CHAIRMAN'S STATEMENT

About a year has elapsed since Shanxi Central Pharmaceutical International Limited (the "Company") listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 25 July 2000. Since then, the shares of the Company have been always trading above its initial public offering price of HK$0.85 each. In spite of the worsening stock market in Hong Kong and worldwide, the Company ended its financial year at 31 May 2001 with a market capitalization of HK$1,134 million, representing a 217% increase since the Company was floated. Our shareholders have benefited from this performance. In order to further enhance the liquidity and attraction of the Company's shares, the Board of Directors of the Company resolved in June 2001 to subdivide each share of the Company into five shares of HK$0.02 each. To the date of this report, each share, after subdivision, was kept trading at or above HK$0.40.

Madam Hou Li Ping and Mr. David Y. M. Shi

In the financial year ended 31 May 2001, the consolidated turnover recorded by the Company and its subsidiaries (collectively the "Group") was HK$235 million, up 34% from that of previous year. Gross profit grew 25% to HK$112 million. The Group's gross profit margin for the year was approximately 48%. The net profit from ordinary activities attributable to shareholders was HK$40 million as compared to HK$65 million of previous year. All segments of the Group, which are the manufacturing business of Chinese pharmaceutical business, trading business and operations of Taiyuan Hospital, reported an increase in turnover. The decline in net profit was mainly due to an one-time payment of HK$16 million to medical and research institutes for research and development work conducted for five new Chinese pharmaceutical products, an increase of HK$14 million in advertising and marketing expenses and expiry of tax holidays, which caused an increase of tax of HK$4 million. For pharmaceutical business, long-term financial growth is dependent on the successful development of new products. The Group's management believes that the investment in the five Chinese pharmaceutical products lays foundation for the Group's future growth. To meet severe competition in the pharmaceutical industry in the People's Republic of China (the "PRC"), the Group strategically elevated its expenditures on advertising programs and increased largely its sales forces during the year. Both of these expenditures were proved to have notable contributions to the Group's increase in turnover and new selling opportunities. Since the above-mentioned one-time research and development expenditure of HK$16 million and most of the extensive advertising programs were incurred in the first six months of the financial year, the net profit recorded in the second half of the financial year was distinctly higher than that of the first half, which were HK$30 million and HK$10 million respectively. The net profit in the second half of this year reflects more realistically the Group's earning power.

During the year, the Group has completed the upgrading of the existing production plant and acquisition of additional machinery. The total cost incurred was HK$14 million, of which HK$7 million was generated from the net proceeds of shares' issue on 25 July 2000. Approximately HK$3 million of the year's expenses incurred from marketing and advertising campaigns in the PRC were also generated from these proceeds. The Group has completed reviewing an architectural plan of building a new GMP plant on the existing site in Bei Liu Town, Yangqu County, Taiyuan City, Shanxi Province, the PRC. However, due to the size and shape of the existing land site, production expansion of the Group may be restricted beyond several years from now. The Group is currently looking into the feasibility of finding a new and larger site to build the GMP plant. Since GMP is not mandatory until 2004, the Group has sufficient time to comply with the requirement.

In the years ahead, the Group remains committed to creating values for its shareholders and strives to deliver earnings growth. The Group has grown rapidly because of its expertise in developing, manufacturing and marketing pharmaceutical products of proven curative effects in the treatment of rheumatism, arthritic conditions and related diseases. However, the Group believes in order to secure continued growth in the future, it needs to extend its presence in the areas of other diseases. In view of this, the Group has a strategic plan, which includes developing new pharmaceutical products internally, extending strategic alliance with other institutes, universities and hospitals and conducting merger and acquisitions with other pharmaceutical manufacturers, should opportunities fit, to expand the Group's product lines for the prevention and treatment of cardiovascular and geriatric diseases. The Group has a long-standing track record of strategic alliances with almost 200 hospitals throughout the PRC. It demonstrates that the alliances give the Group access to, not only new product candidates and research technologies, but also new markets. In addition, the expanding sales network with hospitals has demonstrated to be resistant to the type of price competitions prevailing in the OTC markets in the PRC. To broaden the market coverage, the Group will strengthen existing alliances with its partners and extend alliance to new hospitals. The Group believes that it has the expertise, resources and drive to compete and succeed in the increasingly competitive marketplace in the PRC's pharmaceutical industry. We are confident our strengths will enable us to build on that record in the years ahead.

Hou Li Ping
Chairman

Hong Kong, 24 September 2001