Business Review, Discussion and Analysis

- The unaudited net profit of the Group for the six months ended 30th June, 2001 was approximately HK$690,517,000, representing an increase of about 18% over the corresponding period last year. Owing to the exceptional income attributable to the Group as earned by the listing of the Shanghai Jahwa United Co., Ltd. on the 'A' share market of Shanghai Stock Exchange, the Directors have resolved to pay an interim dividend of HK14 cents per share, representing an increase of about 27% compared to the same period last year.

- During the period under review, the Group continued its transformation policy and focused on its core business. The Group encouraged its member companies to seek innovation and breakthroughs in terms of their marketing strategies, asset utilization, human resources management and operation mechanisms, so as to enhance the quality, profitability and overall competitive edge of their business. This policy has ensured a solid foundation for the Group's sustainable development.

- For the first six months of 2001, the Group's key business segments recorded satisfactory results. The infrastructure, consumer products/ retailing, SIIC MedTech and automotive parts businesses continued to contribute significantly to the Group's profit.

Infrastructure Business

— The Group's elevated road projects continued to provide healthy cash returns and make a positive contribution to the Group's cash flow, thus financing the new business development.

Consumer Products/Retailing Business

— Shanghai Bright Dairy and Food Co., Ltd. continued to record high profit growth for the first half of the year, with an increase of about 48.7% in net profit compared to the same period last year. It also achieved rapid growth in domestic market share. Shanghai Orient Shopping Centre Ltd. recorded an approximate 18% increase in net profit over the same period last year. Nanyang Brothers Tobacco Company, Limited continued to contribute to the Group's profit growth and cash flow. Shanghai Sunway Biotech Co., Ltd. successfully completed Phase I clinical testing for its newly developed anti-cancer drug, H101, and obtained approval from the State Drug Administration to proceed to Phases II and III of the clinical testing.

Automotive Parts Business

— Notwithstanding a downward adjustment in the market price of automotive accessories as a result of the price reduction in domestic cars, Shanghai Huizhong Automotive Manufacturing Co., Ltd. and Shanghai SIIC Transportation Electric Co., Ltd. used effective operating measures and vigorous market development to record steady growth, and continued to contribute to the Group's profit in the first half of the year.

SIIC MedTech Business

— SIIC Medical Science and Technology (Group) Limited successfully spun off Shanghai Jahwa United Co., Ltd. on the Shanghai Stock Exchange 'A' Share market, earning an exceptional income of approximately HK$155 million (of which approximately HK$100 million was attributable to the Group). Its subsidiary, Chia Tai Qingchunbao Pharmaceutical Co., Ltd. also recorded handsome growth in production, sales and profit. SIIC MedTech's unaudited consolidated profit, including exceptional income, for the first half of the year increased five times compared to the corresponding period last year, and its business is expected to grow further in the second half of the year.

- In recent years, while consolidating its existing core business, the Group has made new investments in the information technology and modern logistics businesses.

Information Technology Business

— Shanghai Information Investment Inc., which the Group successfully acquired last year, is speeding up the progress of its projects. The two-way upgrading works for the three million Shanghai cable TV subscribers is progressing smoothly, and the integrated information channels project is also moving ahead as scheduled.

— In view of the huge market potential and demand for semi-conductors in the PRC, the Group invested approximately US$110 million in the Shanghai project of Semiconductor Manufacturing International Corporation and became a substantial shareholder. The project is currently progressing smoothly and will go into trial operation at the end of September 2001, as planned. It is expected that after Phase I production has commenced successfully, its contribution to the Group's profit will increase gradually over the next three years.

— The software sector is one of the fastest growing areas in the IT industry and has a promising future. In May 2001, the Group entered into a shareholders' agreement with a wholly-owned subsidiary of India's third largest software development company, Pentasoft Technologies Limited, to form a joint venture company that would collaborate on multi-media software design, processing, and advanced application software system development. Both parties are investing a total of US$1 million at this preliminary stage and will make further capital injections for future business development when necessary.

Modern Logistics Business

— The Group has been actively promoting the development of modern logistics since last year and has gradually built up its infrastructure and modern logistics business segment. In May 2001, the Group and Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd. established Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited, a joint venture enterprise in the Waigaoqiao Bonded Area in Pudong New District, with each party holding a 50% interest. Investment for the first phase amounted to RMB150 million. This joint venture will serve as a platform to provide logistics services to the free trade zones. Additional logistics projects will be explored and developed in the near future.

- During the period under review, the Group also actively promoted the globalization of stock trading, expanding its existing shareholder base and enhancing the Group's corporate image. It also established the American Depository Receipts (ADR) Program (Level One), which obtained approval by the US Securities and Futures Commission (SFC) on May 16 and began over-the-counter trading the same day. ADRs can be traded on the over-the-counter market by domestic investors in the US through their brokers. With the establishment of this program, as well as participation in the London Automated Quotation System for Hong Kong stocks, the Group has achieved its goal of round-the-clock worldwide stock trading.

