



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)

Half-year Results Announcement for the six months ended 30th June 2003

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

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

HIGHLIGHTS

Results

	Six months ended 30th June		Change
	2003 HK\$'000	2002 HK\$'000	
Turnover	567,440	419,884	+35.1%
Operating profit	98,544	88,462	+11.4%
Profit for the period	50,355	45,518	+10.6%
Net assets per share	HK\$1.35	HK\$1.22	

Turnover of Principal Products

	Six months ended 30th June		Change
	2003 HK\$'000	2002 HK\$'000	
Shen Mai Injection	123,003	112,052	+9.8%
Dan Shen Injection	43,610	43,242	+0.9%
Herba Houttuyniae Injection	23,986	14,971	+60.2%
Huang Qi Injection	10,307	8,717	+18.2%
Xinhuang Tablets	29,431	25,044	+17.5%
Qingchunbao Anti-ageing Tablets	208,926	176,940	+18.1%
Qingchunbao Beauty Capsule	32,496	N/A	

CONDENSED CONSOLIDATED INCOME STATEMENT

The unaudited condensed consolidated results for the three months and six months ended 30th June 2003 of the Company and its subsidiaries (the "Group") and the comparative figures for the corresponding periods last year are set out below:

	Notes	Three months ended 30th June		Six months ended 30th June	
		2003 Unaudited HK\$'000	2002 Unaudited HK\$'000	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Turnover		241,700	182,464	567,440	419,884
Cost of sales		(98,428)	(65,770)	(216,522)	(150,357)
Gross profit		143,272	116,694	350,918	269,527
Investment income		3,145	2,478	3,931	3,846
Distribution costs		(80,616)	(50,858)	(196,313)	(133,865)
Administrative expenses		(20,573)	(26,498)	(59,992)	(51,046)
Profit from operations	4	45,228	41,816	98,544	88,462
Finance costs		(79)	-	(149)	-
Share of profits of associates		15,443	12,413	18,780	16,208
Share of profits (losses) of jointly controlled entities		756	347	470	(5)
Amortisation of goodwill arising from an associate		(678)	-	(678)	-
Amortisation of goodwill arising from jointly controlled entities		(504)	(27)	(1,008)	(245)
Profit from ordinary activities before taxation		60,166	54,549	115,959	104,420
Taxation	5	(16,287)	(15,565)	(31,236)	(28,111)
Profit before minority interests		43,879	38,984	84,723	76,309
Minority interests		(14,591)	(12,330)	(34,368)	(30,791)
Net profit for the period		29,288	26,654	50,355	45,518
Dividends	6	24,800	27,900	24,800	27,900
Earnings per share – Basic	7	4.72 cents	4.30 cents	8.12 cents	7.34 cents
– Diluted		4.69 cents	4.26 cents	8.12 cents	7.29 cents

Notes:

1. BASIS OF PREPARATION

The condensed consolidated 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 Listing 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 consolidated 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 2002, except as described below.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) "*Income Taxes*". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. SEGMENT INFORMATION

For the six months ended 30th June 2003 and 2002, 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").

4. PROFIT FROM OPERATIONS

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

	Three months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of goodwill included in administrative expenses	112	-	223	-
Depreciation and amortisation of property, plant and equipment	4,871	3,221	8,901	6,365
Operating lease rentals in respect of land and buildings	1,215	977	2,187	1,893
Interest income	(2,285)	(2,404)	(2,930)	(3,673)

5. TAXATION

	Three months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
PRC income tax				
- current period	10,655	10,809	25,331	18,146
- underprovision in prior years	4,263	3,271	4,263	8,011
	14,918	14,080	29,594	26,157
Share of PRC income tax of associates	1,330	1,485	1,468	1,937
Share of PRC income tax of jointly controlled entities	39	-	174	17
	16,287	15,565	31,236	28,111

Chia Tai Qingchunbao Pharmaceutical Co. Ltd., the major subsidiary of the Group 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.

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

6. DIVIDENDS

On 9th May 2003, a final dividend of HK4 cents per share for the year ended 31st December 2002 was approved.

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

No interim dividends have been paid during the six months ended 30th June 2003 and 30th June 2002.

