

# Annual Report

20|01



**SHANGHAI INDUSTRIAL HOLDINGS LIMITED**

A Member of SIIC



com



## CONTENTS



▶	Corporate Information	2
▶	Directors and Senior Management Profile	3
▶	Chairman's Statement	11
▶	Business Review, Discussion and Analysis	15
▶	Financial Review	32
▶	Corporate Governance & Corporate Culture	36
▶	Directors' Report	38
▶	Auditors' Report	50
▶	Consolidated Income Statement	51
▶	Consolidated Balance Sheet	52
▶	Balance Sheet	54
▶	Consolidated Statement of Recognised Gains and Losses	55
▶	Consolidated Cash Flow Statement	56
▶	Notes to the Financial Statements	58
▶	Financial Summary	116
▶	Notice of Annual General Meeting	117

## DIRECTORS

### Executive Directors

Mr. Cai Lai Xing (*Chairman*)\*  
 Mr. Chen Wei Shu (*Vice Chairman*)\*  
 Mr. Zhuo Fu Min (*Vice Chairman*)\*  
 Mr. Lu Ming Fang (*Chief Executive Officer*)\*  
 Mr. Li Wei Da (*Deputy CEO*)\*  
 Mr. Lu Yu Ping (*Deputy CEO*)\*  
 Mr. Qian Shi Zheng (*Deputy CEO*)\*  
 Mr. Zhou Jie (*Deputy CEO*)\*  
 Mr. Lu Da Yong\*\*  
 Mr. Cao Fu Kang  
 Mr. Wen Song Quan\*\*  
 Mr. Ge Wen Yao  
 Mr. Huang Yan Zheng  
 Mr. Gu Wen Xing

\* *Chairman of the Executive Committee*

\*\* *Members of the Executive Committee*

### Independent Non-executive Directors

Mr. Lee Quo Wei  
 Mr. Lo Ka Shui#  
 Mr. Woo Chia-Wei##  
 Mr. Leung Pak To, Francis##

# *Chairman of the Audit Committee*

## *Members of the Audit Committee*

## COMPANY SECRETARY

Mr. Leung Lin Cheong, Roger

## AUTHORISED REPRESENTATIVES

Mr. Lu Ming Fang  
 Mr. Leung Lin Cheong, Roger

## REGISTERED OFFICE

26th Floor, Harcourt House,  
 39 Gloucester Road, Wanchai, Hong Kong

## WEB SITE

<http://www.sihl.com.hk>

## AUDITORS

Deloitte Touche Tohmatsu

## LEGAL ADVISERS

Woo, Kwan, Lee & Lo (HK SAR)  
 Morrison & Foerster (U.S.A.)  
 Fangda Partners (P.R.C.)  
 Pu Dong Law Office (P.R.C.)  
 ZhongLun Law Office (P.R.C.)

## PRINCIPAL BANKERS

Bank of China (Hong Kong)  
 Bank of Communications  
 Hang Seng Bank Limited  
 JP Morgan Chase & Co.  
 The Hongkong and Shanghai Banking  
 Corporation Limited  
 Agricultural Bank of China  
 Industrial & Commercial Bank of China

## SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited  
 5th Floor, Wing On Centre,  
 111 Connaught Road Central, Hong Kong

## DIRECTORS

### Executive Directors

**Mr. CAI Lai Xing**, aged 59, is the Chairman of the Group and the Chairman of Shanghai Industrial Investment (Holdings) Company Limited. He graduated from Tong Ji University. He was a Deputy Secretary of the Shanghai Government responsible for economic planning, finance and research. He was also the Deputy Director of the Shanghai Planning Committee and Pudong Development Office, and was in charge of the city government's research office. He has many years of experience in economics, finance and enterprise management. In 1988, he was awarded the title of State-Class Economist for his outstanding contribution. Mr. Cai is also a member of the National Committee of The Chinese People's Political Consultative Conference.

**Mr. CHEN Wei Shu**, aged 55, is the Vice Chairman of the Group and the Vice Chairman of Shanghai Industrial Investment (Holdings) Company Limited. He is the Chairman of Shanghai Industrial Financial (Holdings) Company Limited and SIIIC Shanghai (Holdings) Co., Ltd. He is also a Director of Everbright Bank of China, Shanghai Pudong Development Bank and Shenyin & Wanguo Securities Co., Ltd. He graduated from Fudan University with a master's degree in economics. He held the posts of Department Director and Professor of world economics and international finance in Fudan University and Executive Vice President of Shanghai Pudong Development Bank. He has over 37 years of experience in economics, financial research and banking business and management.

**Mr. ZHUO Fu Min**, aged 50, the Vice Chairman of the Group and an Executive Director of Shanghai Industrial Investment (Holdings) Company Limited. He is also a Director of Semiconductor Manufacturing International Corporation. 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 had 19 years of working experience in factory and enterprise management before joining the government authorities for 10 years. Mr. Zhuo held the post of Assistant Director of the Shanghai Municipal Economic System Reform Committee. He has more than 25 years of experience in running joint stock companies and corporate management.



**Mr. LU Ming Fang**, aged 45, is the Chief Executive Officer of the Group and a Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman of SIIC Medical Science and Technology (Group) Limited, a Director of Shanghai Industrial United Holdings Co., Ltd. and Shanghai Information Investment Inc. He graduated from Shanghai Fudan University with a master's degree in economics and holds the designation of Senior Economist. He had worked for Shanghai Medical Materials Company, Shanghai Municipal Drug Administration, Shanghai Wen Hui Bao and Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). Mr. Lu joined Shanghai Industrial Investment (Holdings) Company Limited in July, 1995, and had participated in the floatation of the Group and subsequent asset injection exercises. He was the Deputy General Manager of the Assets Management Department of Shanghai Industrial Investment (Holdings) Company Limited, a Director and Executive Deputy General Manager of Shanghai S. I. Capital Co., Ltd., the Managing Director of Shanghai Industrial United Holdings Co., Ltd. and the Assistant President and General Manager of the Planning and Finance Department of Shanghai Industrial Investment (Holdings) Company Limited. He has over 20 years' management experience, including over 10 years' experience in investment banking and listed companies.