- Currently, the Group is actively considering the proposal to further broaden its financing channels in the PRC capital market. Once effected, the Board believes that this will be beneficial to the Group's overall business transformation and growth, thus enhancing the Company's value and the benefits for the shareholders.

- During the period under review, the Group continued to enhance the quality of its management.

  — Good corporate governance is fundamental to the sustainable development of a company and the creation of handsome returns for its shareholders, which is particularly important for listed companies. The Group has been striving to improve the quality of its management, enhance its business performance and establish corporate goodwill by committing to strict corporate governance rules.

  — The Group has developed a sophisticated internal management and process control system, covering all such internal control and audit areas as financial information management and the investment decision-making process.

— The Group has also been advocating the "Economic Value-added" (EVA) concept since last year as one of its assessment criteria for performance by the Group and its member companies, and enforced implementation measures during the period under review.

The detailed performance of the Group's five major business segments during the period under review is as follows:

(1) INFRASTRUCTURE AND MODERN LOGISTICS

Infrastructure Facilities

During the period under review, the Group's elevated road projects — The Yanan Elevated Road, the Inner Ring Road and the North-South Elevated Expressway — all provided stable revenues. During the first half of 2001, net profits amounted to approximately HK$361,000,000, representing about 51% of the Group's net business profit.

Preparatory work for the Shanghai Pudong Waigaoqiao Container Terminal Phase One, in which the Group has a 10% interest, is complete, pending final approval from the relevant PRC authorities. With an ever-growing container throughput, Shanghai has established itself as one of the world's most important container and sea ports. The Waigaoqiao Container Terminal Phase One is a major port for the loading and unloading of international containers in Shanghai. Its loading and unloading volume increased by about 19.2% in the first half of 2001 compared to the same period last year. Participation in this project enables the Group to enhance its future development in infrastructure investment and realize a favorable return.

Modern Logistics

Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited is a joint venture company established by the Group and Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd., with each party holding a 50% equity interest. Located within the Waigaoqiao Bonded Area in Pudong New District, this joint venture commenced operation in May 2001. The total investment for the project is expected to be RMB1 billion, with investment for Phase One amounting to RMB150 million. The company will use the 60,000 sq.m. bonded warehouses and 30,000 sq.m. container piling site as a modern logistics platform for third-party logistics companies, while building a global client base and offering one-stop-shop services with consolidated operations and management network. The Group also plans to form strategic alliances with multinational logistics companies, airfreight forwarders and large-scale domestic carriers with a view to expanding its services across the country and worldwide.

In line with Shanghai's overall development plan for the establishment of a modern logistics industry as outlined in the "Tenth Five-Year Plan", the Group will undertake certain projects featuring port logistics by land, sea and air. Such projects include the Shanghai Chemical Industry Zone Logistics Centre and the Pudong International Airport Logistics Centre. The Group will also actively expand its integrated logistics business in various areas, based on the electronic information platform.

(2) CONSUMER PRODUCTS/RETAILING

The net profit of the consumer products/retailing business amounted to approximately HK$108,000,000, representing an increase of about 24.5% compared to the corresponding period last year, and accounting for around 15% of the Group's net business profit.

Tobacco and Printing

During the first half of 2001, Hong Kong's overall economy recovered slowly. Despite operating in an adverse environment, Nanyang Brothers Tobacco Company, Limited ("Nanyang Brothers") was able to achieve encouraging results because of its cost-cutting measures, and greater efforts in consolidating its existing market and tapping into new markets. It made good progress in the first half of the year with profit for the first six months increasing by about 14% compared to the corresponding period last year, and all production and sales targets reached.

To further strengthen and broaden its sales channels in Hong Kong, in May 2001, the "Chunghwa" cigarettes distributed by Nanyang Brothers began to be sold in 7-11 convenience stores. In June, the company acquired the right to distribute "DJ Mix" Lemon Fresh cigarettes in Hong Kong and Macau.

Nanyang Brothers was also keen to develop new business, as evidenced by its exploration into the Southeast Asian tobacco market. The company formulated marketing and pricing strategies designed to capture the Singapore market, a highly successful move that led to an ongoing increase in sales. To further enlarge its market share, the company is contemplating a new brand, "Zhenduoli". The company has also made remarkable progress in its marketing efforts in Taiwan. In July, following lengthy negotiations, Nanyang Brothers entered into an agreement with Taiwan's Marketec International Marketing Co., Ltd. and the brand "Double Happiness" is expected to be launched in Taiwan during 2001.

Phase II of the new factory in Tuen Mun, Hong Kong is now complete and has entered the examination stage. It is expected to commence operation by the second half of 2001.

