



上海實業醫藥科技(集團)有限公司  
SITC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED

上海實業集團成員 A Member of SITC

Half-year Report 2000



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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



# CONTENTS

- 3 Company Information
- 4 Highlights
- 6 Consolidated Income Statement
- 10 Business Review and Prospects
- 16 Comparison of Business Progress
- 25 Other Information

# 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*

## **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 Prime 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**

The Group: [www.sicmst.com](http://www.sicmst.com)  
B2B e-commerce: [www.e135.com](http://www.e135.com)  
B2C e-commerce: [www.tcm-port.com.cn](http://www.tcm-port.com.cn)

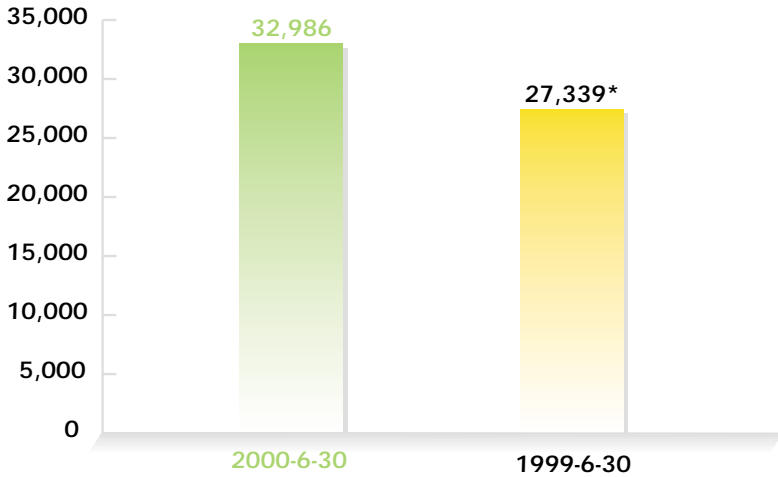
## **GEM Stock Code**

8018

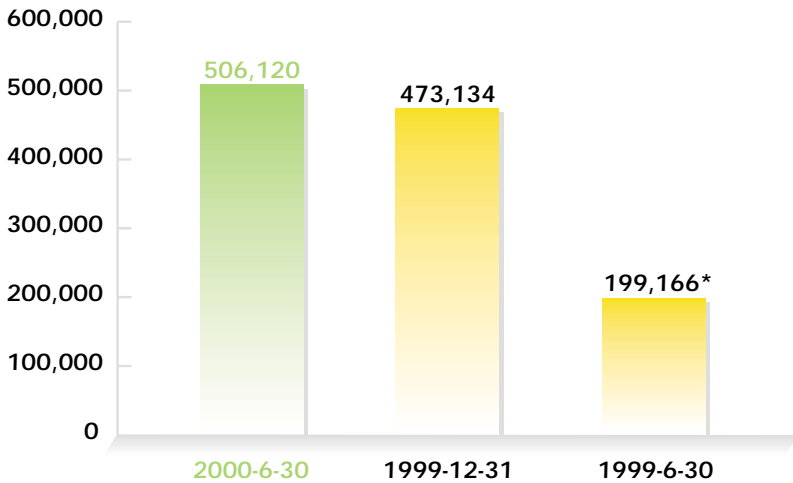
# HIGHLIGHTS

- Consolidated profit attributable to shareholders for the six months ended 30th June 2000 amounted to HK\$32,986,000, representing an increase of approximately 21% over the pro forma combined results for the corresponding period last year.
- Earnings per share was HK5.3 cents.
- The performances of both Hangzhou Qingchunbao and Shanghai Jahwa improved significantly with net profit increasing by approximately 24% and 96% respectively compared with the pro forma combined results for the corresponding period last year.
- The Group is in excellent financial position with cash on hand amounted to HK\$390 million and consolidated cash balance net of short term loans exceeding HK\$350 million.
- The Group achieved significant progress on the vertical integration of its modernised Chinese medicine business. It utilised internet technology for its business expansion. Current businesses are now set to interlock with each other under five major networks: Raw Materials Bases; Research & Development; Manufacturing; Sales; and Net-Services.

