Annual Report 2000

上海實業醫藥科技(集團)有限公司

SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED

上海實業集團成員 A Member of SIIC

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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.

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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.

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Company Information

LEGAL NAME OF THE COMPANY

SIIC Medical Science and Technology (Group) Limited

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

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

COMPLIANCE OFFICER

Li Wei Da

QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES

Li Wei Da
Wong Mei Ling, Marina

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

REGISTERD OFFICE

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

MAIN OFFICE AND PRINCIPAL PLACE OF BUSINESS

10/F., Shanghai Industrial Investment
Building, 48-62 Hennessy Road
Wanchai, Hong Kong

SHANGHAI OFFICE

12A, Golden Bell Plaza,
98 Huai Hai Road(M), Shanghai,
People's Republic of China

AUDITORS AND REPORTING ACCOUNTANTS

Deloitte Touche Tohmatsu

SPONSOR

BNP Paribas Peregrine Capital Limited

LEGAL ADVISERS

As to Hong Kong Law:
Woo, Kwan, Lee & Lo

As to PRC Law:
Pu Dong Law Office
Fangda Partners

As to Cayman Islands Law:
Maples and Calder Asia

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bufferfield International
(Cayman) Limited
P.O. Box 705, Butterfield House
Fort Street, George Town
Grand Cayman, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
5/F., Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Bank of China *(Hangzhou Qingchun Branch)*
Construction Bank of China
(Shanghai Branch)
Industrial and Commercial Bank of China
(Hangzhou Branch)
Industrial and Commercial Bank of China
(Shanghai Branch)

WEBSITE ADDRESSES

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

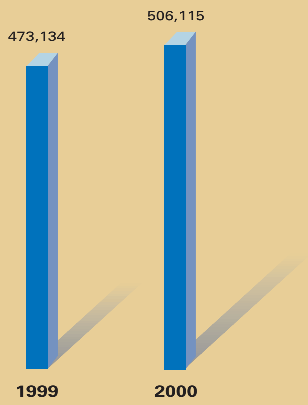
GEM STOCK CODE

8018

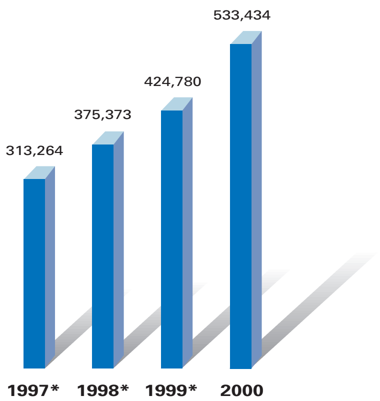
Financial Highlights

- Profit for the year soared approximately 20% (excluding exceptional income) to HK$72,318,000.
- The profits of Hangzhou Qingchunbao and Shanghai Jahwa showed an increase of 34% and 63% respectively over the previous year.
- Turnover increased by approximately 26% to HK$533,434,000.
- A final dividend of HK3 cents per share was proposed.
- Return on Shareholders Fund was 14.8%.
- The consolidated net cash balance of the Group exceeded HK$360 million.

Net Asset Value Growth (HK$'000)

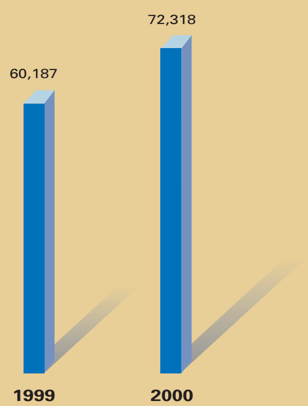


Turnover (HK$'000)



* *pro forma combined*

Profit for the year* (HK$'000)



* *excluding exceptional income*

First Quarterly Results	Announced on 8th May 2000
Half-Yearly Results	Announced on 31st July 2000
Third Quarterly Results	Announced on 6th November 2000
Full-Year Results	Announced on 15th March 2001
Annual Report	Posted to Shareholders on 30th March 2001
Register of Shareholders	To be closed from Tuesday, 24th April 2001 to Thursday, 26th April 2001
Annual General Meeting	To be held on Thursday, 26th April 2001 at 3:00 p.m.
Proposed Final Dividend	HK3 cents per share – Payable on Thursday, 10th May 2001

Chairman's Statement

Zhuo Fu Min *Chairman*

With "Vision", "Focus" and "Growth" as the Group's long-term development strategies, we are confident that we will continue to add value for our shareholders.

SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech" or the "Company") is a manufacturer of modern Chinese medicine and bio-pharmaceutical products, based on the integration of medicines and therapy. In the year since it listed, the Company has adopted a cautiously proactive approach to developing its businesses. In addition to Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao"), a respected Chinese medicine enterprise, and Shanghai Jahwa United Co., Ltd ("Shanghai Jahwa"), one of the biggest personal care and cosmetics producers in the PRC, the Company expanded its operations by establishing medicinal herb development bases in Ningxia and at Chongmin Island, in Shanghai. It also established scientific research and development bases in Beijing, Shanghai and Hong Kong, and founded a telemedicare network in Shanghai.

Last year, the Group prepared to list Shanghai Jahwa on the Shanghai Stock Exchange's A Shares Market and in February 2001 we proceeded with this public offering, raising a total of RMB734.4 million. The share offer, well received by investors, was 410 times oversubscribed, freezing a total of RMB302 billion and thereby generating exceptional income of approximately HK$150 million for the Group. The funds raised by the share offer will be mainly applied to the development of Shanghai Jahwa's principal businesses, including further marketing efforts to expand the sales network and an extension to the scientific research and technology centre to strengthen its research and development capability. These development programmes will substantially increase Shanghai Jahwa competitive strength, which will translate into rapid business growth, increased market share and better returns for its shareholders. The successful listing of Shanghai Jahwa demonstrated the Group's sound asset management capabilities. The Group will continue to apply capital and resources in pursuit of an optimal return for its shareholders.

PROFITS

The Group's audited profits attributable to shareholders for the year ended 31st December 2000 amounted to HK$72,318,000, an increase of 20% (excluding exceptional income) over the pro forma combined results of the previous year. Turnover increased by 26% to HK$533,434,000. The growth in profits was mainly attributable to the satisfactory performance of Hangzhou Qingchunbao and Shanghai Jahwa, which registered net profits growth of 34% and 63% respectively.

DIVIDENDS

The board of directors recommends the payment of a final dividend of HK3 cents per share to the shareholders as recorded in the register of shareholders of the Company as at 26th April 2001. Subject to the approval of shareholders at the forthcoming Annual General Meeting, dividend warrants will be dispatched to shareholders on or before 10th May 2001.

BUSINESS

In year 2000, SIIC MedTech made significant progress in its efforts to modernise its Chinese medicine businesses through the introduction of scientific operations, and the development of Internet sales channels. The five business networks managed by the Group, namely the raw materials network, research and development network, production network, sales network and medical service network, are closely inter-related and complementary.

Raw Materials Network

Raw material bases were established in pursuit of the strategy of integrating quality Chinese medicine raw materials with modern product processing techniques. The purpose is to develop modern Chinese medicinal products to satisfy international demand. During the year, the Group built the Ningxia barbary wolfberry fruit base and Shanghai Chongmin Island Echinacea base. Ningxia barbary wolfberry fruit benefits the kidney, liver and eyes. It is one of the first groups of both medicinal and edible herbal ingredients announced by the Ministry of Health, PRC (the "MOH"). Echinacea effectively relieves the symptoms of influenza and reduces the period of illness. It has no side effects and is widely accepted by European and U.S. consumers. In recent years, sales of Echinacea have been among the best in the plant medicine category. Ningxia barbary wolfberry fruit and Echinacea products are now under further development. The production of which is being organised. By boosting the technology used, value is added to products and the Group's performance is enhanced.

Research and Development Network

The "Modernised Chinese Medicine Experts Committee" was established for the purpose of centralising, directing and monitoring the research and development efforts of the Group. It enabled the Company to benefit from the extensive experience of the 13 domestic and overseas experts on the committee. In view of the time-consuming official approval procedures for pharmaceutical products, the Group opted to start with health supplements and then follow up with patent medicines. Following the efforts made in the past year, the Group achieved satisfactory results in research and development and expects to commercially apply the outcome of this research in the near future. Three to four new products are expected to be launched this year by the respective research and development centers. This will further strengthen the product mix of the Group's medicinal products and bring economic benefits to the Group.

Apart from the development of new medicinal products, the Group will capitalise on its strength in research and development to further develop traditional quality Chinese medicinal products with proven healing effects and demonstrable market potential. The Company will initially target the Asia market for these products. The objective of the modernisation and internationalisation of Chinese medicine business is then materialised.

Production Network

Good Manufacturing Practice ("GMP") certification signifies quality management in pharmaceutical production. GMP certification will enable pharmaceutical production businesses to survive and prosper after China enters the World Trade Organisation ("WTO"). The quality management standard for pharmaceutical production sets out strict guidelines for medicine production processes that cover the design of production facilities, the qualification of the personnel involved in the production process, machinery, hygiene, raw material processing, packaging and labelling, production management, process documentation, quality control, sales records, customer opinions and complaints. Hangzhou Qingchunbao will strengthen its efforts to achieve GMP certification as it enhances the effectiveness of its corporate management. The injection workshop, the tablet and capsule workshop and the crude herbs workshop were affirmed GMP-compliant by the State Drug Administration of the PRC (the "SDA"). Hangzhou Qingchunbao is putting sustained effort to the preparation for GMP certification of the oral-tonic workshop. The Group will establish new production facilities as development of new products and market demand provide favourable conditions for expansion both within the PRC and in overseas markets.

Sales Network

The Chinese medicine industry in the PRC witnessed substantial changes in 2000. The State moved ahead with reforms and promulgated a series of new policies for the medicine industry. In accordance with the "Interim Measures for the Management of Medicines Covered by Basic Medical Insurance for employees in Cities and Towns", the costs incurred by an insured person who receives medicines listed in the "Catalogue of Medicines Covered by the State Basic Medical Insurance" will be paid by the government under the terms of the basic medical insurance.

Presently, a total of 15 products or 90% of the pharmaceutical products sold by Hangzhou Qingchunbao are included in the catalogue. In order to capture the opportunities generated by this reform policy, Hangzhou Qingchunbao is conducting research and development on products in the catalogue and at the same time striving to improve the technical standard and quality of existing products. Last year, Hangzhou Qingchunbao updated its marketing strategy for "Qingchunbao" anti-aging tablets. To attract customers, Hangzhou Qingchunbao increased its advertising and promotion efforts, emphasising quality and affordability. This sales strategy and re-positioning of "Qingchunbao" anti-aging tablets led to markedly increased sales revenues. This success indicates how the Group can apply similar sales techniques to other products.

In order to ensure that its Chinese medicinal products reach international quality standards, the Company established Green Source Medical Trading Limited last year, to select medicinal products with optimum healing results and international sales potential in Mainland China. These products will be tested by professional institutions in Hong Kong before launching to international markets.

To complement developments in its traditional sales network, the Group acquired a 20% equity interest in Shanghai Pharmaceutical Business Network Co., Ltd. ("Shanghai Pharmaceutical Network"). Shanghai Pharmaceutical Network is the only enterprise authorised by both the Pharmaceutical Department of State Economic and Trade Commission and the SDA to conduct e-commerce in pharmaceutical products. The Group will closely monitor and promote the company's business to pursue better business results and generate satisfactory returns for its shareholders. Shanghai Pharmaceutical Network's successful application of information technology to the medicine industry makes it a model "clicks and mortar" enterprise.