The Wing Fat Printing Company, Limited ("Wing Fat Printing") recorded a steady growth in turnover during the first half of 2001, with its net profit amounting to an increase of about 14% compared to the same period last year.

During the period under review, Wing Fat Printing developed a number of new products, including tobacco packs for new brands. Meanwhile, the company renovated its existing equipment by upgrading its technology, and creating a set of prerequisites for developing new products and upgrading existing ones. Progress was smooth for Wing Fat Printing's trading of packaging material.

Wing Fat Printing also strengthened its internal administration, following the ISO9002 operation model, and introduced a computerized management system at all levels.

Dairy

Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") continued to record high profit growth. For the first half of 2001, net profit increased about 48.7% over the same period last year. Moreover, the company made unremitting efforts to improve technology and develop new products, with a view to raising gross profit margins. Newly developed products include Iron Fortified Milk, Low-Lactose Milk, Probiotic Milk and the Yogurt product series, all of which will be launched within this year.

Bright Dairy has already applied to the China Securities Regulatory Commission for the right to issue "A" shares. Its acquisition of the joint venture operations of France's Danone Group in Shanghai and Guangzhou also progressed smoothly.

Since the introduction of the "Cold Chain" concept from France in 1992, Bright Dairy has established a complete and sophisticated Cold Chain System. The existing dairy farms have also adopted state-of-the-art mechanical milking equipment and a thermostatic freezing system. Starting in May this year, Bright Dairy began to provide subscribers with milk that was stored in a low-temperature freezer, after replacing the original "Bright Milkbox" with a "Thermostatic Milkbox" free of charge.

In July 2001, Bright Dairy was admitted to the "First Lot of School Milk Producers" authorized by the state "School Milk Project" Inter-Coordination Office. Bright Dairy's milk products are authorized to use the label "School Milk" for three years, which will greatly increase the sales of Bright Dairy's school milk.

At the same time, Bright Dairy is taking a proactive approach to increasing its penetration rate and market share outside the Shanghai region. Wuxi Bright Dairy Co., Ltd. owns advanced technical equipment and is engaged primarily in producing high-quality milk products. At present, these products serve mainly the southern Jiangsu region, but the company is expanding rapidly into the northern Jiangsu market, thus further enriching the province's dairy product market. Nanjing Bright Dairy Co., Ltd. ("Nanjing Bright Dairy"), which was formed jointly by Bright Dairy and Nanjing Lu Kou Airport Economic Zone Development Co., Ltd., commenced operation in June. Total investment from both companies amounted to RMB15 million, with Bright Dairy contributing 95% of the total amount. The company's main product is fresh milk to supply Nanjing city and its surrounding region. The advanced local transportation networks will enable Nanjing Bright Dairy to complement Bright Dairy's Shanghai business, thus helping the company to penetrate the entire Eastern China market.

Bright Dairy plans to gradually establish branch offices in the provinces in Southern and Southwestern China to complement its inter-regional business in the Eastern China provinces and make headway towards penetrating the international market.

Pharmaceutical and Bio-technology

Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech") has successfully completed the Phase I clinical testing for its new State Category 1 anti-cancer drug, H101. It also received approval from the State Drug Administration to proceed to Phases II and III of the clinical testing for the drug. Phase II clinical testing is currently underway and both Phases are expected to be completed in about one year, after which the drug will be launched in the market. In the area of technology research, further improvement has been made in the stability of Lyophilized Preparation, together with the preliminary creation of a Plaque Forming Unit (PFU), Resource Q and a methodology for Protein Detection.

Hardware laboratory and software development for H102 was also completed. The pre-clinical study and corresponding animal studies of H102, as well as follow-up projects, were also launched successfully in Shanghai and the US. During the period under review, Sunway Biotech cooperated with University of Washington on anti-cancer drug research by taking a 51% interest in a joint venture. Meanwhile, Sunway Biotech and Baylor College of Medicine, Houston set up another joint venture, in which Sunway Biotech holds approximately a 4.5% interest, to work with other investors on anti-cancer research, including the development of the Retrogen technology platform.

The cost of production for SunGran increased due to a two-month overhaul of the workshops in the first half of 2001. As production is expected to resume in the second half of 2001, production costs will come down accordingly. Currently, Sunway Biotech is actively exploring the market to increase its sales volume and application range, and SunGran is now used in the hematology departments of a number of hospitals in the grafting of bone marrow.

At the enterprise level, the company has signed an agreement for technical cooperation in respect of β-Interferon, and is actively pursuing related technological exchanges and research on lyophilized preparation.