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	
	2003	2002	2003	2002
Earnings:				
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	HK\$29,288,000	HK\$26,654,000	HK\$50,355,000	HK\$45,518,000
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	620,010,879	620,000,000	620,005,470	620,000,000
Effect of dilutive potential ordinary shares – share options	3,933,492	6,408,601	122,943	4,071,419
Weighted average number of ordinary shares for the purpose of diluted earnings per share	623,944,371	626,408,601	620,128,413	624,071,419

8. RESERVES

	<u>Share premium</u> <i>HK\$'000</i>	<u>Contributed surplus</u> <i>HK\$'000</i>	<u>Goodwill reserve</u> <i>HK\$'000</i>	PRC <u>statutory funds</u> <i>HK\$'000</i>	<u>Translation reserve</u> <i>HK\$'000</i>	<u>Accumulated profits</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>
THE GROUP							
At 1st January 2002	192,130	194,649	(20,725)	23,878	(12)	286,123	676,043
Net profit for the period	-	-	-	-	-	45,518	45,518
Dividends (note 6)	-	-	-	-	-	(27,900)	(27,900)
At 30th June 2002	192,130	194,649	(20,725)	23,878	(12)	303,741	693,661
Impairment loss on goodwill reserve	-	-	12,855	-	-	-	12,855
Realised on disposal of interest in a jointly controlled entity	-	-	(360)	-	-	-	(360)
Net profit for the period	-	-	-	-	-	42,003	42,003
At 31st December 2002	192,130	194,649	(8,230)	23,878	(12)	345,744	748,159
Premium arising on issue of shares	477	-	-	-	-	-	477
Transfers	-	-	-	13,875	-	(13,875)	-
Net profit for the period	-	-	-	-	-	50,355	50,355
Dividends (note 6)	-	-	-	-	-	(24,800)	(24,800)
At 30th June 2003	192,607	194,649	(8,230)	37,753	(12)	357,424	774,191

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The Board of Directors of SIIC Medical Science and Technology (Group) Limited (the "Group" or "SIIC MedTech") is pleased to announce that its unaudited consolidated profit for the six months ended 30th June 2003 amounted to HK\$50.4 million. This represents an increase of 10.6% over the same period of the previous year. Turnover also rose by more than 35.1% to HK\$567.4 million. As well as strengthening its existing business operations, the Group actively sought opportunities for further acquisitions. In April 2003, it acquired a 30% stake in Hangzhou Huqingyutang Pharmaceutical Co. Ltd. ("Huqingyutang Pharmaceutical"), at a total consideration of HK\$78.67 million.

During the second quarter, the outbreak of Severe Acute Respiratory Syndrome ("SARS") resulted in a dramatic surge in demand for the Group's prescription drugs for the prevention and treatment of atypical pneumonia and other infections. These include "Herba Houttyniae Injection", "Xiang Dan Injection" and "Qingreling Granules". Sales of these three products rose by 60.2%, 33.1% and 101.7%, respectively, compared to the same period last year. Since the combination of Western medicine and traditional Chinese medicine has proved efficacious in treating SARS, demand for the latter has grown rapidly. As a result, we saw steady rises in wholesale costs for raw materials of traditional Chinese medicines used to treat SARS, which impacted the profit margins of several products. Over the past few months, many people have come to believe that hospitals are breeding grounds for SARS, and have avoided entering them for fear of catching the disease. A decline in the number of hospital outpatients across the country affected sales of our prescription drugs. In summary, SARS has created many uncertainties in the Group's business; yet it maintained its profit margin at the high level of more than 60%. The Board of Directors is convinced that the impact of SARS will be temporary. Moreover, we have witnessed the effectiveness of traditional Chinese medicine in both preventing and treating SARS. This has increased the interest of overseas medical experts in traditional Chinese medicine, and we can leverage on this opportunity for its further development.

Pharmaceutical Products and Health Foods

Prescription Drugs

Despite the effects of SARS, sales of the Group's prescription drugs were satisfactory, and a 29.3% growth was recorded during this period. Since "Shen Mai Injection" can aid to enhance immune competence, the sales of which during the SARS outbreak has not been adversely affected. During the period, sales of this product increased by 9.8% over the corresponding period of last year. However, sales of "Dan Shen Injection" and "Huang Qi Injection" were affected by the decline in the number of hospital outpatients; and the growth of sales of these two products slowed to approximately 1% and 18%, respectively. On the other hand, certain hospitals in Guangdong province included "Xinhuang Tablets" in their lists of prescription drugs for the prevention and treatment of SARS and other types of infections. Consequently,

sales of this product grew by 17.5% over the pro-forma results for the corresponding period of last year. Regarding Huqingyutang Pharmaceutical's prescription products, sales of its "Stomach Rejuvenation Tablets" rose by 2.9% and achieved a turnover of HK\$37.3 million; whereas sales of "Qiangli Pipa Oral Solution" rose by 82.6%.