Medical Services Network

The joint venture with Cyber-Care Inc. ("Cyber-Care"), a U.S. company, marks SIIC MedTech's entry into the advanced medicare service arena. The telemedicare business combines advanced technology with the traditional medicare business model. The initial framework of the telemedicare business is already established and consists of system production, network services and medicare service. Statistics show that the PRC population is aging and demand for medicare in the PRC is expected to gradually increase. Based on this demand and present market conditions, the Group's pioneering launch of the Telemedicare Monitor System in the PRC marks the first step towards implementing this system.

Chairman's Statement

PROSPECTS

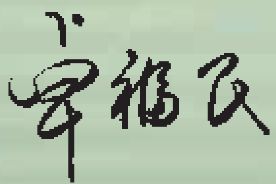
The year 2001 heralds a new era for Chinese medicine. These traditional products are the essence of Chinese culture. The rising global demand for natural medicines offers excellent prospects for Chinese medicine both within the PRC and in overseas markets. Demand for bio-pharmaceutical products is also expected to grow significantly. We believe that the development of the markets for traditional Chinese medicine and bio-pharmaceuticals offers SIIC MedTech substantial room for business growth and a promising future.

With its integration into the WTO, China is undergoing substantial changes in its economic administration and market development. At the same time, the Chinese authorities are actively working to redress the excess of imports of herbal medicine over exports. Exports of Chinese medicinal products are expected to reach new highs in the 21st century. Over the past year, SIIC MedTech has developed several products to target of international markets, and has established a number of overseas retail outlets. In the coming year, SIIC MedTech will leverage its unique role as the bridge between China and other countries in order to open up a gateway to international markets for Chinese medicines. To this end, the Beijing research and development base will make increased use of single ingredient and simple compounds. The Group will respond dynamically to market changes and will seize every business opportunity that emerges as the Chinese medicine industry moves into this new era.

In 2001, SIIC MedTech will continue its successful strategy of combining traditional resources and modern technology. Building on its secure foundation, the Company exploited information technology and its industry knowledge to strengthen its competitive position. Our strategy will optimise both business operation and assets management. The Group plans to grow through further acquisitions, leveraging the favourable environment for capital in the PRC.

The Group will develop its bio-pharmaceutical business in 2001. As disclosed in the prospectus, the board of directors will consider acquiring bio-pharmaceutical operations from its parent company, if this is practicable and in the interests of the shareholders of the Company. The Group expects to quickly enhance its profitability through acquisition and consolidation.

I would like to take this opportunity to extend my gratitude to the members of the board for their leadership and to all the staff members for their commitment. In particular, I would like to express my sincere thanks for the continuous support of the shareholders towards the Company, especially during the recent weak market. We rely on the support of our shareholders to pursue our development strategy. By emphasising long term development, focusing on our core business and identifying growth opportunities, we are confident that we will continue to add value for our shareholders.



Zhuo Fu Min
Chairman

Hong Kong, 15th March 2001

Business Development Network

Network	Unit	Description
Raw Material Network	Ningxia	Commercial production of barbary wolf-berry fruit product will begin in 2001. The capital investment in the project totalled RMB50 million.
	Chongmin Island	Manufacture of products and health supplements containing Echinacea is expected to begin soon.
Research and Development Network	Beijing R&D	The first health supplement will be officially filed with MOH for approval.
	Shanghai R&D	Two products have been transfersed from SUTCM: a plaster to eliminate phlegm and cure asthma; and a capsule to increase bone strength.
	Hong Kong R&D	A research regarding the globalisation of Chinese medicine undertaken by the Hong Kong Baptist University will be finalised shortly.
Production Network		Hangzhou Qingchunbao is putting sustained effort into modifying hardware and upgrading software in its oral-tonic and granule workshops. The oral-tonic workshop commenced implementation of GMP compliance procedures.
Sales Network	Hangzhou Qingchunbao	The marketing team has a total of 627 qualified staff. Sale offices were maintained in all major provinces in China.
	Shanghai Jahwa	The market shares of its major products include Florida water, bath foam, and basic skin-care and beauty care items are among the top ten in their respective markets.
	e135.com	36 pharmaceutical mini-networks in 26 provinces were extablished. More than 50 hospitals, 30 medicine trading firms and 60 drugstores are carrying out transactions on the e135.com platform covering more than 5,000 items.
Medical Service Network		The Group invited officers from civil administration bureaus from around the PRC to observe the system at work and received an enthusiastic response. The Group expects that the Telemedicare Monitor System will become very familiar to people throughout China.

The year 2000 was the first year of business for our newly listed Company. In addition to implementing the clearly defined development strategy contained in the prospectus, the Group embarked on a comprehensive strategic plan designed to integrate medicines with therapy and to focus on the development of modernised Chinese medicine and bio-pharmaceutical products.

During the year under review, the Company achieved robust growth. In the initial period following the listing, the Group's major assets were a 55% interest in Hangzhou Qingchunbao and a 40% interest in Shanghai Jahwa. Both of these ventures recorded sustained growth as a result of focused management, application of appropriate technology and development of new products. At 31st December 2000, the profits of Hangzhou Qingchunbao and Shanghai Jahwa showed an increase of 34% and 63% respectively over the previous year.

On top of these promising business developments, the Company established a number of key networks in order to accelerate the modernisation of its Chinese medicine business. These included raw materials, research and development, production, sales, and medical services networks. The Company exploited innovative technologies and seized the initiatives offered by the new economy in order to make strategic investments in the expanding medical e-business arena. These investments included a joint venture into the telemedicare business with Cyber-Care and a capital investment in Shanghai Pharmaceutical Network.

*The key objective of the **raw materials network** is to leverage our commanding position so as to develop a series of modernised **Chinese medicinal products** suited to the needs of a discerning international market.*

Ningxia barbary wolfberry fruit production base

The Group co-founded "Ningxia SIIC Viopes Nutraceuticals Co. Limited" with Ningxia Academy of Agriculture & Forestry Sciences in 2000 to develop, produce and sell health supplements with Ningxia barbary wolfberry fruit as the major product. The in-depth development of this product is progressing successfully and results are very promising. The Group is now enhancing its processing techniques and expects to begin commercial production in 2001. Its capital investment in the project totalled RMB50 million.

The Group appointed Hong Kong Baptist University to conduct quality tests on its Ningxia barbary wolfberry fruit and received a very favourable report. Detailed discussions between the Group and other leading educational institutions in Hong Kong are continuing with the aim of further improving the manufacturing process.

Chongmin Island, Shanghai

The Company entered into a framework agreement with Shanghai SIIC Modern Agriculture Development Co., Ltd. in June 2000 to create a natural herb plantation that conform to Good Agricultural Practices ("GAP") standards together with facilities for processing the cultivated plants.

The Company holds the option to further develop raw materials grown and processed at Chongmin Island, Shanghai into a series of herbal products. The decoctions and other products thus developed will be vigorously promoted to international manufacturers of herbal products.

Initial plantings began in 2000 at Chongmin Island with Echinacea. GAP has been implemented and we look forward to successful crops. The Company stepped up its research and development efforts in respect of medicinal products and health supplements containing Echinacea. Manufacture of such products and supplements is expected to begin soon.

Our research & development division enjoys the advantage of employing experts accredited to the highest national standards to undertake professional scientific research and development.

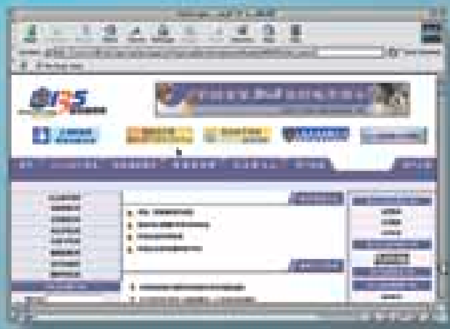
Beijing

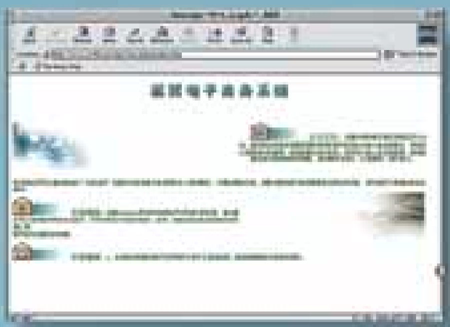
The Beijing research and development centre, guided by the "Modernised Chinese Medicine Expert Committee", drew up a business plan centred on products containing either a single ingredient or simple compounds. In order to ensure a smooth and rapid entry into the medicinal products market, the Beijing office will start with health supplements and then follow up with patent medicines. The Beijing office has commenced development of four health supplement products and one Category 2 Chinese medicine product. These products have various medical properties including treating liver disorders, enhancing memory function, reducing anxiety, improving sleep patterns and providing immunity against influenza, all with good results. The first of these health supplements will be officially filed with MOH for approval.

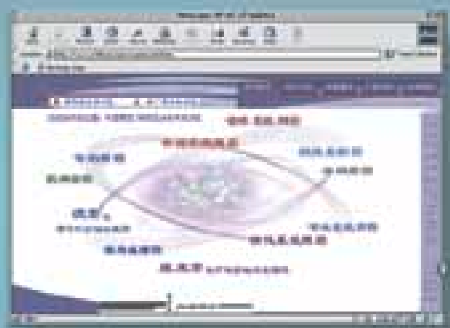
On 4th January 2001, the Group and China Academy of Traditional Chinese Medicine, China's top Chinese medicine research institute, entered into a cooperation agreement to further develop traditional Chinese medicines by improving the way in which these preparations are presented and by boosting the technology used, with both approaches helping to achieve the overall modernisation of Chinese medicines. The new products we are planning will be designed to appeal strongly to the Asian market.

The sales of "Qingchunbao" Anti-ageing Tablet reached a historical height. We expect the sales of health supplement products to increase steadily and to contribute very significantly to the Group's earnings.

As at 31st December 2000, the profits of Hangzhou Qingchunbao and Shanghai Jahwa showed an increase of 34% and 63% respectively over the previous year. Both of these ventures recorded sustained growth.







Shanghai

The Shanghai research and development centre deployed Shanghai University Traditional Chinese Medicine's ("SUTCM") human resources, information resources and research facilities in order to develop highly technologised Chinese medical products. With regard to product strategy, the Group will emphasise the use of compound formulae. Two products have been transferred from SUTCM, namely: a plaster to eliminate phlegm and cure asthma; and a capsule to increase bone strength. The former preparation is mainly for paediatric use. The latter product is designed to bring about marked clinical improvements in osteoporosis patients. As the population in the Mainland ages and their knowledge of osteoporosis improves, this product is expected to enjoy a significant share of the market. The Group will continue to select promising health supplements and new medicinal products from among the items being developed by SUTCM.