**Mr. LI Wei Da**, aged 54, is a Deputy Chief Executive Officer of the Group and a Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Vice Chairman of SIIC Medical Science and Technology (Group) Limited, the Chairman of Shanghai Orient Shopping Centre Ltd. and Chia Tai Qingchunbao Pharmaceutical Co., Ltd., and the Vice Chairman of Shanghai Jahwa United Co., Ltd. Mr. Li graduated from Shanghai Second Polytechnical University with a degree in auto control. He was the Deputy General Manager of Shanghai Bearing Limited. He has over 33 years of experience in industrial enterprise management.

**Mr. LU Yu Ping**, aged 49, is a Deputy Chief Executive Officer of the Group. He is also the General Manager of S.I. Logistics Holdings Limited, the Chairman of Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited, Shanghai Optical Communications Development Co., Ltd., the Vice Chairman of Shanghai Communications Technologies Centre and a Director of SIIC America Do Sul Ltda. Mr. Lu graduated from Shanghai Finance and Economics University with major in finance. After then, he studied in Heriot-Watt University in U.K. and received a master's degree in international finance and financial management. Mr. Lu holds the designation of Senior Economist. He was employed in a number of financial institutions including Industrial and Commercial Bank of China, China International Trust and Investment Corporation and Deutsche Bank. He was also the Vice President of Shanghai Wan Tai (Group) Co., Ltd. He has over 24 years of experience in business finance, investment and enterprise management.

**Mr. QIAN Shi Zheng**, aged 49, is a Deputy Chief Executive Officer of the Group, the Vice Chairman of Shanghai Yanan Road Elevated Road Development Company Limited and Shanghai New Construction Development Co., Ltd. He graduated from Shanghai Fudan University with a master's degree in economics and a doctorate degree in management. He was the Deputy Head and Deputy Professor of the Department of Accountancy of Fudan University. He joined Shanghai Industrial Investment (Holdings) Company Limited in January, 1998, and was the Chief Accountant and General Manager of the Internal Audit Department of Shanghai Industrial Investment (Holdings) Company Limited. He has over 20 years' experience in sino-foreign finance and accounting theory and practice.

**Mr. ZHOU Jie**, aged 34, is a Deputy Chief Executive Officer of the Group, and the Managing Director of SIIC Medical Science and Technology (Group) Limited, the Vice Chairman of Shanghai Bright Dairy and Food Co., Ltd., Shanghai Sunve Pharmaceutical Co., Ltd. and Shanghai Sunway Biotech Co., Ltd. and a Director of Mergen Limited. He graduated from Shanghai Jiaotong University with a master's degree in management engineering. Mr. Zhou joined Shanghai Industrial Investment (Holdings) Company Limited in May, 1996 and had participated in the floatation of the Group and subsequent asset injection exercises. He was the Chairman and General Manager of Shanghai S. I. Capital Co., Ltd. He was also the Deputy General Manager of the investment banking head office of Shanghai Wanquo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). He has over 10 years' experience in investment banking and capital markets operations.

**Mr. LU Da Yong**, aged 54, is an Executive Director of the Group and Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman of Nanyang Brothers Tobacco Company, Limited, the Vice Chairman of Shanghai Huizhong Automotive Manufacturing Co., Ltd., Shanghai Wanzhong Automotive Components Co., Ltd. and SIIC Transportation Electric Co., Ltd. He graduated from the Party School of Shanghai majored in industrial enterprise management. He was the Deputy General Manager of Shanghai Tobacco (Holdings) Company and Factory Director of the Shanghai Cigarette Factory, one of the leading cigarette factories in the PRC. He has over 34 years of experience in the tobacco industry.

**Mr. CAO Fu Kang**, aged 62, is an Executive Director of the Group and a Director of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman of SIIC Management (Shanghai) Limited and the Vice Chairman of SIIC Shanghai (Holdings) Co., Ltd. He graduated from Shanghai Jiaotong University with a degree in engineering physics. Mr. Cao held the posts of Deputy Director of the Shanghai Municipal Technology Inspection Bureau and Deputy Chief Engineer of the Shanghai Municipal Economic Committee. He has over 36 years of experience in enterprise management and product development.

**Mr. WEN Song Quan**, aged 55, is an Executive Director of the Group and a Director of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman of The Wing Fat Printing Company, Limited. He graduated from the Shanghai Academy of Printing. He was the Deputy Head of the Shanghai No. 10 Printing Factory and the General Manager of the Shanghai Packaging Co. He has over 38 years of experience in printing management.

**Mr. GE Wen Yao**, aged 55, is an Executive Director of the Group and a Director of SIIIC Medical Science and Technology (Group) Limited. He is also the Chairman of Shanghai Jahwa United Co., Ltd. and General Manager of Shanghai Jahwa (Group) Co., Ltd. He graduated from Shanghai Finance and Economics University majored in economics and holds a master's degree in enterprise management. He was the Factory Director of Shanghai Daily Chemicals Factory and Deputy General Manager of the Sino-America joint venture, Shanghai Johnson Co. He has over 25 years of experience in cosmetics business management.

**Mr. HUANG Yan Zheng**, aged 55, is an Executive Director of the Group. He is also the Vice President of Shanghai Medicine Holdings Co. and the Chairman of Shanghai Roche Pharmaceutical Company Limited. He graduated from Shanghai Polytechnical University (now known as Shanghai University) majored in industrial engineering. He also studied in the post-graduate program at the management school of China Textile University. He has over 27 years of experience in pharmaceutical business management.

**Mr. GU Wen Xing**, aged 56, is an Executive Director of the Group, a member of the Innovation Committee of Shanghai Industrial Investment (Holdings) Company Limited and the Vice Chairman of SIIIC Management (Shanghai) Limited. He is also a Director of Shanghai Information Investment Inc. He graduated from Shanghai East Normal University and holds the designation of Senior Engineer. He had been the Deputy Director of the Management and Policy Department of the Shanghai Science and Technology Council, the Director of the System Reform Department and the Head of Shanghai Science Researching Institution. He is also the Deputy Director of Shanghai Enterprise Associate Union. He is a Member of the Ninth Chinese People's Political Consultative Conference (Shanghai Municipality), and the Deputy Director of Shanghai Education and Science Committee. He has over 27 years of experience in management science and industrial policy field.