OTC Drugs and Health Foods

Sales of OTC drugs and health products increased by 41% over the corresponding period of last year, accounting for 49% of the Group's total sales. Sales of "Qingchunbao Anti-ageing Tablets" grew 18.1% higher than in the second quarter last year, and amounted to HK\$208.9 million. The impact of SARS slowed the growth of sales of "Qingchunbao Beauty Capsules"; yet the product still provided the Group with significant sales revenue of more than HK\$32.5 million during this period.

As for Ningxia Lycium Barbarum products, following the launch of "Lycium Barbarum Granule" at the end of last year, the Group introduced "Lycium Barbarum Effervescent" in the market in May this year. The Group will endeavour to step up its advertising programme and explore additional sales channels for these two products.

Research and Development

Our "Bone-strengthening Capsule" received its approval letter for its second phase clinical tests in May this year. At the end of June, we began discussion of clinical applications for the product.

The applications for second phase clinical tests for a Category III new pharmaceutical product, jointly developed with the Xiamen Hospital of Traditional Chinese Medicine to treat acute, chronic and superficial gastritis, and "Vessel Smooth" (血管通) jointly developed with Beijing Xiyuan Hospital have been submitted. Additional information was provided to support the application in accordance with the request of the State Food and Drug Administration ("SDA"). It is now awaiting for its approval.

During the period, Longhua Hospital (affiliated to Shanghai University of Traditional Chinese Medicine) and the Group signed an agreement for the research and development of "Yu Ning Granules". Clinical tests have already commenced.

Production Technology

A new automatic extraction facility in Hangzhou began production during the period. The Group has invested approximately HK\$30 million for this facility, which has a total floor area of approximately 4,855 square metres and an annual production capacity of 3,000 tonnes of herbal extracts. The new production line completely complies with the GMP standards. It will significantly enhance the Group's potential for business development, its competitive edge, and its ability to further increase its production capacity in the future. In the coming six months, the Group intends to invest HK\$46 million on further upgrading its technology.

New Acquisition

In April this year, the Group concluded an agreement to acquire a 30% interest in Huqingyutang Pharmaceutical for a consideration of HK\$78.67 million. The relevant Government authorities have approved this agreement. Huqingyutang Pharmaceutical has the royalty free exclusive licence to manufacture and sell proprietary Chinese medicines and health foods in Mainland China under the renowned “Huqingyutang” trademark. Huqingyutang Pharmaceutical currently produces more than 170 Chinese medicines. Three of its products have been certified as State-protected Traditional Chinese Medicines, and 40 are listed in the National Essential Health Insurance Medicine Catalogue. The company’s major markets are in Eastern China. Huqingyutang Pharmaceutical’s flagship prescription drug is its “Stomach Rejuvenation Tablet”, which strengthens the functioning of the spleen, increases vital energy, activates blood circulation and detoxifies the blood. It is used for the treatment of chronic superficial gastritis, and for adjuvant treatment of gastric carcinoma after chemotherapy or radiotherapy. The company’s pro-forma turnover reached RMB85.9 million in the half-year ended 30th June 2003, which is 23.2% higher than in the corresponding period of last year. Looking ahead, Huqingyutang Pharmaceutical will strive to exploit the advantages of its existing products and develop a new range of health foods. New products to boost the immune system, such as “Qiang Li Tablets” and “Tie Pi Feng Dou Capsules”, will also be launched during the second half of the year.

Medical Equipment

During the period, the turnover of MicroPort Medical (Shanghai) Co. Ltd. (“MicroPort”) increased four times over the same period of last year. Between January and April, its sales performance exceeded expectations. However, MicroPort’s sales activities and marketing programmes slowed when some Beijing hospitals cancelled or postponed guide catheter surgery as a result of the onset of SARS in May and June. In contrast, the business of Guangdong Biolight Medical Technology Co. Ltd. (“Guangdong Biolight”) increased following the SARS outbreak. As the number of cases surged during late April, the demand for monitoring and diagnostic equipment increased in most hospitals. The supply of Guangdong Biolight’s M6 and M12 multi-parameter monitors failed to keep pace with demand. Its turnover was 1.2 times greater than in the corresponding period of last year.