In the second half of the year, Sunway Biotech plans to rapidly pursue the Phase II clinical testing of H101 and research into H102. Technical processes will be set up and the related technology will be upgraded, together with active efforts to find new forms of the drug. In terms of sales, the company will focus on increasing turnover in the Shanghai market. Meanwhile, Sunway Biotech will explore new markets and introduce new projects to help move ahead the construction of the Zhangjiang industrial base.

Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical") improved its sales performance through continuous innovation and reform. In early 2001, Sunve Pharmaceutical completed the restructuring of its organization and the integration of functional departments, and set up performance-based management systems in order to enhance good management practice in each division. In March, three raw material medicines successfully passed the supplier quality audit and were incorporated into the production plan for the second half of 2001.

During the period under review, the production technology department tightened material control management and centralized procurement, which resulted in significant savings in production cost. The medicine department also implemented a medicine mix pricing strategy and set up a rebate incentive system, which effectively reduced the amount of accounts receivable.

The R&D department of Sunve Pharmaceutical actively promoted the company's key products and completed preliminarily SASP technical process renovation, thus laying a strong foundation for the company's future development. In the second half of 2001, Sunve Pharmaceutical will focus on opening up new markets and business opportunities, and carrying out technology innovation projects, employee training and corporate culture reshaping, all of which are designed to achieve promising results for the company.

Mergen Limited ("Mergen") completed the installation of its additional manufacturing facility during the first half of 2001. With the addition of new arrayers and other equipment, Mergen can now meet the increase in orders expected over the coming six months. The company also successfully developed distribution channels in various markets throughout the world last year and will continue to expand its sales and marketing network this year.

Mergen also launched MO2, a 5000 feature mouse DNA microarray in the first half of the year. Mergen will now release in succession a new 5000-feature human array with knowledge genes and a 6000-feature human array, which contains novel genes, to add to the Mergen spotted array product range.

Mergen is now one of the major manufacturers and sellers in the custom array/service market. Its quality products have gained universal recognition in the market and from industry players at large. During the period under review, Mergen further optimized its on-chip Single Nucleotide Polymorphism (SNP) detection technology and obtained a robust readout with genomic DNA input. The company is now seeking collaborators to commercialize the technology. In addition, in the first half of 2001, Mergen successfully developed four G-Protein Coupled Receptors (GPCR), which can be used in the medical treatment of central nervous system diseases. Mergen will apply for patent rights on these products.

In March, Mergen successfully obtained a business licence from Incyte Genomics. This was the first time Incyte Genomics had authorized a microarray chip manufacturer to use its technology covering spotted array manufacturing and spot density. Mergen is capable of developing and producing chips for a wide range of applications, which will greatly enhance the company's competitive edge in negotiating and winning production contracts with pharmaceutical factories and biotech companies in the future.

Retailing

Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") recorded an increase of about 8.3% in sales in the first half of 2001. Net profit increased about 18% compared to the same period last year. In order to achieve a good start to its sales result in 2001, Orient Shopping Centre has held an ongoing series of marketing campaigns which have achieved encouraging results. In January, it recorded an increase in sales of approximately 59.8% compared to the same month last year. In mid-March, it conducted a series of brand promotion initiatives and actively introduced new brands and upgraded its level of operation. Compared to the same period last year, the company achieved substantial increases in sales, retail profit and gross profit margins in such products categories as crafts and gifts, gentlemen's clothing and household electrical appliances.

In addition, to further beautify its external environment, Orient Shopping Centre invested more than RMB3 million on renovations. The project started in mid-February 2001 and lasted for two and a half months. The shopping centre commenced operation in May. The newly renovated shopping center is now connected to a pedestrian pathway and has a total area of 2,350 sq.m. Orient Shopping Centre took the opportunity of the completion of the renovation to celebrate with sales promotion that attracted many customers. It has also hosted many events, including celebrity shows, car shows, leather products promotions, bedding products promotions and kids' fashion shows, all of which were well received. At the same time, Orient Shopping Centre is actively working to establish chain stores and set up an effective commercial retail network.

(3) AUTOMOTIVE PARTS

The Group's automotive parts business recorded a net profit of approximately HK$87,550,000, representing an increase of about 3.6% compared to the same period last year. This business segment contributed approximately 13% of the Group's net business profit. Notwithstanding the downward pressure imposed on the price of automotive accessories following a price cut in domestic cars, Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") and Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation Electric") were able to achieve outstanding results through effective management, cost-reduction measures and vigorous market development.

In view of the growth in demand for domestic cars during the year, Shanghai Huizhong reported a steady increase in sales during the first half of the year. It recorded satisfactory sales of car components and parts to Shanghai Volkswagon Automotive Co. and Shanghai General Motors Co., and showed good progress in the development of new markets. Sales of 15-ton heavy trucks represented approximately 56.4% of anticipated sales for the whole year. Sales of cab-ahead-of-engine heavy trucks were also encouraging.