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS (HK\$'000)



## NET ASSET VALUE (HK\$'000)



\* 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 six months and three months ended 30th June 2000 of the Company and its subsidiaries (the “Group”) and the comparative figures of the audited and unaudited pro forma combined results for the corresponding six months and three months period last year respectively are set out below:

	Notes	For the three months ended 30th June		For the six months ended 30th June	
		2000 Unaudited Consolidated HK\$'000	1999 Unaudited Pro forma Combined HK\$'000	2000 Unaudited Consolidated HK\$'000	1999 Audited Pro forma Combined HK\$'000
Turnover	2	121,745	100,469	249,415	189,157
Cost of sales		(36,419)	(35,550)	(79,216)	(64,989)
Gross profit		85,326	64,919	170,199	124,168
Distribution costs		(36,965)	(31,645)	(82,836)	(60,912)
Administrative expenses		(26,222)	(9,986)	(39,597)	(18,524)
Profit from operations	3	22,139	23,288	47,766	44,732
Finance cost		(245)	(425)	(1,107)	(1,166)
Investment income	4	4,169	928	7,714	1,801
Share of profit of a jointly controlled entity	5	10,445	4,898	11,391	5,680
Profit from ordinary activities before taxation		36,508	28,689	65,764	51,047
Income tax expenses	6	(5,136)	(1,861)	(9,295)	(4,625)
Profit after taxation		31,372	26,828	56,469	46,422
Minority interests		(11,932)	(10,538)	(23,483)	(19,083)
Profit for the period		19,440	16,290	32,986	27,339
Earnings per share					
— Basic	7	3.1 cents	N/A	5.3 cents	N/A

*Notes:*

**1. Basis of preparation**

The Company was incorporated in the Cayman Islands on 17th September 1999 under the Companies Law (1998 Revision) of the Cayman Islands and the re-organisation of the Group prior to the listing on GEM of the Stock Exchange was completed in November 1999, as such the results under the consolidated basis reflect the actual results for the period from 1st January 2000 to 30th June 2000. The pro forma combined results for the six months and three months ended 30th June 1999, which are provided for information purpose only, have been prepared on a basis as if the current group structure had been in existence since 1st January 1999.

**2. Turnover**

Turnover represents 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 is principally come from Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao").

**4. Investment income**

	For the three months ended 30th June		For the six months ended 30th June	
	2000	1999	2000	1999
		Unaudited		Audited
	<b>Unaudited</b>	Pro forma	<b>Unaudited</b>	Pro forma
	<b>Consolidated</b>	Combined	<b>Consolidated</b>	Combined
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>3,749</b>	430	<b>6,873</b>	929
Property rental income	<b>420</b>	498	<b>841</b>	872
	<b>4,169</b>	928	<b>7,714</b>	1,801



## 5. Share of profit of a jointly controlled entity


Share of profit of a jointly controlled entity represents share of results of Shanghai Jahwa Joint-Stock Corporation (“Shanghai Jahwa”) for the period.

## 6. Income tax expenses

	For the three months ended 30th June		For the six months ended 30th June	
	2000	1999	2000	1999
		Unaudited		Audited
	Unaudited	Pro forma	Unaudited	Pro forma
	Consolidated	Combined	Consolidated	Combined
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
PRC income tax	3,867	3,738	7,891	6,448
Deferred tax	—	(2,216)	—	(2,216)
Share of PRC income tax of a jointly controlled entity	1,269	339	1,404	393
	<b>5,136</b>	1,861	<b>9,295</b>	4,625

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 three years.

The tax holiday for Hangzhou Qingchunbao has expired. However, 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 is entitled to a preferential PRC income tax rate of 12% for the three years ending 31st December 2000.



During the period, Shanghai Jahwa was in its fifth profitable year and was entitled to a 50% relief from PRC income tax at the applicable tax rate of 27%. Its subsidiaries are, however, subject to PRC income tax calculated at 33%.

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 2000 of HK\$32,986,000 and HK\$19,440,000 respectively and the weighted average of 620,000,000 shares in issue during the respective periods. The earnings per share in respect of the six months and three months ended 30th June 1999 are not applicable as the Directors considered that the information is not relevant.

# BUSINESS REVIEW AND PROSPECTS

## BUSINESS REVIEW

The consolidated profit attributable to shareholders for the six months ended 30th June 2000 was HK\$32,986,000, representing an increase of approximately 21% over the pro forma combined results for the corresponding period last year. Net profit at Hangzhou Qingchunbao increased by 24% and at Shanghai Jahwa by 96%.