Under the impact of SARS, sales of medical radiographic equipment and information systems for medical applications of E-COM Technology Ltd. (“E-COM”) achieved a better growth rate than last year. Many hospitals have now acquired and installed its medical radiographic equipment, including the General Hospital of the PLA (301 Hospital), Peking University First Hospital, Zhong Shan Hospital (the Medical Centre of Fudan University) and Tangdu Hospital (affiliated to the Fourth Military Medical University). The quality of this equipment has been highly rated by users. During the period, E-COM actively expanded its agency sales network, and it is committed to further increasing its market share.

Personal Care Products

In the personal care sector, revenue from the principal activities of Shanghai Jahwa United Co. Ltd. ("Shanghai Jahwa") during the half-year ended 30th June 2003 was slightly higher than in the corresponding period of last year. This contributed approximately HK\$14.4 million to the Group's profits. In response to a decline in the growth of the personal care product market and increasing competition, Shanghai Jahwa has aimed to strengthen its competitiveness by enhancing the quality of its products and service. The SARS outbreak boosted sales of Shanghai Jahwa's antiseptic range. For example, sales of "Liushen Antiseptic Soap" were 94.9% higher than those in the same period last year, while those of "Liushen Bathing Lotion" totalled RMB128.2 million. "Liushen Florida Water" proved popular among consumers in major cities, especially Beijing and Guangzhou. To satisfy the demand for health products as preventatives against SARS, Shanghai Jahwa launched "Jiann's Antiseptic Hand Lotion", as well as an air freshener synthesised from Chinese herbal medicine during this period. Both continue to sell satisfactorily. Although the outbreak of SARS created fresh opportunities for the company's antiseptic products, sales of its cosmetics collection were unfavourably affected. With the SARS threat now under control, sales of Shanghai Jahwa cosmetics products are expected to recover gradually.

PROSPECTS

On 21st May 2003, Shanghai Industrial Holdings Limited ("SIHL"), the holding company of SIIC MedTech, requested the Directors of the Company to put forward a proposal to the minority shareholders regarding a proposed privatisation of SIIC MedTech. Under the terms of the proposal, the minority shareholders would be entitled to HK\$2.15 in cash for each share of SIIC MedTech that they hold. Further information about the proposal was announced in a shareholders' circular despatched to all shareholders on 18th July 2003.

The board of directors of SIHL believes the proposal will provide an opportunity for all minority shareholders to realise their investment in SIIC MedTech at a premium to the prevailing market price for the shares. If the shareholders approve the proposal, SIIC MedTech's listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong will be officially withdrawn on 17th September 2003.

Medicine and biotechnology are the core businesses that SIHL intends to develop in the future. The proposed privatisation of SIIC MedTech represents a major step in the restructuring of SIHL's medical business. As SIHL's offshore flagship company in the medical industry, SIIC MedTech will be dedicated to developing the pharmaceutical business. By leveraging SIHL's integrated business strengths, the Group will enter a new era that builds new market leadership, based on new principles, new strategies and its outstanding advantages.

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

A handwritten signature in black ink, appearing to be 'Lu Ming Fang' in a stylized cursive script.

Lu Ming Fang
Chairman

Hong Kong, 29th July 2003

FINANCIAL POSITION

Turnover and Profit

The Group was engaged in the manufacture and sale of Chinese medicine and health supplement products, medical equipment, and personal care products. More than 90% of the Group's turnover and profit from operations was derived from the manufacturing and sale of Chinese medicine and health supplement products in the PRC. The unaudited consolidated turnover and profit attributable to shareholders for the six months ended 30th June 2003 of the Group increased by 35.1% and 10.6% respectively. The remarkable sales performance of Chia Tai Qingchunbao Pharmaceutical Co. Ltd. was the main contributor. In addition, the fact that the results of Xiamen Traditional Chinese Medicine Ltd. for the same period last year had not been consolidated into the Group's account and the inclusion of the results of operation of Huqingyutang Pharmaceutical since April of this year also boosted the turnover and/or the profits of the Group. Due to the seasonal effect, turnover of the Group for the second quarter was lower than in the first quarter.

Debt-equity Structure

As at 30th June 2003, the Group had bank balances and cash of HK\$441.7 million. Net assets reached HK\$836.2 million, a 10.7% increase compared with that at 30th June 2002. Based on the short term bank loan of HK\$1.9 million and shareholders' fund of HK\$836.2 million at 30th June 2003, the debt to shareholders' fund ratio was 0.2%. The strong and solid debt-equity position has greatly supported the development of the Group's business.