In relation to the Original Equipment Manufacturing (OEM) of the Gold Cup Project, trial-manufacturing agreements have been entered into for front/rear shock absorbers and the welding assembly, and have commenced to the out-tool sample stage, while the approval of three kinds of pedals has completed. Rear shock absorbers and rear brakes for Qingdao Yizhong Company were supplied using mass production.

During the period under review, the company made further progress in localization and achieved a more than 60% localization rate for a number of components, including the front/rear axle for Shanghai Volkswagen's Passat, the front/rear axle for Buick of Shanghai's GL8 and Sail's front axle. Electronic control technologies, such as steering gear pipe's securities and anti-lock brake system development, have also made good progress.

Shanghai Sachs Huizhong Shock Absorber Co., Ltd., a joint venture formed by Shanghai Huizhong and Mannesmann (China) Ltd., with each side holding a 50% interest, has formally commenced operation. Total investment amounted to US$19 million. The company's lead product is the shock absorber, of which it produces three million units annually. This joint venture is located in Shanghai South-west Xinzhuang Industrial Park and occupies a total area of 16.3 thousand sq.m. It began operation in June 2001.

In the second half of 2001, Shanghai Huizhong will continue to develop domestic and overseas markets. Particular emphasis will be placed on the overseas markets and the company will work to export own-brand products. At the same time, the company will speed up its localization projects, strengthen new product development, seek every opportunity to collaborate with renowned foreign automotive parts manufacturers and start the technology renovation project for heavy trucks. Shanghai Huizhong will also gradually upgrade its system development capability and set up a United Working Office for Chassis Systems within the current year in order to strengthen technology cooperation among related enterprises. The company will also upgrade and transform its existing operations using electronic technology.

Shanghai Wanzhong Automotive Components Co., Ltd. ("Shanghai Wanzhong") has officially been in production about six months. With efforts from different sides, the company has begun processing and manufacturing components for Passat sedans, including the left/right steering knuckle, the rear module and the engine cradles/lower control arm ASMs. It has achieved sales and profit on these components. By the end of June, Shanghai Wanzhong had installed 33 additional pieces of manufacturing equipment, which have significantly strengthened its production capacity. During the second half of the year, the company will aim to meet the component processing capacity requirement for

100,000 B5 Passat sedans. At the same time, the company will speed up implementation of its technology improvement project for heavy trucks and will import equipment from Sangyoung Heavy Duty Truck from Korea. The company expects the installation and testing of the equipment to be completed within this year, laying the groundwork for formal production to begin next year.

During the first half of 2001, SIIC Transportation Electric witnessed an increase of approximately 6% in profit compared to the corresponding period last year. Most of the company's new products and technology developments, including a manual window for the Change Suzuki SCQI, a JBGM electrical module for the shield wiper Kz132, power switchers JK926, igniters DY101C1 etc., have obtained mass production/OTS approval. In March 2001, the company completed the market research, technology cooperation and product function positioning for the Global Positioning System (GPS) and will further pursue this project in the remaining months of the year.

During the period under review, SIIC Transportation Electric devoted much effort to setting up a nationwide sales network. The company established various distribution centres and employed sales agents in Beijing and Hebei, and has achieved encouraging sales revenue. In addition, the company also further strengthened its after-sale service by responding to customer feedback within 24 hours and providing unified after-sale services from SIIC Transportation Electric headquarters. This practice has not only enabled the company to concentrate resources, but also greatly improved customer satisfaction.

The latter half of the current year will serve as the starting point for SIIC Transportation Electric to work on the "Tenth Five-Year Plan", which is aimed at developing modularized, systematic and electronic products driven by market demand. The plan also involves continued efforts to seek collaboration with large international car parts manufacturers in order to strengthen technical support and ensure that the technology and quality of the company's products meets international standards. The company will strive to become Shanghai's "new and high-tech enterprise" in order to gain recognition for overall technology quality and to enjoy favorable tax concessions.

(4) INFORMATION TECHNOLOGY

The net profit of the information technology business was approximately HK$18,400,000, representing an increase of about 9.8 folds compared to the corresponding period last year, and accounting for around 3% of the Group's net business profit.

Shanghai Information Investment Inc. ("SII") witnessed solid progress on its projects. Its two major operational enterprises also recorded rapid business development:

(i) Shanghai Cable Network

Following the successful completion of the two-way upgrading for one million cable TV subscribers, Shanghai Cable Network Co., Ltd. ("SCN") will move on to upgrade another 300,000 subscribers within the remainder of this year and will establish the necessary accessories for simultaneous digital broadcasting and data service. So far, digital broadcasting and the two-way data transmission have been launched gradually in areas where the two-way upgrading has already been completed.