After the Group was successfully listed, it made good use of the business opportunities and formulated various long-term development strategies. These factors, along with the Group's strength in research and development, contributed to the progress made in respect of the establishment of the Group's business foundations.

During the first half of the year, the Group also achieved good progress in the creation of a modern, vertical integrated Chinese medicine business. It utilised internet technology for its business expansion. Current businesses are now set to interlock with each other in five networks: Raw Materials Bases; Research and Development; Manufacturing; Sales; and Net-Services.





## **Raw Materials Bases Network**


It is necessary to standardise raw materials in order to ensure the stability and effectiveness of ingredients used in Chinese medicines. Only with high quality raw materials, modern production processes and internationally recognised quality standards can internationally competitive Chinese medicines be produced. Therefore, as part of the modernisation and long-term development of its Chinese medicines, the Group is immediately implementing Good Agricultural Practices (“GAP”) in its production processes.

By the end of June, the Group had established two raw materials bases, in Chong Min, Shanghai and Ning Xia. Plantation trials were begun at Chong Min Base on producing Herba Echinaceae to GAP standards and to a quality suitable for export. Herba Echinaceae is one of China’s top three largest medicinal herbal exports in volume terms.

During the period, the Group co-operated with the Institute of Agricultural and Science in Ning Xia to establish a base in Ning Xia to grow and refine fresh barbary wolfberry fruit products with a view for export. The Group will use Ning Xia’s quality Chinese medicinal resources and adopt appropriate marketing means. Commercial production is to commence shortly. The Company is confident about the prospects for exporting barbary wolfberry fruit products and anticipates a reasonable return.

## **Research and Development Network**

The establishment of a research and development network has been the focal point of the Group’s development. Given its background and long-term strategy, the Group has attracted a team of highly professional scientists to sit on a 13-strong “Modernised Chinese Medicine Experts Committee”. The committee includes two European experts on natural product and traditional drug as well as scientists from China. The Committee provides strong support in research and development and assists in the Group’s business development. The committee also provides the Group with a demonstrable competitive advantage.



The Group's Beijing research and development base formulated a short-term production development strategy. It commenced the development of products in the areas of hepatopathy, memory enhancement, anxiety reduction, and sleep improvement.

The Shanghai research and development base will acquire two medicinal projects from Shanghai University of Traditional Chinese Medicine ("SUTCM"), which speed up the pace of the commercialisation process of the research and development projects.

The Government of the Hong Kong Special Administrative Region is actively promoting Hong Kong as an international centre for Chinese medicine. During the first half of the year, the Group signed two letters of intent, with the Hong Kong University of Science and Technology and the Hong Kong Baptist University. These will lead to the establishment of a Hong Kong Chinese medicine research and development evaluation centre, the development of modern Chinese products, the provision of management training for Chinese medicine business enterprises and the development of an international Chinese medicine testing centre.

### **Production Network**

In the first half of the year, Hangzhou Qingchunbao actively expanded production capacity for its high technology injection products. In mid-May, production capacity increased by 50%. In early June, Hangzhou Qingchunbao formed a joint venture in He Gang, Heilongjiang province, to be its production network in northern China. The Group is providing technology, management services and trademark as part of its capital contribution. The principal activity of the joint venture is the production of Chinese medicine capsule products. Hangzhou Qingchunbao commenced implementation of GMP compliance procedures in workshops involved with making natural herb based tablets and capsules, preparing herbal raw materials, and making oral tonics.

## Sales Network

During the period, Hangzhou Qingchunbao launched a new injection product, heartleaf houttuynia herb, which cures various infectious diseases. Production facility complies with GMP standards, the extraction technique is sophisticated and the price is reasonable. Consumers responded encouragingly to the product. Hangzhou Qingchunbao will formulate appropriate marketing plans to promote sales of the heartleaf houttuynia herb product.

Hospitals, clinics and drug distributors remained the principal marketing channels for patented Chinese medicines and health supplement products. During the period, ten Hangzhou Qingchunbao products were included in China's National Basic Medical Insurance List of Medicines. These products account for more than 90% of the total sales of Hangzhou Qingchunbao medicines. By being accepted on the list, employees in urban districts who use these products can be reimbursed under their insurance programmes. The Group expects sales of these ten products to increase significantly and this will contribute to the growth in profitability.