Financial Liquidity, Resources and Capital Structure

The Group's main source of funds for the period was cash generated from its business operations. The currencies in which cash and cash equivalents held by the Group are mainly Renminbi, US dollars and Hong Kong dollars. As at 30th June 2003, the Group's total assets reached HK\$1.37 billion, of which HK\$705.6 million was current assets. The ratio of current assets to current liabilities is two. Net cash inflow from operating activities amounted to HK\$122.1 million. The Group has ample liquid capital and its financial position is sound.

On 28th May 2003 and 11th July 2003, 300,000 shares and 100,000 shares of the Company were issued as a result of the exercise of 300,000 share options and 100,000 share options, respectively, by two employees of the Company pursuant to the share option scheme. Save as disclosed above, there is no change in the Company's share capital during the period.

Return on Capital Employed

The average Return on Capital Employed of the Group for the period was 12.2%. It was not materially different from that of the corresponding period of 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 the income statement. 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, to carry out prudent and appropriate hedging to offset the negative financial impact of such fluctuations.

Charge on Assets

As at 30th June 2003, a bank deposit of HK\$10.3 million was charged to a bank as security for certain banking facilities granted by the bank to one of our jointly controlled entities. The other shareholders of such jointly controlled entity have pledged their shares to the Group as counter indemnity respectively. Furthermore, certain plant and machinery of the Group valued at HK\$3.8 million was mortgaged to an independent third party as security for certain banking facilities.

Contingent Liabilities

The Group had no significant contingent liabilities at 30th June 2003.

Material Acquisitions and Disposals and Future Plans for Material Investments

Save as disclosed in 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 the section headed "Prospects". Internal resources and/or debt financing may be used by the Group to meet the funding requirement for business expansion plan and acquisition projects.

OTHER INFORMATION

DIVIDENDS

In line with the prevailing dividend policy of the Company, the Board of Directors has resolved not to pay an interim dividend for the six months ended 30th June 2003 (30th June 2002 : Nil) .

STAFF

Presently, the Group has 2,450 employees in the following areas:

	No. of employees
Company Offices	13
Sales and Marketing	989
Production	756
Administration and Procurement	244
Quality Control	127
Research and Development	31
Others	290

During the period, the Group has organised various in-house training programmes, including seminars on “Basic Knowledge on GMP Standards”, “Management Practice of Production Workshop” and “Chinese Medicine – Production Technique and its Development”.

SHARE OPTION

In January 2000, the Company offered the first batch of 39,200,000 share options to its staff and executive directors, 600,000 of which were lapsed. These share options may be exercised from 21st January 2003 to 20th January 2006 at an exercise price of HK\$1.69 per share. The Company has not granted any share option for the six months ended 30th June 2003.

On 28th May 2003 and 11th July 2003, 300,000 shares and 100,000 shares of the Company were issued as a result of the exercise of 300,000 share options and 100,000 share options, respectively, by two employees of the Company pursuant to the share option scheme.

On 21st May 2003, Shanghai Industrial Holdings Limited (“SIHL”), an intermediate holding company of the Company, requested the Board of the Directors to put forward a proposal to the minority shareholders regarding a proposed privatisation of the Company (“Proposal”). According to the Proposal, holders of share options exercise their share options and become shareholders before 15th September 2003 at 5:00 p.m. and remain so as at the same day, they will be entitled to receive the cancellation price of HK\$2.15 per share payable in cash under the Proposal. 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 of 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 agreements with SIHL.

At 15th July 2003, all of the holders of share options (apart from Mr. Li Wei Da and Mr. Ge Wen Yao as they have undertaken not to exercise their respective rights under the share options held by each of them) have agreed to surrender their respective rights under the outstanding share options granted to them. 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.

DIRECTORS’ INTERESTS IN SECURITIES

Mr. Shen Wei Jia has personal interest in holding 225,000 shares of the Company and certain Directors of the Company have personal interests in Shanghai Industrial Holdings Limited, an intermediate holding company of the Company (“SIHL”) as follows:

Name of director	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

Save as disclosed above, as at 30th June 2003, none of the Directors had any interest or short positions in the securities of the Company or any of its associated corporations, within the meaning of the Securities and Futures Ordinance (“SFO”), which were notified to the Company and the Stock Exchange of Hong Kong Limited (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 the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the Rules Governing the Listing of Securities on the Growth Enterprise Market relating to securities transactions by directors. None of the Directors dealt for value in any shares of the Company during the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

- (a) As at 30th June 2003, 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\$	Outstanding at 1st January 2003 and 30th June 2003
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 are exercisable during the period from 21st January 2003 to 20th January 2006.