#### **Independent Non-executive Directors**

**The Honourable LEE Quo Wei**, aged 83, is presently Chairman of Wideland Investors Limited and Wei Lun Foundation Limited, Honorary Chairman of Hang Seng Bank Limited, and a Director of Miramar Hotel and Investment Company Limited, New World Development Company Limited and Shaw Brothers (Hong Kong) Limited. He is also a Life Member of the Council of the Chinese University of Hong Kong. Dr. Lee had been the Chairman of The Stock Exchange of Hong Kong Limited, and a member of the Executive and Legislative Councils, the Exchange Fund Advisory Committee and the Governor's Business Council.



**Dr. LO Ka Shui**, aged 55, graduated with B. Sc. from McGill University and M. D. from Cornell University. He is certified in Cardiology. He has more than 22 years' experience in property and hotel development investment, both in Hong Kong and overseas. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited, and a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Phoenix Satellite Television Holdings Limited and China Mobile (Hong Kong) Limited. He is also a Director of Hong Kong Exchanges and Clearing Limited and Chairman of the Listing Committee of the Growth Enterprise Market, a Vice President of The Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, a member of Long Term Housing Strategy Advisory Committee and a member of the Council of Advisors on Innovation and Technology. He is also Chairman of the Hospital Authority.

**Professor WOO Chia-Wei**, aged 64, is currently Senior Advisor of Shui On Holdings Limited and President Emeritus of the Hong Kong University of Science and Technology. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR, and the Chinese People's Political Consultative Conference.

**Mr. LEUNG Pak To, Francis**, aged 47, is presently the Chairman of Salomon Smith Barney Asia and a Director of QPL International Holdings Limited and Digital China Holdings Limited. He has over 21 years of experience in corporate finance involving in securities origination, underwriting and placing of equities, mergers and acquisitions, corporate restructuring and reorganisation, development of capital investments and other general corporate advisory activities in Hong Kong and China. In 1980, Mr. Leung graduated with a master's degree in business administration from University of Toronto, Canada.

### Senior Management

The Directors are responsible for the overall management of the Group, and have delegated certain day-to-day management responsibilities to the Senior Executives listed below:

**Mr. LAM Haw Sheung, Andy**, aged 55, is the Strategic Planning Controller of the Group. Mr. Lam graduated with honours from The Chinese University of Hong Kong with a bachelor of commerce degree. He was previously an Executive Director of Sun Hung Kai Bank Ltd. Mr. Lam has more than 20 years' working experience in the field of commercial and investment banking, and in the international capital markets in Hong Kong, Europe, America and the Asia-Pacific region. He had also actively participated in the capital reform and fund raising programmes for national enterprises in China.

**Mr. LEUNG Lin Cheong, Roger**, aged 48, is the Company Secretary of the Group. Mr. Leung is a Fellow of The Institute of Chartered Secretaries and Administrators, The Chartered Institute of Management Accountants and Hong Kong Society of Accountants. He also holds a master's degree in business administration conferred by Brunel University in U.K. in conjunction with Henley Management College. He has over 21 years of management experience in corporate secretarial practice and the administration of publicly-listed companies.

**Mr. FEI Li Fu**, aged 55, is the Chairman and the General Manager of Shanghai Yanan Road Elevated Road Development Co., Ltd. and Shanghai New Construction Development Co., Ltd. He was the Deputy Chief of Shanghai Environment & Sanitation Bureau and the Chief Accountant of Shanghai City Construction Investment Development General Corporation. He holds the designation of Senior Accountant, and has over 30 years of experience of town planning and construction financial management.

**Mr. ZHENG Zhi Ping**, aged 55, is a Director and the Deputy General Manager of Nanyang Brothers Tobacco Company, Limited. He graduated from Fudan University. He was the Deputy Factory Director of the Shanghai Cigarette Factory and a Director and the Deputy General Manager of Shanghai Gao Yang International Tobacco Co., Ltd. He holds the designation of Senior Engineer in the PRC and is a member of the Tobacco Machines Standardisation Committee. In 1996, he was awarded the title of State-Class Engineer for his outstanding contribution. He has over 34 years of experience in the tobacco industry.

**Mr. HU Jia Hua**, aged 54, is a Director and the Deputy General Manager of Nanyang Brothers Tobacco Company, Limited. He had been the General Manager of China Tobacco Import & Export Shanghai Corporation and the Head of the Supplies Department of Shanghai Tobacco (Group) Corporation. He holds the designation of Senior Economist in the PRC and has over 34 years of experience in industrial enterprise management.

**Mr. FENG Gen Sheng**, aged 67, is the Vice Chairman of SIIC Medical Science and Technology (Group) Limited, the Vice Chairman and the General Manager of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. He holds the designation of Senior Economist and is a Certified Pharmacist. He was also awarded as Excellent Entrepreneur of the State. He has been a Director of Hangzhou No. 2 Chinese Herbal Medicine Factory since 1972. He has over 53 years of experience in pharmaceutical business.

**Mr. JIN Guo Ming**, aged 41, is a Director and the Deputy General Manager of The Wing Fat Printing Company, Limited. He graduated from Zhejiang Institute of Metallurgy Economic. He holds the designation of Economist. Mr. Jin was the Head of the Business Department and the Trading Department of Shanghai Packaging Company. He has over 18 years of experience in printing business.

**Mr. CHEN Nai Lang**, aged 54, is a Director and the Deputy General Manager of The Wing Fat Printing Company, Limited. He graduated from Shanghai TV University and holds the designation of Economist. He was the Head of Shanghai Packing and Printing Factory, the Head of Shanghai No. 8 Printing Factory and the Deputy General Manager of Shanghai Packaging Company. He has over 32 years of experience in printing and packaging business.

**Ms. WANG Jia Feng**, aged 50, is the Chairman and the General Manager of Shanghai Bright Dairy and Food Co., Ltd. She graduated from Central TV University with a degree in enterprise management. She also holds a master's degree in international economics conferred by East Normal University and the designation of Economist. She has over 30 years of experience in enterprise management.

**Mr. ZHOU Qi Ying**, aged 54, is the Deputy Chairman and the General Manager of Shanghai Jahwa United Co., Ltd. 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. since August 1992. He has over 29 years of experience in industrial enterprise management.