In the first half of the year, sales at Shanghai Jahwa exceeded expectations with net profit increasing by approximately 96%. Turnover of the major products, Luishen, Chinf de Chinf and Herborist, continued to grow. Sales of Herborist products were double those of the corresponding period last year. The number of speciality stores increased to eleven, from five. The number of Herborist products increased to 71, which satisfied customer demand. Herborist is the first Chinese herbal-based personal care product to be sold through speciality chain stores in the PRC. The image of the Herborist products is outstanding and the concept is special. This product uses natural raw materials that are in line with current trends to return to nature and this is favourable for possible sales overseas. The development potential of Herborist is enormous.

During the period, Shanghai Jahwa commenced negotiations with a supermarket chain that could sell its products in Hong Kong, further extending its sales network.

## Services Network

The Group will fully utilise its competitive advantages to seek investment opportunities in the PRC's new Internet-based economy. During the period, an agreement for the acquisition of a 20% stake in Shanghai Pharmaceutical Business Network Co., Ltd., which runs a website, [www.e135.com](http://www.e135.com) was signed. The procedure is subject to Government approval. The website has four parts: B2B medicinal products internet sales; medical consultation services; new medicine registrations; and auction services. The website began operations in August last year. Presently, it has a network of 38 hospitals, 60 drug stores and sells 4,000 types of medicinal products. Transaction volumes are growing rapidly and development prospects are promising. In February this year, the website was identified by The Pharmaceutical Department of State Economic and Trade Commission of People's Republic of China as a model state medicinal e-commerce business.

In July, the Group's TCM website ([www.tcm-port.com.cn](http://www.tcm-port.com.cn)) was launched. The website focuses on providing information on Chinese medicines and healthcare; information on the state policies and regulations; and messages about medicinal products and consultation services. By mid-August, B2C medicinal e-commerce services are expected to be operating. The Group will then embark on selling its products through the internet.


In mid-May, the Group and Cyber-Care jointly presented a demonstration of telemedicine consultation services in Shanghai connecting to a terminal in the USA. The response to the demonstration was encouraging. After the presentation, one participant indicated an intention to install the system in populated districts of Shanghai. The Group plans to test the system in Shanghai before marketing the system all over China and in other Asian countries. In the PRC, the development of the telemedicine business is in an initial stage. The Group will use its best endeavours to be the first scalable player in the field.

## PROSPECTS

In the second half of the year, the Group will follow its strategic plan and develop its existing businesses in a practical manner. Efforts will be made to acquire quality Chinese medicine enterprises and sales networks and to form an alliance with an international renowned pharmaceutical company, which would expand the scale of the Group.

Looking ahead, the Group will use internet technology and actively expand its e-commerce and telemedicine businesses in order to capture the growth potential in medical businesses. Old business models are merging with new ones. The Group will use this integration for its competitive advantage in order to develop into a PRC based high technology conglomerate ready for international markets and with Chinese medicine and bio-pharmaceutical as its two development arms.

On behalf of the Board, I would like to take this opportunity to express my gratitude to shareholders for their unfailing support. The Group will use its best endeavours to enhance the Group's creativeness and to increase the investment value of the shareholders.

A handwritten signature in black ink, consisting of three stylized Chinese characters: 卓福民 (Zhuo Fu Min).

**Zhuo Fu Min**  
*Chairman*

Hong Kong, 31st July 2000



# COMPARISON OF BUSINESS PROGRESS

During the first half of 2000, the Group's businesses progressed generally in line with the information disclosed in the Prospectus. The comparisons of which are as follows:

<b>Business objective of the 1st half of 2000 as disclosed in the Prospectus</b>	<b>Actual business progress up to the 1st half of 2000</b>
----------------------------------------------------------------------------------	------------------------------------------------------------

## **Hangzhou Qingchunbao**

- *Sale of principal products:*

1. Shen Mai Injection (10ml)	: 6,294,000 vials	6,712,000 vials
2. Stomach Recuperation Granules (15gx6)	: 2,615,000 boxes	2,531,000 boxes
3. Granules Niaoganning (15gx6)	733,000 boxes :	827,000 boxes
4. Granules Qingreling (15gx6)	: 464,000 boxes	517,000 boxes
5. Qingchunbao Anti- ageing Tablet (80 tablets)	: 1,422,000 bottles	3,294,000 bottles

Thanks to marketing efforts, sales of Qingchunbao Anti-ageing Tablet increased significantly. Taking account of market demand, Hangzhou Qingchunbao modified the production technology for Stomach Recuperation Granules and produced a sugar-free version. Sales of the original products therefore fell slightly. However overall, in the first half of the year, Hangzhou Qingchunbao continued to perform very well, with turnover increasing by approximately 32% compared with the pro forma combined results for the corresponding period last year.

