months ended 30th June 2002 of the Company and its subsidiaries (the "Group") are set out below:

Condensed Consolidated Income Statement

For the three months and six months ended 30th June 2002

	Notes	Three months ended 30th June		Six months ended 30th June	
		2002 Unaudited HK\$'000	2001 Unaudited HK\$'000	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Turnover		182,464	159,466	419,884	339,402
Cost of sales		(65,770)	(60,595)	(150,357)	(133,163)
Gross profit		116,694	98,871	269,527	206,239
Investment income		2,478	2,630	3,846	5,564
Distribution costs		(50,858)	(34,995)	(133,865)	(92,671)
Administrative expenses		(26,525)	(33,775)	(51,291)	(47,267)
Profit from operations	4	41,789	32,731	88,217	71,865
Share of profit of an associate		12,413	17,933	16,208	17,933
Share of profits (losses) of jointly controlled entities		347	235	(5)	(27)
Gain on deemed disposal of interest in a jointly controlled entity		-	-	-	155,694
Profit from ordinary activities before taxation		54,549	50,899	104,420	245,465
Taxation	5	(15,565)	(10,932)	(28,111)	(19,575)
Profit before minority interests		38,984	39,967	76,309	225,890
Minority interests		(12,330)	(13,036)	(30,791)	(26,976)
Net profit for the period		26,654	26,931	45,518	198,914
Dividends	6	27,900	18,600	27,900	18,600
Earnings per share – Basic	7	4.30 cents	4.34 cents	7.34 cents	32.08 cents
– Diluted		4.26 cents	N/A	7.29 cents	N/A

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet

As at 30th June 2002

	Notes	30th June 2002 Unaudited HK\$'000	31st December 2001 Audited HK\$'000
Non-Current Assets			
Investment property	8	12,000	12,000
Property, plant and equipment	8	131,127	125,438
Interest in jointly controlled entities	9	48,017	15,360
Interest in associates		291,179	284,012
Investments in securities		–	11,700
		482,323	448,510
Current Assets			
Inventories		70,282	49,919
Trade and other receivables	10	174,014	147,588
Dividend receivable from an associate		7,104	–
Amount due from an associate		8,129	4,108
Bank balances and cash		463,779	420,149
		723,308	621,764
Current Liabilities			
Trade and other payables	11	268,205	139,506
Taxation payable		11,644	15,217
Dividend payable to minority interests		11,822	50,000
		291,671	204,723
Net Current Assets		431,637	417,041
Total Assets Less Current Liabilities		913,960	865,551
Capital and Reserves			
Issued capital		62,000	62,000
Reserves		693,661	676,043
		755,661	738,043
Minority Interests		150,275	119,484
Non-Current Liabilities			
Deferred taxation		8,024	8,024
		913,960	865,551

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Statement of Changes in Equity

For the six months ended 30th June 2002

	Share capital	Share premium	Contributed surplus	Goodwill reser ve	PRC		Accumulated profits	Total
					statutory funds	Translation reser ve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
At 1st January 2001								
- as originally stated	62,000	192,130	194,649	(20,725)	14,040	(12)	64,033	506,115
- as adjusted for derecognition of liability for 2000 final dividend	-	-	-	-	-	-	18,600	18,600
- as restated	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)
Net profit for the period	-	-	-	-	-	-	198,914	198,914
Dividends (note 6)	-	-	-	-	-	-	(18,600)	(18,600)
At 30th June 2001	62,000	192,130	194,649	(20,725)	13,283	(12)	262,947	704,272
THE GROUP								
At 1st January 2002	62,000	192,130	194,649	(20,725)	23,878	(12)	286,123	738,043
Net profit for the period	-	-	-	-	-	-	45,518	45,518
Dividends (note 6)	-	-	-	-	-	-	(27,900)	(27,900)
At 30th June 2002	62,000	192,130	194,649	(20,725)	23,878	(12)	303,741	755,661

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2002

	Six months ended 30th June	
	2002 Unaudited HK\$'000	2001 Unaudited HK\$'000
Net cash generated from operating activities	81,960	56,365
Net cash (used in) generated from investing activities	(38,330)	38,611
Net cash generated from financing activities	-	1,934
Net increase in cash and cash equivalents	43,630	96,910
Cash and cash equivalents at 1st January	420,149	311,168
Cash and cash equivalents at 30th June, representing by bank balances and cash	463,779	408,078

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2001.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs. The adoption of these SSAPs has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

For the six months ended 30th June 2002 and 2001, the Group continued to engage in the manufacture and sale of Chinese medicine and health supplement products. More than 90% of the Group's turnover, contribution to operating profit and assets was attributed to this business segment and located in the People's Republic of China (the "PRC").