Hong Kong

The Hong Kong research and development centre continued to adopt a business model based on joint development projects with reputable local educational institutions in order to fully utilise existing resources and best explore Hong Kong's unique advantages. In 2000, the Group entered into letters of intent with the Hong Kong Baptist University and University of Hong Kong for, inter alia, the establishment of a research and development base for Chinese medicines in Hong Kong, the development of modernised Chinese medicinal products, the establishment of an international testing centre for Chinese medicines, and further improvements in purity and preparation of the Group's existing products. The Group will capitalise on its role as a bridge between China and other countries in order to open up a gateway to international markets for Chinese medicines.

A well-defined ***marketing strategy*** *and business plan contributed to* ***significant increase in sales.***

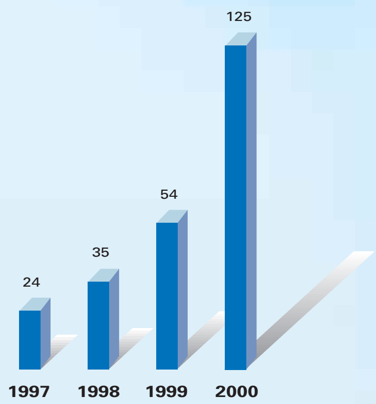
Hangzhou Qingchunbao

In 2000, following the publication of the "Catalogue of Medicines Covered by the State Basic Medical Insurance", Hangzhou Qingchunbao leveraged its strengths to establish product development plans targeting products contained in this catalogue.

A total of 15 pharmaceutical products manufactured by Hangzhou Qingchunbao (some 90% of the total sales) currently figure in this catalogue. Of these, six are categorised as "Type A", including Shen Mai Injection, Dan Shen Injection (compound formulae), Yu Xiang Cao Injection (heartleaf houttuynia herb), Dang Gui Injection, Yi Mu Cao Soluble Granules and Nimodipine Tablets). Nine are categorised as "Type B", including Dan Shen Injection, Stomach Recuperation Granules, Niaoganning Granules, Huang Qi Injection, Sheng Mai Capsule, Sheng Mai Oral Tonic, Lomefloxacin Hydrochloride Capsules and Flunarizine Hydrochloride Capsules.

In line with market demand, Hangzhou Qingchunbao has promoted the quality and effectiveness of "Qingchunbao" Anti-ageing Tablet in considerable detail via the mass media. Such efforts have resulted in an enlarged customer base, and the sales of "Qingchunbao" Anti-ageing Tablet surged from approximately RMB54 million in 1999 to RMB125 million in 2000. We expect the sales of health supplement products from Hangzhou Qingchunbao to increase steadily and to contribute very significantly to the Group's earnings.

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



Shanghai Jahwa

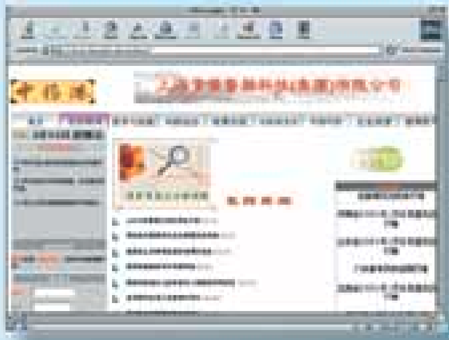
During 2000, focusing on the specific features of various brands, Shanghai Jahwa formulated a well-defined marketing strategy to develop new sales channels, i.e. street markets and chain supermarkets. Sales during 2000 increased by approximately 12% as compared to 1999.

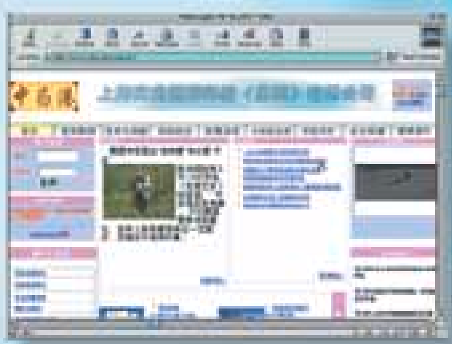
Shanghai Jahwa products are selling well throughout the country. The major products include Florida water, bath foam, and basic skin-care and beauty care items. The market shares of all these products are among the top ten in their respective markets. In recent years, Shanghai Jahwa has emphasised advances in technology and has conducted research and development into cosmetic products with medicinal properties as well as all-natural cosmetics. Shanghai Jahwa has established joint laboratories or research centres with five universities and institutes including Medical Center of Fudan University, Dermatology Research Institute of Medical Center of Fudan University, Shanghai Medicine Industrial Research Center, East China University of Science and Technology and Shanghai Institute of Cell Biology – Chinese Academy of Sciences to conduct industrial or academic research in a cooperative manner on a project by project basis. Such cooperation upholds standards of product safety, stability and effectiveness.

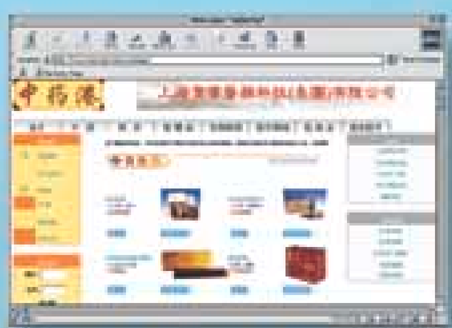
Shanghai Jahwa's strategic development objective is to become the premier international provider of health, beauty care and lifestyle products. Shanghai Jahwa will always be market-oriented and strive for improvement in its product range and offerings. It will also seek to raise selected brand names to a premium position and to further expand its sales. Such a strategy should enable it to further increase its gross margin and enhance economies of scale, thus making it a competitive international player in this thriving industry.

The rising global demand for natural medicines offers excellent prospects for Chinese medicine both within the PRC and in overseas markets.

The Group will capitalise on its strength in research and development to further develop traditional quality Chinese medicinal products with proven healing effects and demonstrable market potential.







Shares of Shanghai Jahwa were listed on the Shanghai Stock Exchange's A Shares Market on 15th March 2001 and were 410 times over-subscribed. Shanghai Jahwa raised approximately RMB712,600,000 (net of expenses), thus contributing approximately HK$150 million of exceptional income to the Group. The proceeds will mainly be applied to the development of core operations, including extension of sales network, and expansion of the research and technology centre. These plans will significantly improve Shanghai Jahwa's competitiveness and market share. Business is expected to grow rapidly, leading to an enhanced return on investment for shareholders.

Emphasis on implementation of ***GMP certification*** *and further* ***upgrading*** *of product manufacturing management.*

Hangzhou Qingchunbao's production workshops are concentrated within a site with gross floor area of around 93,000 square metres situated in Hangzhou, Zhejiang Province. The capacity and quality of equipment in Hangzhou Qingchunbao's plant is well suited to production requirements. Its capsule and tablet workshops, together with its 10ml and 50ml injection lines, comply fully with GMP standards. Hangzhou Qingchunbao is putting sustained effort into modifying hardware and upgrading software in its oral-tonic and granule workshops in order to rapidly obtain GMP certificates for these workshops as well. By complying with GMP certification standards, Hangzhou Qingchunbao has effected noticeable improvement in quality management, thus preparing it well for future competition from international enterprises when the PRC enters the WTO.

Turning to the intention of establishing a production base in Hong Kong, the Group is now reviewing cost and benefit analyses associated with a number of different proposals. In order to determine the location, the appropriate production facilities and the equipment, the Group is also previewing the list of intended products. Whether or not these proposals will materialise depends how well various conditions can be met and whether such moves are beneficial in economic terms.

Opportunities for ***new business investments*** *in the PRC to achieve* ***higher capital appreciation*** *for shareholders.*

Shanghai Pharmaceutical Network (www.e135.com) is an e-commerce platform dealing in medicinal products and approved by the PRC authorities. It has been in operation. The applications provided by e135.com make e-commerce concepts available to traditional medicine enterprises by connecting the major trading units (pharmaceutical producers, distributors, retailers and hospitals) in the field by means of medicine circulation field of an e-commerce platform, thus forming an on-line virtual vertical commercial community. It provides such units with value-added services that no off-line market can offer. Through e135.com's e-commerce platform, medicine enterprises can quickly and securely obtain the latest relevant business intelligence as well as purchasing and promoting their products. This has revolutionised traditional marketing and sales behaviour, putting in its place a highly efficient and standardised e-commerce solution that covers the entire supply chain.

Shanghai Pharmaceutical Network has established 36 pharmaceutical mini-networks in 26 provinces and municipalities and it carries out on-line medicine delivery through the regional medicine sales offices owned by its PRC parent entity, Shanghai Medicine Co., Ltd. At present, more than 50 hospitals, 30 medicine trading firms and 60 drugstores are carrying out transactions on the e135.com platform covering more than 5,000 items.

Going forward, Shanghai Pharmaceutical Network will set such objectives for development as: the establishment of a medicine procurement system which will attract major enterprises as its participants; the improvement of the hospital ordering system; and the consolidation and improvement of the pharmaceutical products data base.

*The Company has entered the medicare field **starting** with a **telemedicare business** system.*

In February 2001, the Company and Cyber-Care, a U.S. company, entered into an agreement to set up a joint venture, "SIIC-CYBeR Pacificare Limited", which mainly engages in the businesses of the exclusive promotion and application of its patented portable Internet Domestic Telemedicare Monitor System in various Asian markets (including the PRC, Hong Kong, Singapore, Malaysia and Korea). Cyber-Care will provide the network device and the equipment while the Company will retain production rights to the Telemedicare Monitor System.

In mid-May 2000, the Company and Cyber-Care jointly organised the "Tele-Health Care Application Show" in Shanghai, demonstrating the application of the Telemedicare Monitor System as it operates in Shanghai. In the same year, the Company and Shanghai Shu Guang Hospital entered into a letter of intent concerning the provision of telemedicare services. The Group invited officers from civil administration bureaus from around the PRC to observe the system at work and received an enthusiastic response. The Group is confident that the Telemedicare Monitor System will become very familiar to people throughout China as the demonstration campaign to the related governmental agencies gathers force. The Group will fully capitalise the technological edge provided by its advanced Telemedicare Monitor System and enhance its integrated operations so as to provide the market with a highly professional system that can take medical services in the PRC and Asia into a new era.

High quality, low cost medical equipment is one of the keys to the success of the telemedicare business. To ensure that the quality of the Telemedicare Monitor System will meet the requirements of the joint venture, the Company acquired a 38% interest in the Zhuhai Biolight Electronic Co., Ltd. ("Zhuhai Biolight") at the end of 2000, becoming one of its two largest co-equal shareholders. Incorporated in 1993 and providing a solid base for further development and stable earning, Zhuhai Biolight engages mainly in the production of high technology medical equipment. Zhuhai Biolight plans to apply for a listing on the PRC GEM. If this plan is realised, it will not only pave the road for Zhuhai Biolight's further development, but also bring significant returns on investment to the Company.