**Ms. MEI Li Jun**, aged 46, is the General Manager of Shanghai Sunve Pharmaceutical Co., Ltd. and a Director of Shanghai Roche Pharmaceutical Co., Ltd. She graduated from Shanghai Pharmaceutical Institute and studied postgraduate course in Shanghai Finance and Economics Institute. She also holds a master's degree in business administration conferred by China Europe International Business School. She had been the Deputy General Manager of Shanghai Roche Pharmaceutical Co., Ltd. for five years. She has over 29 years of experience in pharmaceutical business.

**Mr. DAI Zong Lin**, aged 58, is a Director and the General Manager of Shanghai Huizhong Automotive Manufacturing Company, Limited. He graduated from Shanghai Jiaotong University majored in enterprise management and holds the designation of Senior Economist. He was the Deputy Factory Director of Shanghai Automobile Electrical Engine Factory, the Factory Director of Shanghai Aviation Electrical Products Factory, the Head of Planning Department of Shanghai Automobile Manufacturing Head Office and the General Manager of Shanghai Tractor and Internal Combustion Engine Co., Ltd. He has over 30 years of experience in enterprise management.

**Ms. ZHOU Pei Lan**, aged 58, is a Director and the General Manager of Shanghai SIICT Transportation Electric Co., Ltd. She graduated from Shanghai Maritime Institute, and holds the designation of Senior Economist. She has over 31 years of experience in enterprise management.

**Mr. TANG Jian Hua**, aged 44, is a Director and the General Manager of Shanghai Orient Shopping Centre Ltd. He graduated from Shanghai Amateur University (Sha Bei Division). He holds a bachelor's degree conferred by Shanghai Second Polytechnical University and a master's degree in business administration conferred by Fudan University. He holds the designation of Senior Economist. He was the Section Chief of Hua Lian Plaza, the Manager of a clothing shopping centre and the General Manager of a department store for ladies' consumer products in Shanghai. He has over 27 years of experience in retail enterprise management.

**Mr. DAI Ao Qian**, aged 64, is a Director and the General Manager of Shanghai Optical Communications Development Co., Ltd. and the Chairman of Shanghai Communication Technologies Centre. He graduated from Xi'an Jiaotong University majored in wireless communication, and holds the designation of Senior Engineer. He had been the Section Chief of Wireless Communication Research Centre in Nanjing, the Deputy Professor of Shanghai Jiaotong University and the President of Optical Fiber Institute.

**Mr. HU Fang**, aged 52, is the Executive Vice Chairman and the General Manager of Shanghai Sunway Biotech Co., Ltd. and a Director of Mergen Limited. He graduated from Shanghai Second Medical University with a doctoral degree, and holds a post-doctoral degree conferred by University of California, San Francisco. He was the Chairman of Hangzhou Jiu Yuan Gene Engineering Company, the President of Zhong Shi International Biotic Medical Group and the Head of Beijing Sai Yin Biological Technology Research Institute. He has over 22 years of experience in biological gene research.

**Mr. HU Qian Jin**, aged 46, is a Director and the Chief Executive Officer of Mergen Limited of the US. He graduated from Fudan University with a degree in Biology and holds a post doctoral degree conferred by University of California, San Francisco. He was the Chairman of America HUS Biotic Medical Limited, the Senior Technical Advisor of Zhong Shi International Biotic Medical Group. He has many years of experience in biological gene research.

**Mr. JIANG Ben Fu**, aged 56, is a Director and Deputy General Manager of SIIC Management (Shanghai) Limited. He graduated from Jiangxi Finance and Economy Institution majored in accountancy, and holds the designation of Accountant. He was the Deputy General Manager of CNTIC Nan Fang I&E Co. He has over 30 years of experience in finance, financial management and corporate management.

**Mr. WU Jian Zhuang**, aged 55, is a Director of SIIC Medical Science and Technology (Group) Limited and a Director and Deputy General Manager of SIIC Management (Shanghai) Limited. He graduated from East China Normal University with a master's degree in Economics, and holds the designation of Senior Economist. He was the General Manager of Shanghai Dairy Company and Shanghai Agriculture Investment Company. He has over 26 years of experience in corporate administration.

**Mr. JI Jian Zhong**, aged 46, is the Financial Controller of SIIC Management (Shanghai) Limited. He graduated from Beijing Management Cadre Institute, and holds the designation of Senior Accountant. He was the Chief of the accounting sector of Pu Dong Iron Inc. He has over 21 years of experience in corporate financial management.



## Chairman's Statement

I am pleased to announce that the Group's audited profit attributable to shareholders for the year ended 31st December, 2001 amounted to HK\$1,202,534,000, up approximately 6% over the previous year. The Directors recommended the payment of a final dividend of HK34 cents per share.

With China's accession to the World Trade Organisation ("WTO"), further opening up of the PRC market and also domestic enterprises' efforts to shore up competitiveness by countering international competition are all factors that have ensured the sustained economic development of Shanghai and its associated business opportunities. For the Group, China's accession to the WTO is an opportunity rather than a challenge. Already, steps have been taken to capitalise fully on this opportunity by enhancing our competitiveness and actively promoting the Group's products worldwide through the introduction of foreign technology and strategic partners, as well as by optimising competitive advantages in economies of scale continuously. Performance was satisfactory in 2001, with each segment of the Group's operation making steady progress. During the year, the Group has further driven the transformation of its businesses by upgrading overall quality and strengthening profitability. Meanwhile, the Group focused on developing the information technology, modern logistics, infrastructure, and medicine and bio-technology businesses.

The information technology business achieved significant breakthroughs during the year. In the first half of 2001, the Group invested approximately US\$110,000,000 in Semiconductor Manufacturing International Corporation ("SMIC"), successfully entering the microelectronics industry. In September of the same year, the Group raised its investment to approximately US\$184,000,000 and became SMIC's largest shareholder, with an approximately 17% equity interest. During the year, SMIC entered into pilot production of 8-inch wafers at 0.25-micron and below technology, and will proceed to volume production. As an increase in demand for chips worldwide, particularly in China, is expected, sales orders for 2002 were satisfactory, indicating promising prospect for this investment. As one of the largest broadband suppliers in Shanghai, Shanghai Information Investment Inc.'s profit contributions over the next three years are expected to accelerate at a considerably faster pace.