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Three months ended		Six months ended	
	30th June		30th June	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of goodwill arising on acquisition of jointly controlled entities included in administrative expenses	27	–	245	–
Depreciation and amortisation of property, plant and equipment	3,221	2,336	6,365	5,303
Operating lease rentals in respect of land and buildings	977	817	1,893	1,832
Interest income	(2,404)	(2,166)	(3,673)	(4,670)

5. TAXATION

	Three months ended		Six months ended	
	30th June		30th June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The charge comprises:				
PRC income tax				
– current year	10,809	9,576	18,146	18,219
– underprovision in prior years	3,271	–	8,011	–
	14,080	9,576	26,157	18,219
Share of PRC income tax of an associate	1,485	1,279	1,937	1,279
Share of PRC income tax of jointly controlled entities	–	77	17	77
	15,565	10,932	28,111	19,575

Chia Tai Qingchunbao Pharmaceutical Co. Ltd., the only subsidiary of the Company having an assessable profit, is subject to a PRC income tax rate of 24%.

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

The Group had no significant unprovided deferred taxation for the respective periods.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. DIVIDENDS

On 6th May 2002, final dividend of HK3 cents per share and special final dividend of HK1.5 cents per share for the year ended 31st December 2001 were approved.

On 26th April 2001, final dividend of HK3 cents per share for the year ended 31st December 2000 was approved.

No interim dividends have been paid during the six months ended 30th June 2002 and 30th June 2001.

7. EARNINGS PER SHARE

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

	Three months ended 30th June		Six months ended 30th June	
	2002	2001	2002	2001
Earnings:				
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	HK\$26,654,000	HK\$26,931,000	HK\$45,518,000	HK\$198,914,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	620,000,000	620,000,000	620,000,000	620,000,000
Effect of dilutive potential ordinary shares - share options	6,408,601	-	4,071,419	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	626,408,601	620,000,000	624,071,419	620,000,000

8. MOVEMENTS IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

In the opinion of the directors, there is no material difference between the carrying amount and the market value of investment property as at 30th June 2002.

During the period, the Group incurred costs for construction in progress of approximately HK\$8,132,000 and acquired plant and machinery at a cost of approximately HK\$2,394,000, furniture, fixtures and equipment at a cost of approximately HK\$2,519,000 for the purpose of expanding the Group's business.

9. INTEREST IN JOINTLY CONTROLLED ENTITIES

During the period, the Company acquired certain jointly controlled entities at a consideration of approximately HK\$32,924,000, resulting in goodwill arising on acquisition of jointly controlled entities of approximately HK\$25,934,000.

10. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$155,625,000 (31st December 2001: HK\$130,440,000) and their aged analysis is as follows:

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Trade receivables:		
Within 30 days	68,645	81,596
Within 31-60 days	35,037	23,738
Within 61-90 days	22,685	19,422
Within 91-180 days	24,183	5,684
Within 181-360 days	5,075	-
	155,625	130,440

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$10,867,000 (31st December 2001: HK\$12,997,000) and their aged analysis is as follows:

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Trade payables:		
Within 30 days	8,211	11,070
Within 31-60 days	877	1,230
Within 61-90 days	993	564
Within 91-180 days	465	100
Within 181-360 days	321	–
Over 360 days	–	33
	10,867	12,997

12. COMMITMENTS

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– investments in a PRC jointly controlled entity	–	11,215
– acquisition of property, plant and equipment	7,603	5,641
– additions in construction in progress	14,019	–
	21,622	16,856

At 30th June 2002, the Group had commitment to pay for a research and development expenditure of approximately HK\$2 million.

13. POST BALANCE SHEET EVENTS

The following significant events occurred after the balance sheet date:

- (a) In July 2002, the Group completed the acquisition of a controlling interest in a company established in the PRC for a consideration of approximately HK\$38,871,000. The acquired company is engaged in the manufacturing and sale of Chinese medicine and health supplement products.
- (b) In August 2002, the Group entered into a share purchase agreement for a 21.31% interest in a company established in the PRC at a consideration of approximately HK\$23,396,000. The acquired company is engaged in the development, production, sale and servicing of advanced medical instruments for micro wounds.

DIVIDENDS

In order to ensure sufficient capital for future business development, the Board of Directors has resolved not to pay an interim dividend for the six months ended 30th June 2002 (30th June 2001: Nil).

STAFF

At present, the Group has 1,738 employees in the following areas:

Company Offices	1%
Sales and Marketing	39%
Production	41%
Administration and Procurement	12%
Quality Control	6%
Research and Development	1%

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

During the period, the Group has held various in-house training programmes, including: seminar on sales technique and marketing tools for supervisors, trainings on marketing skills and knowledge of GMP standards.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Initial Share Option Scheme") on 11th November 1999. To be in line with the recent changes of the GEM Listing Rules in relation to share option schemes and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and for such other purposes as the Board of Directors of the Company may approve from time to time, the shareholders of the Company and Shanghai Industrial Holdings Limited ("SIHL"), an intermediate holding company of the Company, have on 6th May 2002 and 31st May 2002 respectively approved the termination of the Initial Share Option Scheme and the adoption of the New Share Option Scheme at their respective extraordinary general meetings. The New Share Option Scheme will remain in force for a period of 10 years commencing on the date on which it is adopted by resolution of the Company in extraordinary general meeting.