**Business objective of the 1st half of 2000 as disclosed in the Prospectus**

**Actual business progress up to the 1st half of 2000**

● *Development of marketing channels:*

1. Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. In addition, Hangzhou Qingchunbao will enter into arrangements with supermarket chains in the PRC to develop additional marketing channel. Hangzhou Qingchunbao intends to set up arrangements with about two to three supermarket chains in the mainland PRC, Hong Kong or overseas to sell Hangzhou Qingchunbao's products on a consignment basis.

Consistent with the business objective described in the Prospectus.

2. Hangzhou Qingchunbao will commence preliminary discussions on joint venturing with internet companies and drug distributors to distribute Hangzhou Qingchunbao's products on the internet.

Hangzhou Qingchunbao commenced preliminary discussions with internet companies and drug distributors to distribute Hangzhou Qingchunbao's products on the internet.

3. As Hangzhou Qingchunbao's distribution channel begins to diversify, the marketing team will have a total staff number of about 610 while maintaining the number of sales offices at 55.

Consistent with the business objective described in the Prospectus.

## **Business objective of the 1st half of 2000 as disclosed in the Prospectus**

- *Production and facilities:*

1. Premises

Located in Hangzhou, Zhejiang Province. As a result of an increase in total area for more inventory and raw material storage space, total gross floor area will increase to about 93,000 sq.m.

2. Status of GMP compliance

Commence implementation of GMP compliance procedures with natural herb based tablet and capsule workshop, preparation of crude herbs workshop and oral tonic workshop.

- *Research and development:*

1. Chinese Mugwort Leaf Oil Soft Capsule (Project No. 202X-99-02)

Complete pre-clinical trial technical information review by the provincial level of the State Pharmaceutical Supervision and Administration of the PRC ("SPSAC").

## **Actual business progress up to the 1st half of 2000**

Hangzhou Qingchunbao commenced work on an extension to its premises. Once complete, the total gross floor area will increase by 1,000 sq.m. to about 93,000 sq.m.

Consistent with the business objective described in the Prospectus.

Pre-clinical trial technical information was reviewed by a provincial level SPSAC. As the Government has increased the technology standards for new category four medicines, supplemental materials and experimental details are required. The completion of the research and development for Project No. 202X-99-02 is subject to the review by the provincial level SPSAC.

**Business objective of the 1st half of 2000 as disclosed in the Prospectus**

**Actual business progress up to the 1st half of 2000**

2. Stomach Recuperation Capsule

Complete pre-clinical trial technical information review by the provincial level SPSAC.

The Group wanted to use new production technology for making Stomach Recuperation Capsules, but as the Government has yet to announce standards for the technology, this project could not proceed further.

3. Anti-cholelithiasis Tablet

—

Obtained SPSAC approval in the first quarter.

4. Cassia Seed Lipid Lowering Tablet

—

Obtained SPSAC approval in the first quarter.

5. Shen Kang Ning Coated Tablet

Preliminary review completed by provincial health bureau pharmaceutical administration.

Obtained SPSAC approval in November 1999. The approval procedure was completed earlier than expected.

Completed review by provincial drug testing centre.

## **Business objective of the 1st half of 2000 as disclosed in the Prospectus**

### 6. Shuangbaosu Oral Tonic (Low Sugar Formula)

Functional test completed by provincial level health and disease prevention bureau.

Application made to State health department functional foods evaluation office.

## **Actual business progress up to the 1st half of 2000**

Hangzhou Qingchunbao suspended its low-sugar formula Shuangbaosu Oral Tonic after marketing research revealed that domestic and overseas competition was very keen, and that quality and price of competitor products varied greatly.

## **Research and development base**

### 1. Coordination Centre

The establishment of the coordination centre is expected to be completed by 30th June 2000.

In February this year, the "Modernised Chinese Medicine Experts Committee" has established which acts as a consultant for the Group in research and development.