During the year, the Group actively re-positioned itself in the development of the modern logistics business. In addition to its investments in Shanghai, the Group gradually built up a nationwide logistics business network by acquiring domestic business networks, as well as by cooperating with foreign strategic partners. The Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited is currently operating smoothly. Shanghai Industrial Sinotrans International Logistics Company Limited, which has received approval from the relevant PRC government authority, will commence operation soon. The Group is also poised to invest in airport logistics-related projects, and recently signed a letter of intent with respect to the acquisition of a sizeable domestic nationwide logistics and transportation service group, with direct participation in operations and management. This will form the foundation for the Group's development of the modern logistics business, which will gradually become one of the Group's core businesses, expected to generate steady profit and growth.

In terms of infrastructure, in addition to the steady cash returns derived from the elevated road projects, the relevant PRC government authority approved the project proposal for the Shanghai Pudong Waigaoqiao Container Terminal Phase One Project, which will be a new source of growth



for the Group's infrastructure business. Total investment in the newly formed joint venture company would amount to RMB3,000,000,000. This project, which is expected to be operational in mid-2002, will be the first step in further promoting the Group's infrastructure business.

During the year, the Group actively drove the development of its pharmaceutical business. Development of the anti-cancer drugs, H100 series, noted new significant progress. Cooperations with international partners for natural medicine intensified. Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") was successfully listed, and showing satisfactory growth in profit. Despite the dilution of the Group's equity interests from 40% to 28.15% subsequent to the listing, profit contributions made by Shanghai Jahwa increased by over 20% when compared to the previous year. Sales of medical drugs and health-care products sustained their growth and helped to maintain Chia Tai Qingchunbao Pharmaceutical Co., Ltd.'s position as the PRC's national leader.

The Compass Fund, established by the Group and Time Warner, invested in Clear Media Limited ("Clear Media") in 2001. This was a major breakthrough in establishing a platform for domestic media

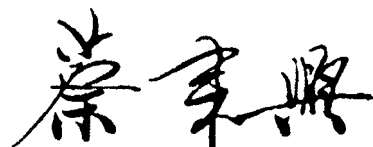


The new CEO Lu Ming Fang (*centre*) and his deputies: Li Wei Da (*front, right*), Lu Yu Ping (*front, left*), Qian Shi Zheng (*back, right*) and Zhou Jie (*back, left*).

development. Clear Media was listed in Hong Kong on 19th December, 2001 and was over-subscribed in both the international placing and the public offer. The turnover and net profit of Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") for the year rose tremendously over last year. Bright Dairy continues to secure its leading position in the PRC market, with market shares of more than 80% in Shanghai. The company is expected to maintain its swift business development and is also in the active process of becoming a listed company. In 2001, with the Group's effective active management and close follow-up of its member companies' businesses, the companies met their projected targets. In the fourth quarter of 2001, sales growth in the automotive parts business began to slow down due to the effects of China's accession to the WTO. Notwithstanding that, all the companies in the Group's automotive parts business reached their expected levels of profit and noted satisfactory returns. Nanyang Brothers Tobacco Company Limited and The Wing Fat Printing Company Limited saw increases in profit with stable growth. Shanghai Orient Shopping Centre Ltd. noted increased profit.

In January 2002, in order to cope with business development needs and to comply with the State policy on the rotation of personnel assigned overseas, Mr. Lu Ming Fang was appointed Executive Director and Chief Executive Officer ("CEO") of the Company, replacing Mr. Zhuo Fu Min, who has been re-designated Vice Chairman. Mr. Lu Da Yong, the former Executive Deputy CEO, resigned that post but remained an Executive Director. Messrs. Qian Shi Zheng and Zhou Jie were both appointed Executive Directors and Deputy CEOs, joining the two incumbent Deputy CEOs, Messrs. Li Wei Da and Lu Yu Ping. Since the Group's listing, it has gradually built a sound decision-making and management structure, and the new management team has welcomed to its ranks younger well-educated personnel with professional experience in financial markets. Myself, together with Messrs. Chen Wei Shu and Zhuo Fu Min, Vice Chairmen, have long participated in the major decision-making processes and management of the Company and will continue to contribute to the Company, that help to sustain its continuity and stability and drive the Group's expansion and innovation.

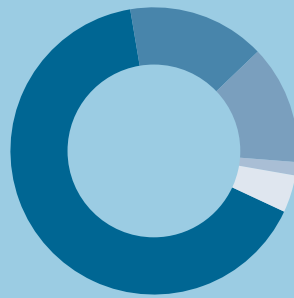
The year 2001 marked the Group's fifth anniversary. Looking back, the Group has steered the phenomenal development of its businesses by joining international capital markets through listings, establishing a modern corporate management system, and introducing both high and new technologies along with numerous reforms and innovations. During the year, the Group implemented an incentive reward system by adopting the "economic value-added" (EVA) performance appraisal indicator in order to enhance shareholder value. In the first half of the year, the Group also established a global round-the-clock securities trading platform by implementing the American Depositary Receipts (ADR) Program (Level One), which, coupled with its participation in the London Automated Quotation System for Hong Kong Stocks, advanced the globalisation of trading in the Group's securities. The Group will accelerate its pace of merger and acquisition, and will focus on the development of its information technology, modern logistics, infrastructure, and medicine and bio-technology businesses, add better quality assets and strengthen profitability. Aided by the swift development of Shanghai as an international economic, financial, trading and shipping centre, the Group also has relative advantages in creating promising value for shareholders by being able to make the most of opportunities in Shanghai's buoyant development and investing in projects with potential in the Shanghai Municipality and its vicinity.