SCN has achieved solid progress in its "convergence of data, voice and video" trial areas and has further improved its broadband services following the successful launch last year of the pilot "Cableplus" broadband ISP data services, which attracted over

10,000 commercial subscribers (more than 100 were enterprise users). It has also developed the VOIP and two-way interactive multimedia application functions. To date, the expansion of the platform's IP trunk is approaching the final stage and is expected to be completed within a short period of time. Completed projects included the exit bandwidth, customer management and service systems; the test on VOIP has been completed inasmuch as IP to IP, and IP to PSTN communication have been realized.

(ii) Shanghai Information Pipeline

In May, Shanghai Information Pipeline Co., Ltd. has finished pipeline construction work for most districts in the urban area. In the first half of 2001, it excavated 104 road sections, amounting to 162 kms in length, and completed 143 kms of pipeline construction. Added to the pipelines constructed last year, an aggregate length of 355 kms of pipelines has been finished.

The company has begun to provide pipeline and optical fiber leasing service to telecom carriers, including China Mobile, China Unicom and China Netcom, for integrated pipelines. A number of other large-scale pipeline demand contracts are under serious negotiation.

SII embarked on three new external investment projects in 2001, with contractual investment totaling RMB25,800,000:

i. *Consumer Credit Information Services*

In May 2001, the four shareholders of Shanghai Credit Information Services Co., Ltd. ("CIS") made a pro rata additional injection of RMB10 million to the company; SII also injected RMB3.5 million, retaining its 35% interest in the company. The investment injection was used mainly to improve the performance of the Consumer Credit Information Services System Phase I and to develop Phase II application.

The trial implementation carried out by CIS for its Consumer Credit Information Service System Phase I — the Consumer Credit Information Query Sub-system — is now running smoothly. For the period ended May 31, CIS established cooperative business relations with, inter alia, sixteen commercial banks and two mobile phone carriers through Shanghai Consumer Credit Information Data Centre Membership, thus launching the Consumer Credit Information Query Network System in Shanghai. This system features the highest integrated level and largest data scale among its counterparts in China, and attracts enormous attention from investors and business partners both domestic and foreign.

In June 2001, CIS began to offer individual citizens the credit report query service. Consumer Credit Information Services Phase II — the Consumer Credit Rating Sub-system — will also start trial operation in the first half of next year.

ii. *Comprehensive Logistics Information System of Shanghai Port*

In June 2001, SII invested RMB22 million in Shanghai E&P International Inc. ("E&P International"), representing 22% of the registered capital, and became its largest substantial shareholder.

E&P International was involved in constructing and operating Shanghai's port's large integrated logistics information system and its establishment was supported by the Shanghai Municipal Government in an effort to strengthen the competitive edge of Shanghai's ports by achieving customs efficiency in Shanghai. Its major business focus is targeted at the rapidly growing import and export trade and logistics companies in Shanghai ports, with the design, research and operation of port logistics information system and e-commerce platforms at the core. It is also involved in the development of information technology and applications related to port logistics and international trade. Subsequent to the company's incorporation, more powerful technology and management teams have helped to improve the import and export customs efficiency, reduce transaction costs, enhance the port's overall competitiveness, and improve the port's management and service, thus contributing to the development of Shanghai as one of the world's economic, financial, trading and international forwarding centres.

The company is committed to its role as the backbone enterprise for the construction, within three to five years, of Shanghai's international airfreight centre information network and international e-commerce. It will strive to be the system integration software developer and application service provider (ASP) that specializes in international economics and trade through advanced technology and modern management.

iii. *Information Project Consultation Services*

In June 2001, SII invested RMB300,000, representing 30% in the total registered capital, in Shanghai Information Investment Consultant Ltd. ("IIC"). IIC is engaged primarily in decision-making consultation for businesses, government departments and other organizations, based on re-integration of information technology and Internet organizational structure. It is also involved in the formulation of business models and decision-making consultation on technical investment/input decisions concerning information technology. In addition, the company offers evaluation and consultation services for information projects funded by the Shanghai Finance Bureau, as well as those managed by the Shanghai Information Office or by other government departments, companies and organizations.

For the first six months of 2001, Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications") was able to achieve a handsome profit, generated largely from investment returns by the Company's two joint ventures, Lucent Technologies of Shanghai, Ltd. and Lucent Technologies Shanghai Fiber Optics Co., Ltd. During the period under review, these two companies recorded satisfactory results, well above the targeted profit level, in production and sales. Over the past two years, optical fiber products have been in great demand and, in the first half of 2001, were actually in over-demand. Currently, Shanghai Optical Communications' own-brand products are ready to go into the market place. The company's products include digitalized graphic products, transmission devices and networking products, the sale of all of which is in active negotiation.

In the second half of the year, Shanghai Optical Communications will continue its efforts to perfect its quality of management, increase revenues and reduce expenses, while remaining committed to exploring market for its own products. The company will also try to develop new products, other than optical fiber-related items, to generate more profit for the company.