- (b) As at 30th June 2003, certain Directors of the Company have interests in share options to subscribe for shares in Shanghai Industrial Holdings Limited, an intermediate holding company of the Company, which were granted to them as follows:

Name of director	Month of grant	Exercise price per share HK\$	Outstanding at 1st January 2003 and 30th June 2003
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

The aforesaid options can be exercised at any time during the three and a half years commencing on the expiry of six months after the date of acceptance.

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.

DIRECTORS' INTEREST IN CONTRACTS

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

Except as disclosed above, there were no contracts of significance to which the Company or its holding companies or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material whether directly or indirectly, which subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the following parties have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance ("SFO") or, who are, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meeting of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") <i>(note)</i>	417,997,000
Shanghai Industrial Investment Treasury Company Limited ("STC") <i>(note)</i>	408,934,000
Shanghai Investment Holdings Limited ("SIH") <i>(note)</i>	408,934,000
Shanghai Industrial Holdings Limited ("SIHL") <i>(note)</i>	408,934,000
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 13,554,000 ordinary shares of the Company respectively. SIIH, SIHL Treasury and CFI are wholly owned subsidiaries of SIHL, which is a subsidiary of SIH. STC owns 100% of SIH. SIIC owns 100% of STC. Accordingly, SIIC, STC and SIH are deemed by Part XV of the SFO 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 Properties Limited (“NPL”) are the beneficial owners of 8,088,000 and 975,000 ordinary shares of the Company respectively. SIIC owns 100% of NEL and NPL. Accordingly, SIIC is deemed by Part XV of the SFO to be interested in the ordinary shares beneficially owned by NEL and NPL.

Save as disclosed above, as at 30th June 2003, 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 (“SIHL”), an intermediate holding company of the Company, has interest in Shanghai Sunve Pharmaceutical Co., Ltd. (“Sunve Pharmaceutical”), Shanghai Sunway Biotech Co., Ltd. (“Sunway Biotech”) and Mergen Limited (“Mergen”).

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd. (“SMU Biotech”) and Shanghai SIIC Kehau Biopharmaceutical Co., Ltd. (“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 pharmaceutical and medical related operation, retail network operation and garments etc. Member companies of Shanghai United engaging in medical and pharmaceutical related operations included Shanghai Medical Instruments Co., Ltd. (“SMIC”), Shanghai Industrial United Holdings Pharmaceutical Research Co., Ltd. (“SIUPR”), Zhejiang Jolly Pharmaceutical Co., Ltd. (“Jolly”), Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. (“SIUHP”) and Changzhou Pharmaceutical Co., Ltd. (“Changzhou Pharmaceutical”). SMIC is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. SIUPR is engaged in research and development of Chinese and Western pharmaceutical products, bio-pharmaceutical, medical bioengineering and medical equipment. 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.

On 21st May 2003, SIHL through its wholly-owned subsidiary, Shanghai Industrial YKB Limited entered in the acquisition agreement with SIIC Shanghai (Holdings) Limited Company 上海上實(集團)有限公司, City Note Holding Limited, Shanghai Weaving Development Co. 上海紡織發展總公司, Uni-Shanghai Woolltex Limited and Shanghai AJ Corporation 上海愛建股份有限公司 relating to the acquisition of a 53.63% interest in the issued share capital of Shanghai United in aggregate. The said acquisition has been approved by the SIHL's independent shareholders at the extraordinary general meeting held on 25th June 2003. It is now awaiting for the approvals from the relevant PRC Government authorities. Upon completion of the acquisition, Shanghai United will become a subsidiary of SIHL.

Save as disclosed above, as at 30th June 2003, none of the Directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market) had an interest in a business, which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The audit committee comprises Mr. Li Ka Cheung, Eric, Mr. Kwok Chin Kung, Robert and Mr. Lee Ka Sze, Carmelo. The primary duties of the audit committee are to review financial reporting process and internal control systems of the Group and annual report, half-yearly report, quarterly reports and accounts of the Company. The Ninth Audit Committee Meeting was held on 28th July 2003. All three committee members have attended. At the meeting, they mainly reviewed the half-year results of the Group and the audit committee memorandum prepared by Deloitte Touche Tohmatsu for the six months period ended 30th June 2003.

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 Rules Governing the Listing of Securities on the Growth Enterprise Market.

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.

** for identification purposes only*

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