Cai Lai Xing  
Chairman

15th April, 2002

Net profit by business

**2000****2000**

- 65.4% Infrastructure and Modern Logistics
- 15.5% Consumer Products/Retailing
- 13.4% Automotive Parts
- 1.5% Information Technology
- 4.2% SIIC MedTech

Net profit by business

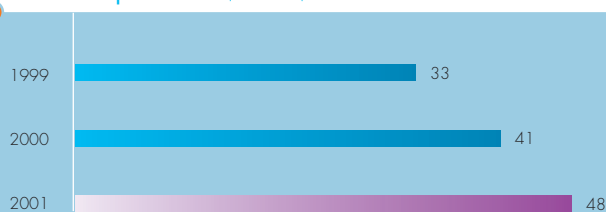
**2001****2001**

- 55.7% Infrastructure and Modern Logistics
- 17.4% Consumer Products/Retailing
- 11.7% Automotive Parts
- 3.7% Information Technology
- 11.5% SIIC MedTech

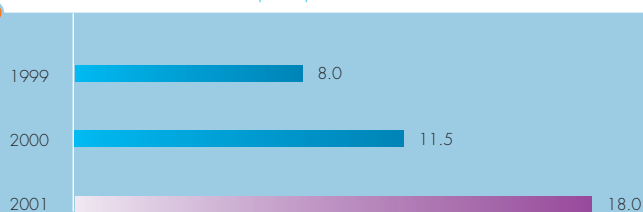
## Earnings per share (HK\$)



## Dividend per share (HK cents)

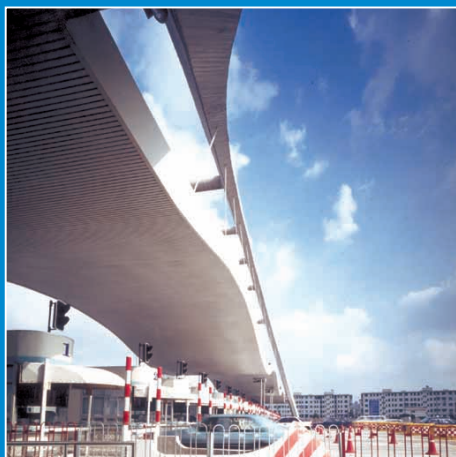


## EBITDA interest cover (Times)



## NAV (HK\$ million)





## INFRASTRUCTURE AND MODERN LOGISTICS



- Shanghai Yanan Road Elevated Road Development Co., Ltd. (50.2%)
- Shanghai New Construction Development Co., Ltd. (35%)
- Shanghai Pudong International Container Terminals Limited (10%)
- Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited (50%)
- Shanghai Industrial Sinotrans International Logistics Company Limited (34%)

### Infrastructure Facilities

Net profit for the year derived from the Group's elevated road projects (Yanan Elevated Road, Inner Ring Road and North-South Elevated Expressway) was approximately HK\$718,250,000, representing approximately 56% of the Group's net business profit. The elevated road projects provide the Group with substantial cash revenues and a stable return on investment.

The Shanghai Pudong Waigaoqiao Container Terminal Phase One (the "Terminal") Project, proposed by the Group, Hutchison Whampoa Limited, COSCO Pacific Limited and the Shanghai Port Authority, has received official approval by the relevant PRC government authority and is expected to commence operation in mid-2002. The Group and the Shanghai Port Authority have equity interests of 10% and 40% respectively in the newly formed cooperative joint venture, Shanghai Pudong International Container Terminals Limited, which has attracted a total investment of RMB3,000,000,000. Currently, the Terminal covers six international shipping routes to North

America, South America, Europe, West Africa, South Africa and the Mediterranean, and 30 domestic container shipping sub-routes, and achieved an aggregate throughput of 1.44 million TEU in 2001 and profit after tax of RMB156,000,000. With the rapid growth of the robust PRC economy, Shanghai looks set to develop into one of the world's major international shipping centres. This will help to sustain the trend towards steady growth of Shanghai's container throughput and provide sound development prospects for the Project.

### Modern Logistics

According to the "Key Specialised Project Planning for the Development of the Modern Logistics Industry under the Tenth Five-Year Plan", Shanghai will focus on the development of port logistics by sea, land and air, as well as the complementary logistics flow of commercial wholesaling and retailing, and rely on information platforms to develop e-commerce logistics. Over the next decade, a distribution park for multinational Internet sales companies and an entrepot park for international multi-consignment containers (the largest of its kind in the PRC and the most competitive in Asia Pacific) will be constructed in the Waigaoqiao Bonded Area. The Group will rely on Shanghai as the base for developing its modern logistics business, investing in the construction of logistics information platforms and coordinating all logistics businesses, as well as seeking sizeable international logistics enterprises as strategic partners in the construction and development of an international logistics network with nationwide coverage.

In May, 2001, the joint venture company Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited ("Shanghai Wai Lian Fa"), established by the Group and Shanghai Waigaoqiao Free Trade Zone United Development Co., Ltd. with equal equity interests, commenced operation, with investment for Phase One amounting to RMB150,000,000. By capitalising on the geographical and policy advantages of the Waigaoqiao Bonded Area,



Shanghai Wai Lian Fa will focus on developing the import-export logistics business and the OEM factory logistics business, both with free trade characteristics. Already, the company recorded break-even revenues in the fourth quarter. Within the next three years, the company is expected to become a logistics operator with powerful influence in the Shanghai area. Shanghai Wai Lian Fa has entered into logistics service contracts with several sizeable foreign enterprises.

During the year, in partnership with the China National Foreign Trade Transportation (Group) Corporation and other investors, the Group established the Shanghai Industrial Sinotrans International Logistics Company Limited ("Shanghai Sinotrans"),



which obtained official approval from the relevant PRC government department and will soon commence operation. The joint venture company, in which the Group has a 34% equity interest, will be engaged principally in the logistics business of chemicals, and will develop gradually into a sizeable logistics company specialising in petrochemicals. In its initial stage of operation, Shanghai Sinotrans will actively accept logistics business from the microelectronic industry located in the Zhangjiang Industrial Park in Pudong and the petrochemical industry in Jinshan. As soon as the Shanghai Chemical Industry Zone, located to the southwest of Shanghai at Hangzhou Bay, is fully operational, Shanghai Sinotrans will re-focus on developing specialised logistics customers within this area, which has been designed specifically as a municipal-level, integrated industrial zone aimed primarily at the petrochemical industry.

In order to coordinate management of the Group's modern logistics business, S. I. Logistics Holdings Limited commenced operation in April, 2001, and has set up a representative office in Shanghai to drive the development of the modern logistics business. The Group will continue to acquire and participate in more logistics business-related projects, expand its arena of logistics business, visualise and build up resources for a nationwide logistics information and transmission network, and become an international logistics enterprise with top-level modern logistics functions. The logistics business will be developed into one of the Group's core businesses gradually.