Comparison of Business Progress

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

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual business progress up to the second half of 2000
Hangzhou Qingchunbao		
• ***Sale of principal products***		In the year 2000, the product mix of Hangzhou Qingchunbao has been revised to meet the market demand. As a result, the allocation of resources was adjusted in order to obtain higher economic value. The sales volume of Dan Shen Injection and Huang Qi Injection were 117% and 246% higher than in 1999 respectively. They became two new major products of Hangzhou Qingchunbao.
Shen Mai Injection	7,693,000 vials	6,816,000 vials
Stomach Recuperation Granules	3,196,000 boxes	2,531,000 boxes
Granules Niaoganning	896,000 boxes	834,000 boxes
Granules Qingreling	567,000 boxes	522,000 boxes
Qingchunbao Anti-ageing Tablet	1,738,000 bottles	5,496,000 bottles
		Total annual sales volume of each of the above products was higher than in the year 1999.
• ***Development of marketing channels***	Hospitals, clinics and drug distributors will remain the principal marketing channels for Chinese patent medicine and health supplement products. However, Hangzhou Qingchunbao will further develop its retail network. Distribution outlets, including those with supermarket chains and other Hangzhou Qingchunbao outlets, will increase about 5 to 10.	Hospital, clinics and drug distributors are the principal marketing channels. A change in the marketing strategy of health supplement products readdressed focus to large-scale distributors and supermarkets. Higher sales turnover was recorded. In addition, the increase in the number of sales outlets of Luen Wah Supermarket indirectly extended the sales network of Hangzhou Qingchunbao.
	The marketing team will have a total staff number of about 635 while maintaining the number of sales offices at 55.	The marketing team has a total staff number of about 627 while maintaining the number of sale offices at 55.

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual Business progress up to the second half of 2000
• ***Production and facilities***		
Premises	Located in Hangzhou, Zhejiang Province with a gross floor area of about 93,000 sq.m.	Consistent with the business objective specified in the Prospectus.
Status of GMP compliance	Natural herb based tablet and capsule workshop, preparation of crude herbs workshop and oral-tonic workshop in full compliance with GMP standards.	The injection workshop, the natural herb based tablet and capsule workshop fully complied with GMP standards. Crude herbs are prepared in a Chinese-medicine pre-processing workshop, which was affirmed GMP-compliant while the injection workshop was being examined. The oral-tonic workshop commenced implementation of GMP compliance procedures. Since the production facilities shall undergo modification, the GMP certification will be processed in 2002.
• ***Research & Development***		Apart from the following projects, during 2000, Hangzhou Qingchunbao launched a new injection product, Yu Xiang Cao Injection (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.
Project No: 202X-99-02	Approval obtained from SDA	Pre-clinical trial technical information was reviewed by a provincial level SDA. As the PRC Government has increased the technology standards for new category four medicines, supplemental materials and further experimental details are required.

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual Business progress up to the second half of 2000
Stomach Recuperation Capsule	Approval obtained from State level SDA to commence clinical trial.	New technology was used in the production of Stomach Recuperation Capsule. However, the Government has yet to announce standards for such technology. This project is then pending.
Anti-cholelithiasis Tablet	Commence commercial production.	Relevant production approval has been obtained. Production schedule and marketing plan are under in depth consideration and examination.
Cassia Seed Lipid Lowering Tablet	Commence commercial production.	Relevant production approval has been obtained. Production schedule and marketing plan are under in depth consideration and examination.
Shen Kang Ning Coated Tablet	Completed quality standard review by the State Pharmacopeia Committee.	Consistent with the business objective specified in the Prospectus.
Shuangbaosu Oral Tonic (Low-sugar formula)	Approval obtained from MOH functional foods evaluation office.	Shuangbaosu Oral Tonic (Low-sugar formula) was temporarily suspended 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		
• ***Shanghai research and development base***	Continue research and development projects transferred from SUTCM. Anticipated commencement of up to about 5 additional new projects if available.	Two category 3 new medicine projects were acquired from SUTCM which have the medical application of osteoporosis and paediatric asthma. The Group will continue to select appropriate research and development projects from SUTCM.
	Amount to be incurred: HK$6,000,000	The consideration for the acquisition of the two category 3 new medicine projects amounted to RMB4,600,000. Balance of the intended funding was held as short-term deposits.

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual Business progress up to the second half of 2000
• ***Beijing research and development base***	Continue existing research and development projects. Commence new projects if available.	The research and development of four health supplement products and one category 2 Chinese medicine was commenced. The health supplement products are in the areas of hepatopathy, memory enhancement, anxiety reduction, sleep improvement and immunity enhancement against influenza. The category 2 Chinese medicine involves an injection to reduce fever.
	Amount to be incurred: HK$8,000,000	An aggregate amount of HK$604,000 was incurred. Balance of the intended funding was held as short-term deposits.
• ***Hong Kong research and development base***	Enter into co-operative arrangement with research institutes in Hong Kong by end of 2000.	A Letter of Intent was signed with the University of Hong Kong for the refinement and the improvement of the formula of two of the Group's products, Dan Shen Injection (compound formulae) and Huang Qi Injection. In depth negotiations among the University of Science and Technology of Hong Kong and the Hong Kong Baptist University regarding the development of modernised Chinese medicines both within the PRC and in overseas markets was in progress. A research regarding the globalisation of Chinese medicine undertaken by the Hong Kong Baptist University was in progress. It is expected that the research report will be finalised in the first quarter.
	Amount to be incurred: HK$8,000,000	An aggregate amount of HK$200,000 was incurred. Balance of the intended funding was held as short-term deposits.

Comparison of Business Progress

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual Business progress up to the second half of 2000
Production of pharmaceutical products		
• ***Establishment of a production base in Hong Kong***	Select the location and apply for relevant approvals. Anticipated manufacturing premises will have a total area of up to 40,000 sq.ft.	Cost and benefit analyses of various proposals associated with the establishment of a production base in Hong Kong are under review. In order to determine the location, the appropriate production facilities and the equipment, the Group is also previewing the list of intended products. The regulations and standards of Chinese medicine have yet to be announced by the Government of the Hong Kong Special Administrative Region (the "HKSAR"). The progress of this project will be deferred and will follow the overall planning of Chinese medicine business in Hong Kong.
• ***Joint ventures with reputable Chinese medicine enterprises***	Enter into joint venture agreement by the end of 2000 if appropriate.	Negotiations were held between the Group and a Chinese-medicine enterprise regarding the acquisition of certain stakes. Such company has a matured sales network in the PRC and has high quality production facilities, which will create synergy effect to the Group's business. The negotiation process was longer than expected. The acquisition is expected to be finalised in 2001.
• ***Alliance with international pharmaceutical companies***	Continue negotiations and evaluation. Enter into agreement by end of 2000.	The Group has been in negotiation with a well-known international pharmaceutical company in respect of a joint alliance for months. However, the financial terms were not up to the satisfaction of the Group. The Group will continue to locate other international alliance possibilities.
	Amount to be incurred: HK$29,000,000	No funding requirement was needed during the period. The intended funding was held as short-term deposits.

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual Business progress up to the second half of 2000
Marketing and sales		
• ***Expand and strengthen its distribution network in the PRC***	Finalise the terms of the acquisition and commence due diligence. Expected completion of the acquisition by mid 2000.	The prosperity of the PRC financial market added complication in accomplishing acquisition projects in the PRC. Presently, the Group is unable to bargain favourable terms. The Group will continue to locate appropriate acquisition targets.
	Amount to be incurred: HK$10,000,000	No funding requirement was needed during the period. The intended funding was held as short-term deposits.
• ***E-commerce***	Construct a website that serves the greater Shanghai area. Expected daily hit rate on the website will be about 1,000 times.	The PRC Government has approved the agreement signed last year for the acquisition of a 20% interest in Shanghai Pharmaceutical Network. The company runs a website, www.e135.com, which has been authorised by the relevant Government authorities. Business operation was commenced. It is an application service provider rendering technical support to the Chinese pharmaceutical exchange platform. Since the website has an agreeable business foundation, the Group modified its development and investment strategy in e-commerce business. The Group considered that the foundation and the prospect of such website are among the best in the PRC. The investment in this website has already materialised the Company's objective of engaging in e-commerce business.
	Amount to be incurred: HK$3,500,000	No funding requirement was needed during the period. The intended funding was held as short-term deposits.

Comparison of Business Progress

	Business objective of the second half of 2000 as disclosed in the Prospectus	Actual Business progress up to the second half of 2000
• ***Over-the counter sales***	Enter into agreement with chain stores in Hong Kong to expand the over-the-counter sales distribution network of the Group.	Presently, certain products of Shanghai Jahwa were launched in Hong Kong through chain supermarket. High-class natural Chinese herb personal care product is the image of "Herboist" products. "Herboist" will appear in the Hong Kong market through franchise stores. Furthermore, in early 2001, through a reputable chain Chinese medicine speciality store, the Group sale Ningxia barbary wolfberry fruit that has a good therapeutic effect. The co-operation created a new channel for the sale of the Group's health supplement product in the Hong Kong market.
	Amount to be incurred: HK$2,500,000	No funding requirement was needed during the period. The intended funding was held as short-term deposits.
Chinese medicine clinical centre	Anticipated completion of the establishment of the clinic in Hong Kong by end of 2000.	This project will proceed further upon the announcement of the policies and regulations relating to Chinese medicine clinical centre by the Government of the HKSAR.
	Amount to be incurred: HK$1,500,000	No funding requirement was needed during the period. The intended funding was held as short-term deposits.

Corporate Affairs

HUMAN RESOURCES POLICY

The Group believes the success of an enterprise depends on its team spirit, the contribution of all its staff members and their devotion to the Group. Therefore, the Group places a high priority on human resources management.

Remuneration and Benefits

An internal policy to determine staff terms of service, remuneration and fringe benefits was established. Remuneration will be adjusted to reflect performance of the staff members based on market standards. The overall objective is to provide competitive remuneration packages to all staff. In order to maintain transparency, directors' remuneration will be disclosed in the Company's annual financial statements.

In January 2000, the Group granted the first tranche of share options to all staff, in order to motivate and encourage everyone in the Company to do their best.

Staff Training

Human resources are one of the Company's most important assets and the Company strongly supports the personal development of all staff. Various in-house training programmes were provided during the year, on topics that included Business Communication, Computer Applications, Industry Knowledge and Languages. The Company also has invited various professional bodies to give seminars to the Directors and senior management. In addition, the Company set up a sponsorship scheme to encourage staff members to continue their studies. A subsidy is provided to all grades of staff who participate in job-related programmes.

Staff Relations

During 2000, the Company organised a series of initiatives to enhance communications with staff and to promote a sense of belonging to the Group. All staff meetings were held to ensure two-way communication between the Company and staff; an in-house slogan competition was arranged to encourage staff members to express their opinions about the Company; and various recreational and cultural activities were organised.

SOCIAL WELFARE

The Group has been very supportive towards social welfare activities. To support to the fund raising efforts of The Stock Exchange of Hong Kong and the Community Chest, the Company selected the GEM stock code "8018" and donated HK$300,000 to the Community Chest. The Company received a "Corporate and Employee Contribution Programme – Gold Award 1999/2000" from the Community Chest.

INTERNAL CONTROL POLICIES

Good corporate management is vital to the business development of any company. During the year, the Group has set up a series of internal management policies, including a profit distribution policy, a budgetary management policy, rules on credit and guarantee controls, and financial reporting procedures. Management accountability was enhanced through the provision of additional guidance and supervision, which resulted in improved internal controls.

AUDIT COMMITTEE

The audit committee comprises Messrs. Li Ka Cheung, Eric, Kwok Chin Kung, Robert and Lee Ka Sze, Carmelo. A minimum of two meetings will be held annually. The duties of the audit committee are mainly:

- To discuss with the auditors the nature and the scope of the audit before the commencement of the audit procedure;
- To review the Group financial reporting process and internal control systems;
- To review the Company's annual report, half-yearly reports, quarterly reports and accounts; and
- To review the internal audit plan and to provide coordination between the internal auditors and external auditors.