### 2. Shanghai research and development base

Enter into definitive agreement with SUTCM.

At the end of 1999, a definitive agreement with SUTCM for the establishment of the Shanghai research and development base was signed.

Finalise the list of research and development projects to be transferred from SUTCM. Up to about 5 projects are anticipated to be transferred from SUTCM.

During the period, two projects were selected to be transferred from SUTCM. Agreements will be signed shortly.

**Business objective of the 1st half of 2000 as disclosed in the Prospectus**

Amount to be incurred: HK\$5,000,000

**3. Beijing research and development base**

Enter into agreement.

Evaluation of projects currently undertaken by the institutes and the experts. Based on preliminary estimate, up to 5 pharmaceutical products and health supplement projects will be handled by the Beijing research base initially.

Commence research and development of projects approved by the expert panel of the coordinating centre.

Amount to be incurred: HK\$5,500,000

**Actual business progress up to the 1st half of 2000**


The consideration for the acquisition of the two selected projects from SUTCM has yet to be determined. Preliminarily RMB\$3,000,000 has been earmarked in the third quarter.

At the end of 1999, an agreement with Beijing University of Traditional Chinese Medicine for the establishment of the Beijing research and development base was signed.

The Beijing research and development base undertook four health supplement projects in the areas of hepatopathy, memory enhancement, anxiety reduction, and sleep improvement.

Such projects have been approved by the "Modernised Chinese Medicine Experts Committee".

As at 30th June 2000, aggregate expenses were approximately HK\$500,000. It is expected that research and development expenses for the four projects will be approximately HK\$3,000,000.



**Business objective of the 1st half of 2000 as disclosed in the Prospectus**

4. Hong Kong research and development base

Continue discussions with research institutes in Hong Kong.

Amount to be incurred: HK\$6,000,000

**Actual business progress up to the 1st half of 2000**

The Group signed two letters of intent with the Hong Kong University of Science and Technology and the Hong Kong Baptist University. These will lead to the establishment of a Hong Kong Chinese medicine research and development evaluation centre, the development of modern Chinese products, the provision of management training for Chinese medicine business enterprises and the development of an international Chinese medicine testing centre.

No funding requirement was needed during the period. The intended funding will be held as short term deposits.

**Production of pharmaceutical products**

1. Establishment of production base in Hong Kong

Preliminary evaluation of the appropriate location and size of operation of the production facility.

Continued to study the feasibility of establishing a production base in Hong Kong with particular focus on the required production facilities, location and scale.

**Business objective of the 1st half of 2000 as disclosed in the Prospectus**

2. Joint venture with reputable Chinese medicine enterprises

Commence negotiations with joint venture candidates if appropriate.

3. Alliance with international pharmaceutical companies

Continue negotiations and evaluation.

**Actual business progress up to the 1st half of 2000**

Continued to locate and review potential suitable joint venture candidates.

Negotiation with a well-known international pharmaceutical company in respect of a joint alliance was in progress.

**Marketing and sales**

1. Expand and strengthen its distribution network in the PRC

Continue negotiation with target.

Continued to negotiate with the acquisition target.

2. E-commerce

Preliminary discussion with potential partners.

Continue feasibility study on e-commerce.

Commence preparation for establishing a website.

An agreement for the acquisition of a 20% stake in Shanghai Pharmaceutical Business Network Co., Ltd. was signed on 17th March 2000. The procedure is subject to Government approval. The Group's Shanghai TCM website was launched in July. The website focuses on providing information. A B2C medicinal e-commerce service is expected to be added in mid-August.



**Business objective of the 1st half of 2000 as disclosed in the Prospectus**

Amount to be incurred: HK\$1,500,000

3. Over-the-counter-sales

Preliminary discussion with large chain stores in Hong Kong.

Amount to be incurred: HK\$2,500,000

**Chinese medicine clinical centre**

Preliminary negotiations with well-known traditional Chinese medicine institutes and experts.

Amount to be incurred: HK\$500,000

**Actual business progress up to the 1st half of 2000**

RMB12 million

Since the plan was changed strategically, a variance resulted between the actual amount and the planned amount.

Negotiation with a Hong Kong supermarket chain about launching the Group's products in the Hong Kong market was in progress.

No funding requirement was needed during the period. The intended funding will be held as short term deposits.