## INFORMATION TECHNOLOGY

- Shanghai Information Investment Inc. (20%)
- Semiconductor Manufacturing International Corporation (17%)
- Shanghai Optical Communications Development Co., Ltd. (24.9%)
- Shanghai Communications Technologies Center (25%)

Net profit arising from the information technology business in 2001 was approximately HK\$46,980,000, up 176% over 2000, and accounting for around 4% of the Group's net business profit.

During the year, Shanghai Information Investment Inc. ("SII") actively expanded its market and maintained steady growth in operating returns with swift development of its core businesses.

### 1. Shanghai Cable Network

Shanghai Cable Network Co., Ltd. ("SCN ") as SII's cable television network operator, is fully responsible for the construction, operation and maintenance of the Shanghai cable television network with over 3,200,000 subscribers and its network being one of the world's largest city cable television system. In 2001, SCN completed two-way cable television network upgrading for 400,000 subscribers, enabling a two-way network coverage for over 1,400,000 subscribers and enhancing the company's ability to market numerous types of value-added services. With more than 20,000 commercial subscribers, "Cableplus" has successfully realised IP to IP, and IP to PSTN communications, while the digital broadcasting television technology platform completed during the year will soon be put into commercial operation. Currently, SCN is already an important network carrier and operator offering comprehensive services and providing an ideal platform for the "convergence of data, voice and video".



### 2. Shanghai Information Pipeline Network

In compliance with the uniform regulations of the Shanghai Municipal Government, Shanghai Information Pipeline Co., Ltd. ("SIP") is responsible for the detailed organisation and implementation of the construction of Shanghai's information pipeline infrastructure, and the operation and management of the pipeline facilities. In 2001, SIP completed a total of over 550 kilometers of the network and installed over 38,000 kilometers of optic fibres. The information pipeline facilities covering Shanghai's major commercial areas are currently close to completion.

### 3. IP Broadband Value-added Services

Shanghai Symphony Telecommunications Co., Ltd. ("SST") was the first Sino-foreign telecommunications operating enterprise approved by the PRC's Ministry of Information Industry. SST, one important symbol of the PRC's opening up of the telecommunication industry, is a joint venture company formed by Shanghai Telecom Company, AT&T of the U.S. and SII, which has a 15% equity interest. SST provides a series of advanced IP broadband services and solutions, and will soon provide such services as corporate IP VPN and webhosting.

#### 4. Consumer Credit Information Services

Shanghai Credit Information Services Co., Ltd. ("CIS") is the PRC's first consumer credit information provider and is approved by the People's Bank of China. CIS, a joint venture company formed by SII and other shareholders, is engaged principally in the query, attestation and risk assessment of consumer credit information. Since its first domestic consumer credit information report was issued in July, 2001, CIS has accepted about 200,000 consumer credit information queries and issued over 140,000 credit reports. It has a consumer credit information database of several million individuals and continues to introduce new services. Construction of the consumer credit information assessment system is progressing quickly, and CIS's membership continues to increase. The enterprise credit information system is being actively prepared for rollout in the first half of 2002.



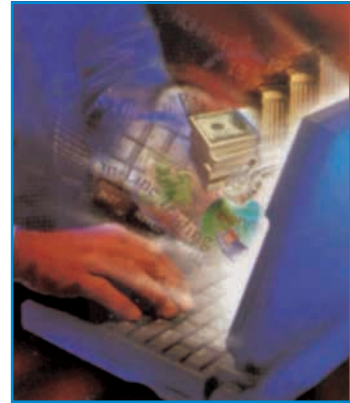
#### 5. Comprehensive Logistics Information System, Shanghai Port

During the year, SII invested RMB22,000,000 in Shanghai E&P International Inc. ("E&P International") and became its largest shareholder with a 22% equity interest. E&P International is authorised by the Shanghai Municipal Government to construct and operate Shanghai Port's integrated logistics information system. It is involved in such key construction projects as port and customs transaction data platforms and the Yangtze tributary container EDI system.

With the fast development of the PRC's microelectronics industry, Shanghai is poised to develop over the next 5–10 years into one of the world's major integrated circuit design, manufacture and testing bases with its own proprietary research and development capabilities. Semiconductor Manufacturing International Corporation ("SMIC") was the first plant to produce 8-inch wafers at 0.25-micron and below technology in the PRC. SMIC is engaged primarily in producing integrated circuits, as well as providing a one-stop service in the design and manufacture of integrated circuits using the latest technology applicable to communications equipment, personal computers and consumer electronics products. The future robust growth of the global integrated circuit market, in particular in the PRC, is indicative of the high market potential of this project.

In view of this, the Group invested approximately US\$110,000,000 in SMIC in the first half of 2001 to become a substantial shareholder, and expanded its investment to approximately US\$184,000,000 in the second half of 2001, becoming SMIC's largest shareholder with an equity interest of approximately 17%. In the fourth quarter of 2001, SMIC completed its phase one financing with about US\$1,100,000,000 in equity investment and US\$480,000,000 in equivalent Renminbi and US dollars loan financing from four local banks in the PRC.

SMIC's production facilities occupy a total area of 36 hectares in the Zhangjiang High Technology Park in Pudong, Shanghai. Construction of Phase One commenced in 2000. In September, 2001, SMIC held a ceremony to celebrate the production of its "first 8-inch wafers at 0.25-micron and below technology".



Starting from the first quarter of 2002, SMIC commenced production of FCRAM, standard logic and analogue IC for its customers. In February, 2002, SMIC entered into a business alliance with ChipPAC, Inc. of the U.S., the world's largest semiconductor packaging and testing service operator, to provide such services as wafer production, packaging and testing, as well as sales services to PRC and global customers. Areas of cooperation include the testing of integrated circuits and the packaging and testing of semiconductor products. SMIC's other technology partners include Toshiba of Japan and Chartered Semiconductor Manufacturing Ltd., one of the world's largest silicon foundries.

In 2001, net profit of Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications") grew by some 55% over the previous year. Profits were derived primarily from its two joint ventures, Lucent Technologies of Shanghai, Ltd. and Lucent Technologies Shanghai Fibre Optics Co., Ltd. During the year, Shanghai Optical Communications, with Shanghai Bell Co., Ltd. as its partner, won the contract as graphic business equipment supplier and communication subcontracting integrated merchandise for Changchun subway project. Shanghai Optical Communications' specialties in MPEG-2 over ATM network transmission and provision of end-to-end services were fully exploited in this joint project.