The Third and the Fourth audit committee meetings, held on 28th July 2000 and 12th March 2001, discussed the results, financial position, and major accounting and internal auditing issues of the Group for the period ended 30th June 2000 and the year ended 31st December 2000 respectively.

YEAR 2000 COMPLIANCE

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

Directors & Senior Management Profile

From left to right:
Front row: Feng Gen Sheng, Zhuo Fu Min, Kwok Chin Kung, Robert
Back row: Lee Ka Sze, Carmelo, Li Ka Cheung, Eric, Li Wei Da, Wu Jian Zhuang, Chen Shu Zi

DIRECTORS

Executive Director

Mr. Zhuo Fu Min, aged 49, is the chairman of the Group, the chief executive offier of Shanghai Industrial Holdings Limited ("SIHL"), and an executive director and vice president of Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). He is also the chairman of Nanyang Brothers Tobacco Co., Ltd., Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao"), Shanghai Sunway Biotech Co., Ltd. and Shanghai Orient Shopping Centre Ltd. He graduated from Shanghai Jiaotong University's Electrical Engineering School with a degree in enterprise management. Mr. Zhuo also holds a master's degree in economics conferred by Fudan University. He has 23 years of working experience in factory and enterprise management and has 10 years of working experience in government authorities. Mr. Zhuo previously held the post of assistant director of the Shanghai Municipal Economic System Reform Committee. Mr. Zhuo has more than 23 years of experience in managing joint stock companies and corporate management.

Mr. Feng Gen Sheng, aged 66, is the vice chairman of the Group, the vice chairman and the general manager of Hangzhou Qingchunbao, the chairman of China (Hangzhou) Qingchunbao Group Co. ("China Qingchunbao"), the chairman of Hangzhou Huqingyu Tang Co. Ltd. Mr. Feng was accredited as senior economist and certified pharmacist. He began to assume office as the factory manager of Hangzhou No. 2 Chinese Medicine Factory in 1972. He has over 52 years of experience in pharmaceutical business and was awarded as Excellent Entrepreneur of the State（全國首屆優秀企業家）.

Mr. Li Wei Da, aged 53, is the managing director of the Group, the deputy chief executive officer of SIHL. He is also the chief representative of SIHL's Shanghai Representative Office, the vice chairman of Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") and Shanghai Sunve Pharmaceutical Co., Ltd. He graduated from Shanghai Second Polytechnical University with a degree in auto control. Mr. Li was previously the deputy general manager of Shanghai Bearing Limited. He has over 31 years of experience in industrial enterprise management.

Mr. Chen Shu Zi, aged 53, is the deputy managing director of the Group. Mr. Chen joined SIIC Shanghai Holdings Co., Ltd. as general manager of the enterprise management department in October 1998. He graduated from Fudan University with a master degree in economics and management. Mr. Chen was previously a director and deputy general manager of 上海輪胎橡膠（集團）股份有限公司 (Shanghai Rubber Tyre (Group) Limited). He has extensive working experience in corporate management.

Mr. Ge Wen Yao, aged 54, is an executive director of the Group, an executive director of SIHL and the Chairman of Shanghai Jahwa. He graduated from Shanghai Finance and Economics University with a major in economics, and a master's degree in enterprise management. He was the factory director of Shanghai Daily Chemicals Factory and the deputy general manager of Shanghai Daily Chemical Co. He has over 23 years of experience in cosmetics business management.

Mr. Wu Jian Zhuang, aged 54, is an executive director of the Group. Mr. Wu graduated from Hua Tung University of Education with a master degree of economics. He was previously the general manager of 上海市牛奶公司 (Shanghai Dairy Farm Company) and 上海市農業投資有限公司 (Shanghai Agriculture Investment Corporation). He has more than 26 years of experience in corporate administration and management.

Independent Non-executive Director

Mr. Kwok Chin Kung, Robert, aged 62, is a Chartered Accountant and joined the Jardine Matheson Group in 1964. He is a director of Jardine Matheson Ltd., Dairy Farm International Holdings Ltd., Hongkong Land Holdings Ltd., Jardine Matheson Holdings Ltd., Jardine Strategic Holdings Ltd. and Mandarin Oriental International Ltd.

Mr. Li Ka Cheung, Eric, aged 47, Hon. DSocSc, B.A. (Econ) Hon., FHKSA, FCA, FCIS, Hon. HKAT, OBE, JP. Mr. Li is the senior partner of Li, Tang, Chen & Co., Certified Public Accountants and an independent non-executive director of SmarTone Telecommunications Holdings Limited; The Kowloon Motor Bus Holdings Limited; Wong's International (Holdings) Limited; CATIC International Holdings Limited; Hang Seng Bank Limited and hkcyber.com (Holdings) Limited. Mr. Li is a member of the Legislative Council of Hong Kong and serves as chairman of its Public Accounts Committee. He was also a past president of the Hong Kong Society of Accountants.

Mr. Lee Ka Sze, Carmelo, aged 40, is a partner of Woo, Kwan, Lee & Lo. Mr. Lee received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Lee is an independent non-executive director of several listed public companies in Hong Kong, namely China Everbright International Ltd., China Pharmaceutical Enterprise & Investment Corporation Ltd., Pak Fah Yeow International Ltd., Termbray Industries International (Holdings) Ltd., Tern Properties Company Ltd., Yugang International Ltd., Yunnan Enterprises Holdings Ltd., Safety Godown Company Limited and Prestige Holdings Limited. Mr. Lee is also a listing committee member of the Main Board of the Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Ms. Li Yu Hang, aged 49, is a director of and deputy chief executive of Hangzhou Qingchunbao and deputy chairman of China Qingchunbao. She was appointed the deputy factory manager of Hangzhou No. 2 Chinese Medicine Factory in 1989. She has over 26 years of experience in the management of pharmaceutical enterprise. Ms. Li was also a committee manager of the 8th Standing Committee of Zhejiang Political Consultative Conference, executive of the standing committee of Hangzhou Women Association.

Mr. Xu Zheng Yu, aged 44, is a director of and deputy chief executive of Hangzhou Qingchunbao and general manager of a pharmaceutical factory. Mr. Xu graduated from Xian Medical University with a bachelor degree in medical. He is a senior medical officer and has about 21 years of experience in medical research and management in pharmaceutical enterprise. He has extensive experience in sales of pharmaceutical products.

Mr. Zhou Qi Ying, aged 53, is a director and the general manager of Shanghai Jahwa. He holds the designation of senior economist and has a master's degree in industrial economics from Shanghai Finance and Economics University. He has been the deputy general manager of Shanghai Jahwa (Holdings) Co., Ltd. ("SJC") since August 1982. He has over 27 years of experience in industrial enterprise manager.

Mr. Liu Yu Liang, aged 39, is a director of Shanghai Jahwa. Mr. Li graduated from Shanghai No. 2 Military Medical University (上海第二軍醫大院) with a doctor degree. He also holds an associate professorship. Mr. Liu was appointed the chief medical officer of Shanghai Changhai Hospital (上海長海醫院) in 1983. He joined SJC in 1995 and held the positions of research supervisor and deputy general manager. Mr. Liu has extensive experience in research and development.

Mr. Ho Hon Ming, John, aged 44, is the Financial Controller of the Group. Mr. Ho is a Fellow of the Institute of Chartered Accountants in England and Wales. He graduated with honours from the University of Manchester in England with a bachelor of arts degree in accounting and business finance. Mr. Ho has over 21 years of experience in accounting and businss finance. Mr. Ho joined SIHL in February 1996.

Mr. Wang Shun Long, aged 36, is the Head of Strategic Department of the Group. Mr. Wang joined SIHL in May 1997. He graduated from Tsinghua University with a doctoral degree in engineering. Prior to joining SIHL, Mr. Wang was employed at the Eindhoven University of Technology in the Netherlands as a researcher for three years.

Miss Wong Mei Ling, Marina, aged 34, is the Company Secretary of the Group. Miss Wong graduated with honours from the City University of Hong Kong with a bachelor of arts degree in accountancy. She also holds a master's degree in Business Administration awarded by the University of Wales and the University of Manchester in United Kingdom jointly. Miss Wong is an Associate of the Institute of Chartered Secretaries and Administrators. She has over ten years of experience in company secretarial practice. Miss Wong joined SIHL in March 1997.

The directors present their annual report and the audited financial statements for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sale of Chinese medicine and health supplement products.

An analysis of the Group's turnover and contribution of operating profit is set out on page 82 of the annual report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December 2000 are set out in the consolidated income statement on page 44 of the annual report.

The directors recommend a final dividend of HK3 cents per share.

FINANCIAL SUMMARY

A summary of the results of the Group for the year ended 31st December 2000 and the pro forma combined results of the Group for the previous three years is set out on page 81 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital of the Company are set out in note 17 to the financial statements.

Details of the share option scheme of the Company are set out in note 18 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs of approximately HK$8 million on the acquisition of property, plant and equipment for the purpose of expanding the Group's business. These and other movements during the year in property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2000 are set out in note 28 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Details of the Group's jointly controlled entities at 31st December 2000 are set out in note 14 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

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

In accordance with Article 116 of the Company's Articles of Association, Messrs. Ge Wen Yao, Wu Jian Zhuang and Li Ka Cheung, Eric retire and, being eligible, offer themselves for re-election.

Messrs. Li Wei Da and Chen Shu Zi have entered into service agreements with the Company for an initial period of three years commencing 15th October 1999, which will continue thereafter unless and until terminated by either party by six months' prior written notice, such notice not to be given at any time before 15th April 2001.

The term of office of each of the non-executive director is the period up to 31st December 2001.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 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, details of which are set out in note 18 to the financial statements, certain directors of the Company have personal interests in share options to subscribe for shares in the Company which were granted to them in January 2000 at an exercise price of HK$1.69 per share as follows:

Name of director	Number of shares subject to shares options granted during the year and outstanding at 31.12.2000
Zhuo Fu Min	8,000,000
Feng Gen Sheng	6,000,000
Li Wei Da	6,000,000
Chen Shu Zi	4,000,000
Ge Wen Yao	2,500,000
Wu Jian Zhuang	2,500,000

The options can be exercised at any time during the 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 ("SIHL Options") to subscribe for shares in SIHL ("SIHL Shares") which were granted to them as follows:

			Number of SIHL Shares subject to SIHL Options		
Name of director	Month of grant	Exercise price per share *HK$*	Outstanding at 1.1.2000	Exercised during the year	Outstanding at 31.12.2000
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 at any time during the 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 year was the Company or any 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 31st December 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:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") *(note)*	412,886,000
Shanghai Industrial Investment Treasury Company Limited ("STC") *(note)*	396,393,000
Shanghai Investment Holdings Limited ("SIH") *(note)*	396,393,000
SIHL *(note)*	396,393,000
Central Force Investments Limited ("CFI")	372,000,000

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

Top Modern Limited ("TML"), Nanyang Enterprises Limited ("NEL") and Nanyang Enterprises Property Limited ("NEPL") are beneficial owners of 5,015,000, 6,419,000 and 5,059,000 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 31st December 2000 representing 10% or more of the issued share capital of the Company.