During the period under review, the self-developed digital video graphic encoder from Shanghai Communication Technologies Centre has successfully passed the State Administration of Radio, Film and Television's technical inspection and quality check, and was labeled top quality, which signifies that it is up to the same advanced level as similar products on the international market. As such, the company's products and techniques have proved mature enough to enter the domestic electronics products and telecommunication markets, providing the country's information superhighway broadband network with critical technology and products. Later this year, the company will sign two contracts for graphic monitoring for domestic metro and light rail projects.

Projects carried out during the year include the Shanghai Bell SB200/SV110ATM interface encoder & decoder cooperation project and the State High Definition TV key project — the Shanghai experimental network SV220 encoder cooperation project. In the second half of 2001, the company is expected to have agreeable sales prospects due to the implementation of a series of marketing strategies, including promotions, user testing, on-site demonstrations and recognition by state professional tests conducted in the first half of this year.

High-Tech Investment Fund

One of the Group's strategies in entering the high technology arena is to invest in high-tech funds in order to search for business opportunities in the high-tech industry sector. Major funds currently invested in include the Shanghai High-Tech Venture Fund, which was established through joint investment with the Shanghai Municipal Government's Shanghai Venture Capital Corporation, and the S. I. Technology Fund, which in turn was established via investment by Singapore Government's Temasek Holdings (Pte) Ltd. and the Singapore Technologies Group, as well as the Alto-Tech II, LP fund, which invests in Silicon Valley high-tech projects. Confronted with an adjustment in the global market, the funds continue to select, study and invest prudently in projects with great potential. Most of these have been performing well and are expected to bring in commercially viable projects and satisfactory investment returns to the Group.

(5) SIIC MEDTECH

For the six months ended 30th June, 2001, SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") recorded an unaudited consolidated profit of over HK$198 million, which was more than five times the result in the corresponding period last year, representing approximately 18% of the Group's net business profit. Even without taking into account SIIC MedTech's exceptional income of approximately HK$155 million (63.9%, or approximately HK$100 million, of which is attributable to the Group) earned by the listing of Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") on the "A" share market of Shanghai Stock Exchange, SIIC MedTech still recorded an approximate 31% increase in operating profit compared to the corresponding period last year.

During the period under review, the results of both Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao") and Shanghai Jahwa reached a record high. Hangzhou Qingchunbao's profit before tax rose by about 30%, while Shanghai Jahwa maintained good growth. Although the shareholding of SIIC MedTech in Shanghai Jahwa was diluted subsequent to the listing of Shanghai Jahwa, Shanghai Jahwa's contribution to the profits earned by SIIC MedTech and the Group still grew significantly.

Raw Materials Network

The production of fresh barbary wolfberry fruit tablets, researched and developed by SIIC MedTech, was finalized during the period under review. This product will be launched and sold as a "healthcare food product". As both the efficacy of the product and its ingredients are controllable and measurable, the consistency of product quality is assured. Moreover, its advanced preparation fits in with the modern use of drugs and the needs of international markets. Currently, the plant and facilities are designed for the construction of a production workshop, which is expected to commence operation in the middle of the coming year.

Research and Development Network

"Ipriflavone" is a new drug product developed successfully by Hangzhou Qingchunbao for the treatment and prevention of osteoporosis and will soon become the first State Category 2 New Drug permitted by the State Drug Administration to go on public sale in the PRC. A vast market has been revealed for "Ipriflavone".

"Anntiflu" has passed the municipal audit conducted by the Municipal Ministry of Health and is expected to be approved for production in the near future, with Hangzhou Qingchunbao organizing its production and sale. The medicinal material Echinacea used in "Anntiflu" is produced in accordance with the GAP standard of quality control. In addition, the product's manufacturing workshop has passed GMP certification. These, along with the fact that Echinacea products have always been widely accepted in international markets, represent an excellent sales prospect for "Anntiflu" , both domestically and overseas.

As Chinese medicinal, natural medicinal and traditional medicinal treatments are gaining recognition all over the world, the use of modern technology in transforming and enhancing the traditional Chinese medicine business is expected to become a new field for development. During the first quarter of this year, SIIC MedTech entered into a cooperation agreement with the China Academy of Traditional Chinese Medicine to further develop high-quality traditional Chinese medicines. Five products have been chosen from "Catalogue of Medicines Covered by the State Basic Medical Insurance" and will undergo improvement in preparation and an enhancement of production technology.

Production Network

In response to healthy sales of the anti-aging tablet "Qingchunbao" and the emergence of many more new products, Hangzhou Qingchunbao expanded its production line for healthcare products. The production line for Ningxia barbary wolfberry fruit is now being prepared and completion of the factory is scheduled to coincide with the launch of fresh barbary wolfberry fruit tablets into the market.