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

In January 2000, the Company offered the first batch of 39,200,000 share options to its staff and executive directors under the Initial Share Options Scheme, 600,000 of which were lapsed. These share options may be exercised from 21st January 2003 to 20th January 2006 at a price of HK\$1.69. Save as disclosed above, the Company has not granted any share option under the Initial Share Options Scheme and the New Share Options Scheme for the six months ended 30th June 2002.

DIRECTORS' INTERESTS IN SECURITIES

Mr. Lu Ming Fang has personal interest in 1,000,000 shares of SIHL, an intermediate holding company of the Company. Save as disclosed hereinabove, as at 30th June 2002, 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) As at 30th June 2002, certain Directors of the Company have personal interests in share options to subscribe for shares in the Company which have been granted to them pursuant to the Initial Share Option Scheme as follows:

Name of director	Month of grant	Exercise price per share HK\$	Outstanding at 1st January 2002 and 30th June 2002
Feng Gen Sheng	January 2000	1.69	6,000,000
Li Wei Da	January 2000	1.69	6,000,000
Chen Shu Zi	January 2000	1.69	4,000,000
Ge Wen Yao	January 2000	1.69	2,500,000
Wu Jian Zhuang	January 2000	1.69	2,500,000

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

- (b) As at 30th June 2002, certain directors of the Company have interests in share options ("SIHL Options") to subscribe for shares in SIHL ("SIHL shares") which were granted to them pursuant to the share option scheme of SIHL as follows:

Name of director	Month of grant	Exercise price per share HK\$	Outstanding at 1st January 2002 and 30th June 2002
Lu Ming Fang	August 1998	10.432	500,000
	January 1999	9.568	1,200,000
	July 2001	10.432	1,500,000
Li Wei Da	January 1999	9.568	1,200,000
Zhou Jie	August 1998	10.432	1,500,000
	January 1999	9.568	1,200,000
Chen Shu Zi	July 2001	10.432	1,500,000
Wu Jian Zhuang	January 1999	9.568	1,000,000

OTHER INFORMATION

The aforesaid options can be exercised during 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 for such services.

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following parties are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") (note)	399,195,000
Shanghai Industrial Investment Treasury Company Limited ("STC") (note)	398,618,000
Shanghai Investment Holdings Limited ("SIH") (note)	398,618,000
Shanghai Industrial Holdings Limited ("SIHL") (note)	398,618,000
Central Force Investments Limited ("CFI")	372,000,000

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

OTHER INFORMATION

Nanyang Enterprises Limited ("NEL") is the beneficial owner of 577,000 ordinary shares of the Company. SIIC owns 100% of NEL and STC. Accordingly, SIIC is deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by NEL and STC.

Save as disclosed above, as at 30th June 2002, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company.

COMPETING INTERESTS

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

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd. ("SMU Biotech") and Shanghai SIIC Kehau Biopharmaceutical Co., Ltd. ("SIIC Biopharmaceutical"). SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection, which is used for emergency treatment to dissolve blood clog from myocardial infection. SIIC Biopharmaceutical is principally engaged in research and development of EPO, which has a medical application for increasing erythrocyte.

Shanghai United is a conglomerate engaging in traditional Chinese medicine, medical equipment, e-commerce, textiles, garments and international trade etc. Certain fellow companies of Shanghai United are engaging in medical and pharmaceutical related operations which included Shanghai Medical Instruments Co., Ltd. ("SMIC"), Shanghai Industrial United Holdings Pharmaceutical Co., Ltd., ("SIUHP") Zhejiang Jolly Pharmaceutical Co., Ltd. ("Jolly"), Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. ("SIUHP") and Changzhou Pharmaceutical Co., Ltd. ("Changzhou Pharmaceutical"). SMIC is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. SIUHP is engaged in research and development of Chinese and Western pharmaceutical products, bio-pharmaceutical, medical bioengineering and medical equipment. Jolly and SIUHP are engaged in the development, manufacturing

and sale of Chinese medicine and health maintenance products. Changzhou Pharmaceutical is engaged in chemical dosage, chemical materials, biological products, Chinese patent medicine, medicinal herbs and medical instruments. Mr. Lu Ming Fang is a director of Shanghai United and holds 15,000 shares of Shanghai United.

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

Save as disclosed above, as at 30th June 2002, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The audit committee comprises Messrs. Li Ka Cheung, Eric, Kwok Chin Kung, Robert and Lee Ka Sze, Camelo. The primary duties of the audit committee are to review financial reporting process and internal control systems of the Group and annual report, half-year report, quarterly reports and accounts of the Company.

BOARD PRACTICES AND PROCEDURES

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

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

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