SPONSOR'S INTERESTS

To the best knowledge of the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP Paribas Peregrine"), its directors, employees or associates, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st December 2000.

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

The BNP Paribas Peregrine Group, the parent company of BNP Paribas Peregrine, whose Vice Chairman, Mr. Leung Pak To, Francis is an independent non-executive director of SIHL, the holding company of the Company.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 27(i) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements 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").

The independent non-executive directors have reviewed the connected transactions set out in note 27(i)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

COMPETING INTERESTS

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

Equipment"), a medical device company, SIIC Kehua Biology Company Limited ("Kehua Biology") and Zhejiang Zuoli Pharmaceutical Company ("Zuoli"). Med Equipment is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. Kehua Biology is engaged in the development, production and distribution of clinical diagnosis reagent and related products. Its main products include hepatitis B testing agent, hepatitis C antibody diagnosis testing agent and HIV antigen. Zuoli is engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products.

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

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

DIRECTORS' INTERESTS 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 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 interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

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

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

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 26 to the financial statements.

POST BALANCE SHEET EVENT

Details of significant post balance sheet event are set out in note 30 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 17th September 1999. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

Zhuo Fu Min
Chairman

Hong Kong, 15th March 2001

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE MEMBERS OF
SIIC MEDICAL SCIENCE AND TECHNOLOGY (GROUP) LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 44 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountant

Hong Kong, 15th March 2001

Consolidated Income Statement

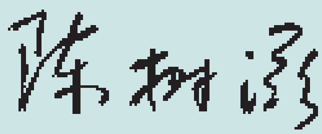
For the year ended 31st December 2000

	NOTES	**Consolidated 1.1.2000 to 31.12.2000 HK$'000**	Consolidated 17.9.1999 to 31.12.1999 HK$'000	Pro forma combined 1.1.1999 to 31.12.1999 HK$'000
Turnover		**533,434**	94,878	424,780
Cost of sales		**(166,886)**	(30,639)	(144,440)
Gross profit		**366,548**	64,239	280,340
Investment income	3	**15,428**	13,071	16,087
Other revenue		**578**	–	19
Distribution costs		**(181,156)**	(29,349)	(133,267)
Administrative expenses		**(75,915)**	(15,277)	(48,203)
Profit from operations	4	**125,483**	32,684	114,976
Finance costs	5	**(1,526)**	(981)	(2,975)
Share of results of jointly controlled entities		**23,490**	4,545	14,711
Profit from ordinary activities before taxation		**147,447**	36,248	126,712
Taxation	7	**(20,215)**	(2,572)	(14,217)
Profit before minority interests		**127,232**	33,676	112,495
Minority interests		**(54,914)**	(9,321)	(41,012)
Profit for the year/period	8	**72,318**	24,355	71,483
Dividends	9	**18,600**	–	–
Earnings per share	10			
– Basic		**11.7 cents**	8.8 cents	

	NOTES	**2000 HK$'000**	1999 HK$'000
Non-Current Assets			
Investment property	11	**12,000**	12,000
Property, plant and equipment	12	**126,541**	131,171
Interests in jointly controlled entities	14	**120,016**	90,181
		258,557	233,352
Current Assets			
Inventories	15	**46,880**	36,525
Trade and other receivables		**128,992**	126,202
Dividends receivable from a jointly controlled entity		**6,107**	–
Bank balances and cash		**361,284**	350,347
		543,263	513,074
Current Liabilities			
Trade and other payables		**112,260**	83,244
Taxation payable		**5,875**	8,573
Short-term bank and other borrowings	16	**–**	43,084
Proposed dividend		**18,600**	–
		136,735	134,901
Net Current Assets		**406,528**	378,173
		665,085	611,525
Capital and Reserves			
Issued capital	17	**62,000**	62,000
Reserves	19	**444,115**	411,134
		506,115	473,134
Minority interests		**156,870**	136,291
Non-Current Liabilities			
Deferred taxation	20	**2,100**	2,100
		665,085	611,525

The financial statements on pages 44 to 80 were approved by the Board of Directors on 15th March 2001 and are signed on its behalf by:

Li Wei Da
Director



Chen Shu Zi
Director

Balance Sheet

At 31st December 2000

	NOTES	2000 HK$'000	1999 HK$'000
Non-Current Assets			
Plant and equipment	12	**2,530**	3,038
Interests in subsidiaries	13	**288,594**	242,429
		291,124	245,467
Current Assets			
Trade and other receivables		**3,876**	1,626
Dividends receivable		**46,000**	–
Bank balances and cash		**170,415**	217,158
		220,291	218,784
Current Liabilities			
Trade and other payables		**12,525**	5,806
Proposed dividend		**18,600**	–
		31,125	5,806
Net Current Assets		**189,166**	212,978
		480,290	458,445
Capital and Reserves			
Issued capital	17	**62,000**	62,000
Reserves	19	**417,428**	396,445
		479,428	458,445
Non-Current Liabilities			
Amounts due to subsidiaries	13	**862**	–
		480,290	458,445

Li Wei Da
Director

Chen Shu Zi
Director

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December 2000

	1.1.2000 to 31.12.2000	17.9.1999 to 31.12.1999
	HK$'000	*HK$'000*
Share of exchange difference arising from translation of operations in the mainland People's Republic of China	**(12)**	–
Net profit for the year/period	**72,318**	24,355
Total recognised gains and losses	**72,306**	24,355
Elimination against reserves of goodwill arising on acquisition of jointly controlled entities	**(20,725)**	
	51,581	

Consolidated Cash Flow Statement

For the year ended 31st December 2000

	NOTES	**1.1.2000 to 31.12.2000 HK$'000**	17.9.1999 to 31.12.1999 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	**139,845**	28,044
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid to minority shareholders of subsidiaries		**(37,554)**	–
Interest paid on bank and other borrowings		**(1,498)**	(966)
Interest received, including interest on application monies received on listing of the Company's shares		**13,933**	12,854
NET CASH (OUTFLOW) INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(25,119)**	11,888
TAXATION PAID			
Tax paid in the mainland People's Republic of China		**(19,461)**	–
INVESTING ACTIVITIES			
Capital contributions to jointly controlled entities		**(36,641)**	–
(Increase) decrease in bank deposits		**(34,970)**	44
Purchase of property, plant and equipment		**(7,993)**	(4,609)
Proceeds from disposal of property, plant and equipment		**171**	–
Purchase of subsidiaries (net of cash and cash equivalents acquired)	22	**–**	93,484
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		**(79,433)**	88,919
NET CASH INFLOW BEFORE FINANCING		**15,832**	128,851

	NOTES	1.1.2000 to 31.12.2000 HK$'000	17.9.1999 to 31.12.1999 HK$'000
FINANCING	23		
Repayment of borrowings		**(43,084)**	–
Capital contributed by minority shareholders		**3,219**	–
Proceeds from issue of shares		**–**	231,786
Expenses incurred in connection with issue of shares		**–**	(25,436)
NET CASH (OUTFLOW) INFLOW FROM FINANCING		**(39,865)**	206,350
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(24,033)**	335,201
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**335,201**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		**311,168**	335,201
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**361,284**	350,347
Less: Bank deposits with more than three months of maturity		**(50,116)**	(15,146)
		311,168	335,201

1. GENERAL

The Company is a listed public limited company incorporated in the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). Its ultimate holding company is Shanghai Industrial Investment (Holdings) Company Limited, incorporated in Hong Kong.

Pursuant to a series of group reorganisation steps from July 1999 ("Group Reorganisation") in order to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the Group on 17th September 1999. Accordingly, the comparative consolidated income statement and cash flow statement presented include the results and cash flows of the subsidiaries and jointly controlled entities from that date. The comparative pro forma combined income statement, which is presented for information purposes only, shows the results of the Group for the year ended 31st December 1999 as if the then group structure had been in existence throughout the year ended 31st December 1999.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 28.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary, is credited to reserves.

Any premium or discount arising on the acquisition of an interest in a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

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

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are stated at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Where a group company undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

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

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When any group company transacts with a jointly controlled entity of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

The Company's investments in jointly controlled entities are stated at cost. Results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Investments made by means of joint venture structures which do not result in the Group having joint control are accounted for as subsidiaries (where the Group controls the board of directors or equivalent governing body), associates (where the Group is in a position to exercise significant influence) or investments in securities (where the Group exercises neither control nor significant influence).

Turnover

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

Revenue recognition

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Investment properties

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

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

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation at the balance sheet date.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects including borrowing costs capitalised in accordance with the Group's accounting policy. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the actual or estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development costs

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development is charged to the income statement in the period in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off using the straight line method over the life of the project from the date of commencement of commercial operation subject to a maximum of five years.

Retirement benefits scheme contributions

The pension costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

Taxation

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of operations in the mainland People's Republic of China (the "PRC") are translated at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in reserves.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Operating leases

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

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks which are repayable within three months from the dates of the advances.

3. INVESTMENT INCOME

	Consolidated 1.1.2000 to 31.12.2000	Consolidated 17.9.1999 to 31.12.1999	Pro forma combined 1.1.1999 to 31.12.1999
	HK$'000	*HK$'000*	*HK$'000*
Interest income on application monies received on listing of the Company's shares	**–**	11,296	11,296
Other interest income	**13,933**	1,558	3,171
Property rental income (net of outgoings)	**1,495**	217	1,620
	15,428	13,071	16,087

4. PROFIT FROM OPERATIONS

	Consolidated 1.1.2000 to 31.12.2000 *HK$'000*	Consolidated 17.9.1999 to 31.12.1999 *HK$'000*	Pro forma combined 1.1.1999 to 31.12.1999 *HK$'000*
Profit from operations has been arrived at after charging:			
Staff costs			
Basic salaries and allowances	**50,329**	7,114	39,200
Bonus	**26,243**	6,032	25,247
Retirement benefits scheme contributions	**6,812**	935	5,636
	83,384	14,081	70,083
Auditors' remuneration	**1,200**	1,100	1,100
Depreciation and amortisation of property, plant and equipment	**11,923**	1,923	10,061
Loss on disposal of property, plant and equipment	**529**	1,269	2,622
Operating lease rentals in respect of land and buildings	**3,520**	542	2,727
Research and development costs	**3,786**	492	2,950

5. FINANCE COSTS

	Consolidated 1.1.2000 to 31.12.2000 *HK$'000*	Consolidated 17.9.1999 to 31.12.1999 *HK$'000*	Pro forma combined 1.1.1999 to 31.12.1999 *HK$'000*
Interest on bank and other borrowings wholly repayable within five years	**1,498**	966	2,960
Other finance costs	**28**	15	15
	1,526	981	2,975

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	Consolidated 1.1.2000 to 31.12.2000 *HK$'000*	Consolidated 17.9.1999 to 31.12.1999 *HK$'000*	Pro forma combined 1.1.1999 to 31.12.1999 *HK$'000*
Directors' emoluments			
Independent non-executive directors			
Fees	**597**	150	150
Executive directors			
Fees	**–**	–	–
Basic salaries and allowances	**4,246**	698	1,360
Bonus	**2,919**	999	999
Retirement benefits scheme contributions	**195**	2	8
	7,360	1,699	2,367
Total directors' emoluments	**7,957**	1,849	2,517

The emoluments of the directors were within the following bands:

	Consolidated 1.1.2000 to 31.12.2000 Number of directors	Consolidated 17.9.1999 to 31.12.1999 Number of directors	Pro forma combined 1.1.1999 to 31.12.1999 Number of directors
Up to HK$1,000,000	**7**	11	10
HK$1,000,001 to HK$1,500,000	**–**	–	1
HK$1,500,001 to HK$2,000,000	**1**	–	–
HK$2,500,001 to HK$3,000,000	**1**	–	–

For the year ended 31st December 2000, the directors received emoluments of approximately HK$2,713,000, HK$1,958,000, HK$1,882,000, HK$345,000, HK$231,000, HK$231,000, HK$199,000, HK$199,000 and HK$199,000 respectively.