Conducted preliminary negotiations with well-known traditional Chinese medicine institutes and experts. The Group will follow the policy and regulation imposed by the Government towards Chinese medicine specialist clinics.

No funding requirement was needed during the period. The intended funding will be held as short term deposits.

# OTHER INFORMATION

## DIVIDEND

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 period ended 30th June 2000. Subject to the approval of the shareholders, the Directors will declare the payment of final dividend for the year ending 31st December 2000.

The amount of interim dividend for the six months and three months ended 30th June 1999 is not applicable as the Directors considered that the information is not relevant.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2000, 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 granted during the period and outstanding at 30.6.2000
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 options can be exercised within three years commencing on the expiry of three years after the date of grant.

- (b) Pursuant to the share option scheme of Shanghai Industrial Holdings Limited (“SIHL”), an intermediate holding company, 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:

<b>Name of Director</b>	<b>Month of grant</b>	<b>Exercise price per share HK\$</b>	<b>Outstanding at 1.1.2000</b>	<b>Exercised during the period</b>	<b>Outstanding at 30.6.2000</b>
Zhuo Fu Min	August 1996	8.808	1,500,000	1,500,000	—
	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
Ge Wen Yao	August 1996	8.808	1,000,000	1,000,000	—
Wu Jian Zhuang	January 1999	9.568	1,000,000	—	1,000,000

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

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 2000, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following persons are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

<b>Name of shareholder</b>	<b>Number of ordinary shares beneficially held</b>
Shanghai Industrial Investment (Holdings) Company Limited (“SIIC”) <i>(Note)</i>	397,555,000
Shanghai Industrial Investment Treasury Company Limited (“STC”) <i>(Note)</i>	389,450,000
Shanghai Investment Holdings Limited (“SIH”) <i>(Note)</i>	389,450,000
Shanghai Industrial Holdings Limited (“SIHL”) <i>(Note)</i>	389,450,000
Central Force Investments Limited (“CFI”)	372,000,000

*Note:* S.I. Infrastructure Holdings Limited (“SIIH”) is the beneficial owner of 2,170,000 ordinary shares of the Company. SIIH and CFI are wholly-owned subsidiaries of SIHL, which is, in turn, a subsidiary of SIH. STC owns 100% of SIH. Accordingly, SIHL, SIH and STC are deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by SIIH and CFI as listed above.

Top Modern Limited (“TML”), Nanyang Enterprises Limited (“NEL”) and Nanyang Enterprises Property Limited (“NEPL”) are beneficial owners of 5,015,000, 1,766,000 and 1,324,000 ordinary shares of the Company respectively. SIIC owns 100% of TML, NEL, NEPL and STC. Accordingly, SIIC is deemed by the SDI Ordinance to be interested in the ordinary shares beneficially owned by TML, NEL, NEPL and STC.



Save as disclosed above, the Company has not been notified of any other interests as at 30th June 2000 representing 10% or more of the issued share capital of the Company.

## **SPONSOR'S INTERESTS**

As at 30th June 2000, the Company's sponsor, BNP Prime Peregrine Capital Limited ("BNP Prime 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.

Pursuant to the sponsorship agreement entered into between BNP Prime Peregrine and the Company dated 23rd November 1999, BNP Prime 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 Prime Peregrine for its provision of services.

Mr. Leung Pak To, Francis, Chairman of BNP Prime Peregrine, is an independent non-executive director of Shanghai Industrial Holdings Limited, the holding company of the Company.

## **AUDIT COMMITTEE**

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. In the audit committee meeting held on 28th July 2000, the results and financial position, major accounting and internal auditing issues of the Group for the six months period ended 30th June 2000 were discussed.

## COMPETING INTERESTS

The ultimate holding company of the Company, Shanghai Industrial Investment (Holdings) Company Limited has interest in SIIC International Investment Company (“SIICI”) and Shanghai Industrial United Holdings Co., Ltd. (“Shanghai United”). The holding company of the Company, Shanghai Industrial Holdings Limited 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 develop 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. Some of Shanghai United’s investments in high technology enterprises are also engaged in medical and pharmaceutical related operations. 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.

## **YEAR 2000 COMPLIANCE**

The Board of Directors is pleased to announce that the Group's computer systems were proved Year 2000 compliant safely. The Board of Directors believes that the Year 2000 computer issue will have no material impact on the operations of the Group.