Sales Network

Hangzhou Qingchunbao also attained an historical high with sales in the first half of the year amounting to RMB363 million, representing a 36% increase over the corresponding period last year. Anti-aging tablets under the brand name "Qingchunbao" have been on the market for 22 years, and sales have consistently increased. A clear and definite marketing strategy enables this product to keep abreast of market trends and thus capture a significant share of the healthcare products market. With genuine and substantial ingredients, as well as a reasonable price and a remarkable curative effect, Qingchunbao's share of the PRC healthcare product market continues to grow. Sales in the first half of the year showed an approximate 131% increase in comparison with the corresponding period last year.

"Arithromycin", one of Hangzhou Qingchunbao's new products, falls into the category of Category 4 New Drug. Sales have been rising steadily, with its market share expanding continuously since the product was put on the market last September. "Arithromycin" is designed to treat infectious diseases caused by bacterial allergy. This product has a high market penetration rate and enormous potential.

Over the years, Shanghai Jahwa has been fine-tuning its product operation and introducing modern operational management methods from overseas. By so doing, Shanghai Jahwa has been able to build a management model that stresses both R&D and the needs of the market. In light of China's anticipated accession to the WTO and the trend towards globalization, the company implemented a dual development model by combining product operations with capital operations in order to further enhance its competitive edge and adaptability to handle risk, thus laying a strong foundation for the company to maintain a healthy cashflow and pursue a sustainable future.

Business remained good after the successful listing of Shanghai Jahwa in March this year. In the first half of the year, the cosmetics market was relatively active, with consumer spending rising steadily. Capitalizing on this trend, Shanghai Jahwa made a tremendous effort to expand the market share of its leading brand names. The "Herborist" personal care series can be characterized by the synergy of traditional Chinese herbs and modern technology. Two special stores have been set up under the brand name of "Herborist" in Causeway Bay and Mongkok, both areas with a high pedestrian flow, as the first step to the global marketing of Chinese herbal medicines. The "Herborist" is planning to tap into the international market by way of chain operations.

Medical Services Network

The Telemedicare business is a modernized medical service leveraging on modern information and networking technologies, which effectively combines the traditional with the modern. As interpersonal communications and information flow has been accelerated through networking technologies, costs and expenses can be reduced. Thus the application of networking technologies for medical services is expected to become ever more popular. Early this year, the demonstration of the Telemedicare system in Shanghai received a good response. Discussion duly took place between the Shanghai Civil Affairs Bureau and SIIC MedTech in relation to the installation of 100 Telemedicare systems in the Shanghai district. An active initiation has now been taken to localize and minimize the overall cost of the system in order to enhance its popularity in the PRC market.

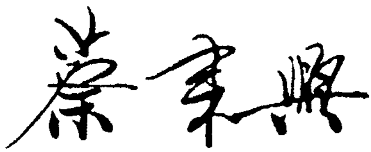
PROSPECTS

Overall, the national economy of China is now on the upturn. Notwithstanding the consequences of the global economic slowdown, strong economic growth is still anticipated for the second half of the year. In addition, Beijing's hosting of the Olympic Games in 2008 will have a positive effect on the sustainable future development of the Chinese economy. As China's entry into the WTO draws near, the enormous domestic demand in mainland China will attract international investment. Meanwhile, under the State's "Tenth Five-Year Plan", Shanghai will become an international economic, financial, trading and shipping centre, serving as an assembly point for domestic and foreign business contacts, as well as the flow of information, capital and human resources. The city's healthy economy is expected to create boundless business opportunities for the Group.

In order to seize these opportunities arising from Shanghai's "Tenth Five-Year Plan", the Group is participating in two pillar industries, the information technology industry and the automobiles industry. The Group has also invested in the bio-pharmaceutical and the modern logistics industries, two of four newly emerging industries. The information technology, modern logistics, and bio-pharmaceutical businesses are expected to gradually become new areas of accelerated growth, and eventually serve as major sources of income for the Group.

The Group celebrated its fifth anniversary in the first half of this year. Over the past five years, management adopted the principle of proactive expansion with innovative and stringent controls, as well as prudent financial management, and expanded its assets and profits while cultivating an excellent corporate culture, leading the Group to become a strong corporation. Looking ahead, information technology, infrastructure and modern logistics will remain the focus of the Group over the next five years. The Group will continue to acquire new assets with profit generating potential in order to maintain its income growth and expand existing businesses, while generating the maximum return for shareholders and maintaining effective and disciplined management.

I would like to take this opportunity to express my gratitude to our shareholders for their continuing support and also to extend my heartfelt thanks to all our staff for their tremendous efforts and dedication.



Cai Lai Xing

Chairman

Hong Kong, 3rd September, 2001