There were six directors who received emoluments of approximately HK$742,000, HK$565,000, HK$392,000, HK$50,000, HK$50,000 and HK$50,000 respectively for the period from 17th September 1999 to 31st December 1999 and approximately HK$1,410,000, HK$565,000, HK$392,000, HK$50,000, HK$50,000 and HK$50,000 respectively for the year ended 31st December 1999. The other directors did not receive any emoluments during the period/year.

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS – continued

Employees' emoluments

During the year/period, the five highest paid individuals included three (17.9.1999 to 31.12.1999: three, 1.1.1999 to 31.12.1999: two) directors, details of whose emoluments are set out above. The emoluments of the remaining two (17.9.1999 to 31.12.1999: two, 1.1.1999 to 31.12.1999: three) highest paid individuals were as follows:

	Consolidated 1.1.2000 to 31.12.2000	Consolidated 17.9.1999 to 31.12.1999	Pro forma combined 1.1.1999 to 31.12.1999
	HK$'000	*HK$'000*	*HK$'000*
Basic salaries and allowances	**1,496**	436	1,776
Bonus	**1,308**	1,309	1,542
Retirement benefits scheme contributions	**–**	5	24
	2,804	1,750	3,342

The emoluments of the remaining two (17.9.1999 to 31.12.1999: two, 1.1.1999 to 31.12.1999: three) highest paid individuals were within the following bands:

	Consolidated 1.1.2000 to 31.12.2000 Number of individuals	Consolidated 17.9.1999 to 31.12.1999 Number of individuals	Pro forma combined 1.1.1999 to 31.12.1999 Number of individuals
Up to HK$1,000,000	**–**	1	–
HK$1,000,001 to HK$1,500,000	**1**	1	2
HK$1,500,001 to HK$2,000,000	**1**	–	1

7. TAXATION

	Consolidated 1.1.2000 to 31.12.2000 HK$'000	Consolidated 17.9.1999 to 31.12.1999 HK$'000	Pro forma combined 1.1.1999 to 31.12.1999 HK$'000
The charge comprises:			
PRC income tax	**16,763**	4,286	15,921
Deferred taxation *(note 20)*	**–**	(2,971)	(3,871)
Share of PRC income tax of a jointly controlled entity	**3,452**	1,257	2,167
	20,215	2,572	14,217

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries and jointly controlled entities 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 正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) ("Hangzhou Qingchunbao") was expired in 1997. 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 ended 31st December 2000.

During the year, the jointly controlled entity, 上海家化聯合股份有限公司 (Shanghai Jahwa United Co., Ltd.), 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 year/period.

8. PROFIT FOR THE YEAR/PERIOD

Of the Group's profit for the year/period, a profit of HK$39,583,000 (17.9.1999 to 31.12.2000: HK$9,666,000) has been dealt with in the financial statements of the Company.

9. DIVIDENDS

	Consolidated 1.1.2000 to 31.12.2000	Consolidated 17.9.1999 to 31.12.1999	Pro forma combined 1.1.1999 to 31.12.1999
	HK$'000	*HK$'000*	*HK$'000*
Proposed final dividend of HK3 cents (17.9.1999 to 31.12.1999: nil, 1.1.1999 to 31.12.1999: nil)	**18,600**	–	–

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year/period of HK$72,318,000 (17.9.1999 to 31.12.1999: HK$24,355,000) and the weighted average of 620,000,000 (17.9.1999 to 31.12.1999: 276,512,622) shares in issue during the year/period.

No diluted earnings per share is presented as the Company did not have any diluted potential ordinary shares.

11. INVESTMENT PROPERTY

	THE GROUP
	HK$'000
At valuation	
At 31st December 1999 and 2000	12,000

The investment property was revalued at 31st December 2000 by Debenham Tie Leung, an independent property valuer, on an open market existing use basis. The revaluation did not give rise to any surplus or deficit.

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Plant and machinery *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
THE GROUP						
COST						
At 1st January 2000	113,614	11,952	14,413	43,282	877	184,138
Additions	–	1,073	977	295	5,648	7,993
Transfers	1,361	323	744	1,406	(3,834)	–
Disposals	–	(3,642)	(1,187)	(516)	–	(5,345)
At 31st December 2000	114,975	9,706	14,947	44,467	2,691	186,786
DEPRECIATION AND AMORTISATION						
At 1st January 2000	21,524	8,092	8,575	14,776	–	52,967
Provided for the year	4,813	1,499	1,678	3,933	–	11,923
Eliminated on disposals	–	(3,249)	(1,062)	(334)	–	(4,645)
At 31st December 2000	26,337	6,342	9,191	18,375	–	60,245
NET BOOK VALUE						
At 31st December 2000	88,638	3,364	5,756	26,092	2,691	126,541
At 31st December 1999	92,090	3,860	5,838	28,506	877	131,171

12. PROPERTY, PLANT AND EQUIPMENT – continued

	Furniture, fixtures and equipment *HK$'000*
THE COMPANY	
COST	
At 1st January 2000	3,096
Additions	156
At 31st December 2000	3,252
DEPRECIATION	
At 1st January 2000	58
Provided for the year	664
At 31st December 2000	722
NET BOOK VALUE	
At 31st December 2000	2,530
At 31st December 1999	3,038

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

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK$'000	*HK$'000*
Unlisted shares, at cost	**247,209**	242,429
Amounts due from subsidiaries	**41,385**	–
	288,594	242,429
Amounts due to subsidiaries	**862**	–

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

Details of the Company's subsidiaries at 31st December 2000 are set out in note 28.

14. INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Share of net assets of jointly controlled entities	**120,016**	90,181

Details of the Group's major jointly controlled entities at 31st December 2000 are as follows:

Name of jointly controlled entities	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
上海家化聯合股份有限公司 Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa")	PRC	40%	Manufacture, distribution and sales of personal care and cosmetics products
上海醫藥商務網絡有限公司 Shanghai Pharmaceutical Business Network Co., Ltd.	PRC	20%	Provision of E-commerce and internet services
珠海寶萊特電子有限公司 Zhuhai Biolight Electronic Co., Ltd.	PRC	38%	Manufacture and sale of medical equipments

A summary of the financial information in respect of Shanghai Jahwa, the major jointly controlled entity of the Group is set out in note 29.

15. INVENTORIES

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Raw materials	**9,381**	5,545
Work in progress	**9,915**	7,779
Finished goods	**27,584**	23,201
	46,880	36,525

The inventories were carried at cost.

16. SHORT-TERM BANK AND OTHER BORROWINGS

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Unsecured short-term bank loans	–	33,738
Other short–term loan *(note 27(ii)(a))*	–	9,346
	–	43,084

17. ISSUED CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
On incorporation, at 31st December 1999 and 2000	1,000,000,000	100,000
Issued and fully paid:		
Issue of shares to initial subscribers	2	–
Issue of new shares on Group Reorganisation/acquisition of subsidiaries	477,799,998	47,780
Placing of new shares to professional and institutional investors and issue of new shares to the public	110,000,000	11,000
Issue of shares on exercise of over-allotment option	32,200,000	3,220
Balance at 31st December 1999 and 2000	620,000,000	62,000

18. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 11th November, 1999 (the "Scheme"), the Company may grant options to executive directors and full time employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Options granted are exercisable at any time commencing on the expiry of three years after the date the options are granted and expiring on such date as determined by the directors or 10th November 2009, whichever is the earlier. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time.

A summary of the movements during the year in the share options granted under the Scheme is as follows:

Month of grant	Exercise price per share *HK$*	Granted during the year	Exercised during the year	Outstanding at 31.12.2000
January 2000	1.69	39,200,000	–	39,200,000

Consideration received by the Company for share options granted during the year was negligible.

19. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Goodwill HK$'000	PRC statutory funds HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE GROUP							
Reserve arising on Group Reorganisation *(note 1)*	–	194,649	–	–	–	–	194,649
Premium arising on public issue of shares	217,566	–	–	–	–	–	217,566
Expenses incurred in connection with the issue of shares	(25,436)	–	–	–	–	–	(25,436)
Profit for the period	–	–	–	–	–	24,355	24,355
Transfers	–	–	–	1,500	–	(1,500)	–
At 31st December 1999	192,130	194,649	–	1,500	–	22,855	411,134
Goodwill arising on acquisition of jointly controlled entities	–	–	(20,725)	–	–	–	(20,725)
Exchange differences on translation of PRC operations	–	–	–	–	(12)	–	(12)
Transfers	–	–	–	12,540	–	(12,540)	–
Profit for the year	–	–	–	–	–	72,318	72,318
Proposed dividend *(note 9)*	–	–	–	–	–	(18,600)	(18,600)
At 31st December 2000	192,130	194,649	(20,725)	14,040	(12)	64,033	444,115
Attributable to:							
–the Company and subsidiaries	192,130	194,649	(20,725)	11,484	(12)	60,582	438,108
–jointly controlled entities	–	–	–	2,556	–	3,451	6,007
	192,130	194,649	(20,725)	14,040	(12)	64,033	444,115
THE COMPANY							
Reserve arising on Group Reorganisation *(note 1)*	–	194,649	–	–	–	–	194,649
Premium arising on public issue of shares	217,566	–	–	–	–	–	217,566
Expenses incurred in connection with the issue of shares	(25,436)	–	–	–	–	–	(25,436)
Profit for the period *(note 8)*	–	–	–	–	–	9,666	9,666
At 31st December 1999	192,130	194,649	–	–	–	9,666	396,445
Profit for the year *(note 8)*	–	–	–	–	–	39,583	39,583
Proposed dividend *(note 9)*	–	–	–	–	–	(18,600)	(18,600)
At 31st December 2000	192,130	194,649	–	–	–	30,649	417,428

19. RESERVES – continued

The contributed surplus represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued for the Group Reorganisation *(note 1)*.

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

The Company's reserves available for distribution represent the share premium, contributed surplus and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company's reserves available for distribution to shareholders as at 31st December 2000 represent the aggregate of share premium, contributed surplus and accumulated profits of approximately HK$417.4 million (1999: HK$396.4 million).

20. DEFERRED TAXATION

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Balance at beginning of the year/period	**2,100**	–
Acquired on acquisition of subsidiaries	**–**	5,071
Credit for the year/period *(note 7)*	**–**	(2,971)
Balance at end of the year/period	**2,100**	2,100

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

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

21. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	1.1.2000 to 31.12.2000	17.9.1999 to 31.12.1999
	HK$'000	*HK$'000*
Profit from ordinary activities before taxation	**147,447**	36,248
Interest income	**(13,933)**	(12,854)
Interest expense	**1,498**	966
Share of results of jointly controlled entities	**(23,490)**	(4,545)
Depreciation and amortisation of property, plant and equipment	**11,923**	1,923
Loss on disposal of property, plant and equipment	**529**	1,269
(Increase) decrease in inventories	**(10,355)**	111
(Increase) decrease in trade and other receivables	**(2,790)**	73,111
Increase (decrease) in trade and other payables	**29,016**	(68,185)
Net cash inflow from operating activities	**139,845**	28,044

22. PURCHASE OF SUBSIDIARIES

	Consolidated 1.1.2000 to 31.12.2000 HK$'000	17.9.1999 to 31.12.1999 HK$'000
Net assets acquired:		
Investment property	–	12,000
Property, plant and equipment	–	129,754
Interest in a jointly controlled entity	–	86,893
Inventories	–	36,636
Trade and other receivables	–	199,313
Bank deposits	–	15,190
Bank balances and cash	–	93,484
Trade and other payables	–	(151,429)
Taxation payable	–	(4,287)
Short-term bank and other borrowings	–	(43,084)
Minority interests	–	(126,970)
Deferred taxation	–	(5,071)
Net assets	–	242,429
Satisfied by:		
Issue of shares of the Company	–	242,429
Analysis of inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Bank balances and cash acquired	–	93,484

During the period since acquisition, the subsidiaries acquired have contributed approximately HK$27.5 million to the Group's net operating cash flows, received approximately HK$0.6 million in respect of returns on investments and servicing of finance and utilised approximately HK$1.5 million on investing activities.

23. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR/PERIOD

	Share capital, share premium and contributed surplus HK$'000	Short-term bank and other borrowings HK$'000	Minority interest HK$'000
Issue of shares for cash	231,786	–	–
Issue of shares for Group reorganisation/acquisition of subsidiaries	242,429	–	–
Expenses incurred in connection with the issue of shares	(25,436)	–	–
Acquired on acquisition of subsidiaries	–	43,084	126,970
Shares of profit by minority shareholders of subsidiaries	–	–	9,321
At 31st December 1999	448,779	43,084	136,291
Repayment	–	(43,084)	–
Share of profit by minority shareholders of subsidiaries	–	–	54,914
Dividend paid to minority shareholders	–	–	(37,554)
Capital contributed by minority shareholders	–	–	3,219
At 31st December 2000	448,779	–	156,870

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company were committed to make the following rental payments for land and buildings in the next year under non-cancellable operating leases which expire:

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Within one year	**917**	1,567
In the second to fifth years inclusive	**26**	924
	943	2,491

Included in the above are operating lease commitments of approximately HK$0.7 million (1999: HK$0.9 million) payable by the Company to a connected party.

25. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of a proposed investment in PRC subsidiary	**–**	–	**5,544**	2,804
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**–**	1,024	**–**	–

In addition to the above, the Group's share of capital commitments of the jointly controlled entity is as follows:

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**12,710**	12,710

26. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits schemes for their qualifying employees. The assets of the schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the income statement represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the schemes prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

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

No forfeited contributions are available to reduce the contribution payable in the future years.

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(i) Connected Parties

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

		Consolidated 1.1.2000 to 31.12.2000	Consolidated 17.9.1999 to 31.12.1999	Pro forma combined 1.1.1999 to 31.12.1999
		HK$'000	*HK$'000*	*HK$'000*
Transactions:				
Name of company	Nature of transactions			
Fellow subsidiaries				
SIIC Estate Company Limited	Rental, management fees and air-conditioning charges paid by the Group on land and buildings *(note i)*	**1,242**	181	181

Balances:			
Name of company	Nature of balances	**2000**	1999
		HK$'000	*HK$'000*
Fellow subsidiaries			
The Wing Fat Printing Company, Limited	Balance payable at 31st December –payment on behalf of the Group *(note ii)*	**–**	374
Shanghai Industrial Holdings Limited	Balance receivable at 31st December –payment on behalf by the Group *(note ii)*	**439**	86
Directors	Balance payable at 31st December –accrued emoluments *(note ii)*	**1,617**	702

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(i) Connected Parties – continued

Notes:

(i) The rental was charged in accordance with the relevant tenancy agreement and the prevailing rent is equivalent or approximate to the open market rental as certified by an independent firm of professional property valuer.

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

(b) Details of operating lease commitments with a connected party are set out in note 24.

(c) At 31st December 2000, the intermediate holding company, Shanghai Industrial Holdings Limited, had given a guarantee of HK$5 million (1999: HK$5 million) to a bank in respect of credit facilities extended to the Company.

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(ii) Related party, other than connected party

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

		Consolidated 1.1.2000 to 31.12.2000 HK$'000	Consolidated 17.9.1999 to 31.12.1999 *HK$'000*	Pro forma combined 1.1.1999 to 31.12.1999 *HK$'000*
Transactions:				
Name of company	Nature of transactions			
Minority shareholders of the Company's PRC subsidiary, Hangzhou Qingchunbao:				
中國(杭州)青春寶集團公司 (China (Hangzhou) Qingchunbao Group Co.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products *(note i)*	**28,913**	2,905	15,154
	Purchase of materials *(note ii)*	**1,429**	199	1,006
	Sales of fixed assets	**–**	–	140
	Interest paid *(note iii)*	**393**	75	449

Balances:

Name of company	Nature of balances	**2000 HK$'000**	1999 *HK$'000*
China Qingchunbao and its subsidiaries	Balance due from/to at 31st December		
	–trade receivables *(note iv)*	**2,542**	3,483
	–short-term loan *(note 16)*	**–**	9,346
	–trade payable *(note iv)*	**172**	143

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES – continued

(ii) Related party, other than connected party – continued

Notes:

(i) These transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

(ii) These transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.

(iii) The interest was charged at 0.4% per month on the outstanding loan balance in accordance with the relevant loan agreement.

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

28. SUBSIDIARIES

Details of the Company's subsidiaries at 31st December 2000 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.)	PRC	RMB128,500,000	–	55%	Manufacture and sale of Chinese medicine and health food
Chia Tai Health Products Company Limited	Hong Kong	Ordinary shares –US$2 Non-voting deferred shares –US$2	–	91.67%	Investment holding
Golden News Enterprises Limited	British Virgin Islands	US$60	–	91.67%	Investment holding
SIMST Medical Science and Technology Development Limited	British Virgin Islands	US$1	100%	–	Investment holding
S.I. Daily Chemical Holdings Ltd.	British Virgin Islands	US$56,250	100%	–	Investment holding
北京上實中藥有限公司 (Beijing SIIC Phytopharmaceuticals Co., Ltd.)	PRC	US$250,000	100%	–	Research and development of Chinese medicine and natural products
上海醫創中醫藥科研開發中心有限公司 (Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co., Ltd.)	PRC	RMB3,000,000	55%	–	Research and development of Chinese medicine and natural products

28. SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Green Source Medical Trading Limited	British Virgin Islands/Hong Kong	US$1	100%	–	Trading of pharmaceutical products
SIMST eMedical Network Limited	British Virgin Islands	US$1	100%	–	Investment holding
SIIC-CYBeR Pacificare Limited	British Virgin Islands/Hong Kong	US$750,000	–	66.67%	Manufacture and sale of business system networks

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

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

29. SUMMARY OF FINANCIAL INFORMATION IN RESPECT OF THE GROUP'S MAJOR JOINTLY CONTROLLED ENTITY

The following is a summary of the most recent audited financial information of Shanghai Jahwa for the year ended 31st December 2000:

Results for the year/period:

	Consolidated	
	1.1.2000 to 31.12.2000	17.9.1999 to 31.12.1999
	HK$'000	*HK$'000*
Turnover	**949,581**	178,472
Profit from ordinary activities before taxation	**60,705**	11,363
Profit from ordinary activities before taxation attributable to the Group	**24,282**	4,545

Financial position:

	2000	1999
	HK$'000	*HK$'000*
Non-current assets	**318,759**	342,776
Current assets	**392,850**	454,182
Current liabilities	**(442,172)**	(552,981)
Non-current liabilities	**(18,577)**	(18,525)
Net assets	**250,860**	225,452
Net assets attributable to the Group	**100,344**	90,181

30. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, Shanghai Jahwa obtained the approval from the Shanghai Stock Exchange ("SSE") for the listing of its shares on the SSE A Shares Market. Shanghai Jahwa issued 80,000,000 shares of nominal value of RMB1 per share at an issue price of RMB9.18 per share which raised totally RMB712.62 million (approximately HK$666 million). The shares were listed on the SSE on 15th March 2001. Subsequent to the listing of Shanghai Jahwa shares, the Group's interest in Shanghai Jahwa was diluted from 40% to 28.2%. The estimate gain on this deemed disposal by the Group is approximately HK$150 million.

The proceeds from the issue of shares will be mainly used by Shanghai Jahwa to develop new markets, extend sales network and expand its research and technology centre.

	Year ended 31st December			
	1997	1998	1999	**2000**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS				
Turnover	313,264	375,373	424,780	**533,434**
Cost of sales	(116,306)	(128,643)	(144,440)	**(166,886)**
Gross profit	196,958	246,730	280,340	**366,548**
Investment income	1,127	1,880	16,087	**15,428**
Other revenue	–	2,847	19	**578**
Distribution costs	(83,117)	(113,212)	(133,267)	**(181,156)**
Administrative expenses	(35,545)	(44,605)	(48,203)	**(75,915)**
PRC sales tax refund	24,069	27,376	–	**–**
Profit from operations	103,492	121,016	114,976	**125,483**
Finance costs	(4,901)	(4,079)	(2,975)	**(1,526)**
Share of results of jointly controlled entities	11,775	13,861	14,711	**23,490**
Profit from ordinary activities before taxation	110,366	130,798	126,712	**147,447**
Taxation	(13,356)	(13,793)	(14,217)	**(20,215)**
Profit before minority interests	97,010	117,005	112,495	**127,232**
Minority interests	(38,231)	(47,416)	(41,012)	**(54,914)**
Profit for the year	58,779	69,589	71,483	**72,318**

Notes:

1. The results for each of the three years ended 31st December 1997, 1998 and 1999 have been prepared on a pro forma combined basis as if the group structure immediately after the group reorganisation had been in existence throughout those years.

2. The Company was incorporated in the Cayman Islands on 17th September 1999. Accordingly, the only balance sheets of the Group that have been prepared are those set out on page 45.

Analysis of the Group's Turnover and Contribution to Operating Profit

For the year ended 31st December 2000

An analysis of the Group's turnover and contribution to operating profit by principal activity and geographical region is as follows:

	Turnover	Operating profit
	HK$'000	*HK$'000*
Activity		
Consumer products	533,434	110,027
Add: Interest income – net		12,435
Rental income		1,495
Share of profits (losses) of a jointly controlled entities		
– Consumer products	24,282	
– Others	(792)	
		23,490
Profit from ordinary activities before taxation		147,447
Geographical region		
Mainland People's Republic of China	528,821	110,553
Other areas	4,613	969
	533,434	111,522
Add: Interest income – net		12,435
Share of profits of jointly controlled entities		23,490
Profit from ordinary activities before taxation		147,447