The Shanghai Communication Technologies Centre ("SCTC") streamlined its organisational structure, enhanced operating efficiency and achieved good progress during the year. Sales revenue from its own products increased by approximately 348% over the previous year, highlighting the growing trend towards the development of proprietary intellectual property products. During the year, SCTC's product research and development was affirmed and supported, with its MPEG-2 over ATM System Project being awarded Second Prize of 2001 Annual Shanghai Science & Technology Progress Award and the MPEG-2 SV220 encoder passing network access tests and obtaining a network access certificate from SVA Group.



## SIIC MEDTECH

### ■ SIIC Medical Science and Technology (Group) Limited (64.3%)

Operating results of SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") have sustained rapid growth since its listing in December, 1999. Its turnover and profit after tax in 2001 grew by approximately 35.7% and 2.2 times respectively over the previous year to approximately HK\$724,000,000 and HK\$233,000,000 respectively. SIIC MedTech's net profit attributable to the Group amounted to approximately HK\$148,840,000, constituted around 11% of the Group's net business profit.

In March, 2001, Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") was listed on the A Share Market of the Shanghai Stock Exchange, with an exceptional income attributable to the Group of approximately HK\$100,000,000. Shanghai Jahwa not only managed to achieve success in the equity market, but also realised further growth in its business development. Despite the dilution of the Group's equity interest from 40% to approximately 28.15% subsequent to the listing, profit contributions made by Shanghai Jahwa increased by over 20% when compared to the previous year.

With the recent gradual intensity in medical system reforms and in the distribution of pharmaceutical products, many pharmaceutical enterprises have experienced losses caused by skews in sales. However, SIIC MedTech was able to achieve an excellent approximately 35.7% growth in turnover in 2001, due primarily to its past insatiable search for areas of potential growth in the market, as well as its active promotion of the sale of other pharmaceutical products while stabilising the sale of its own principal products. In 2001, sales of "Qingchunbao Anti-ageing Tablets" reached approximately RMB256,000,000, an increase of approximately 104%

over the previous year. The “Liushen” brand maintained its dominance in florida water and bath foam, with an increase in sales of over 20% compared to the previous year. The newly developed “Liushen Mosquito Repellent Florida Water” was a new area of growth. Another major brand name, “MaXam”, introduced a new logo representative of its new image and realised a double-digit growth in sales. In addition, Shanghai Jahwa launched its first two “Herborist” specialty stores in the densely populated areas of Causeway Bay and Mongkok in Hong Kong. This marked the first step in its internationalisation of the Chinese herbal medicine healthcare market.



During the year, the Group strengthened its injection of resources into research and development. In addition to undertaking new research and development projects, the Group is devoted to upgrading the technology content and quality of its existing products. New research and development projects include “Qingchunbao Beauty Capsule”, “Anntiflu Capsule”, “Ipriflavone Tablet”, “Gelatin Suppository”, “Bone-strengthening Capsule” and “Lebekon Film Tablet”. To cater to the needs of diabetics, the Group developed during the year the “Qingchunbao Anti-ageing Sugar-free Coated Tablet” and completed the related reporting work, further enriching SIIC MedTech’s product line.

In December, 2001, SIIC MedTech signed a letter of intent to cooperate in the in-depth development of its dominant product, “Shen Mai Injection”, with the University of Hong Kong, with a view to jointly developing a new medicine to cater to new cases. In early 2001, SIIC MedTech entered into a cooperative agreement with the China Academy of Chinese Medicine to further develop classical, high-quality, traditional Chinese medicines; the related scientific research work has already begun. The “fresh barberry wolfberry granules”, a raw material product researched and developed by SIIC MedTech and currently being considered for approval by the Ministry of Health, PRC, is expected to be formally marketed in the latter half of 2002.

In order to explore the overseas market for products, SIIC MedTech has signed an initial letter of intent in November, 2001 outlining cooperation with a German pharmaceutical manufacturer with respect to the entry of barberry wolfberry fruit products into the European market. It is planned that tablets made of Ningxia fresh barberry wolfberry fruit will be introduced into the German market as part of the drive to find a channel to the European markets for traditional Chinese medicine products. During the year, SIIC MedTech entered into negotiations with a Japanese sales company to develop a series of healthcare teas suitable for the Japanese market, with the other



party being responsible for sales. Experts from the Shanghai University of Traditional Chinese Medicine have already developed a “slimming tea” product that is expected to be launched in the Japanese market in 2002.

In December, 2000, SIIC MedTech acquired a 38% equity interest in Guangdong Biolight for RMB18,760,000. Guangdong Biolight is engaged principally in the production of high-technology clinical monitoring medicare equipment. Among its developed products, patents of both the software for the portable multi-parameter monitor and electronic colposcope are pending. In July, 2001, SIIC MedTech invested an 11% equity interest in E-COM Technology for US\$1,500,000. E-COM Technology is a developer and supplier of medical imaging system and medical information systems. Its products digital X-ray photographic systems and medical image storage and transmission technology are extremely market competitive with sound prospects.



In December, 2001, SIIC MedTech reached an agreement to acquire a 24% equity interest in Hangzhou Huqingyutang Drugstore for RMB12,000,000. The acquisition was completed recently and has obtained the relevant operating licence.

“Huqingyutang”, a well-known brand name in the traditional Chinese medicine industry, has a history of over 100 years and is one of the pan-provincial enterprises in medicine retailing, with key support from the State. This project signified SIIC MedTech’s official foray into the arena of domestic medicine retailing and marked the completion of a key element in the overall strategic development at SIIC MedTech.



## CONSUMER PRODUCTS/ RETAILING

- Nanyang Brothers Tobacco Company, Limited (100%)
- The Wing Fat Printing Company, Limited (93.3%)
- Shanghai Bright Dairy and Food Co., Ltd. (40%)
- Shanghai Sunway Biotech Co., Ltd. (49.8%)
- Shanghai Sunve Pharmaceutical Co., Ltd. (48%)
- Mergen Limited (50%)
- Shanghai Orient Shopping Centre Ltd. (51%)

Net profit of the consumer products/retailing business amounted to approximately HK\$223,770,000, an increase of about 29% over the previous year, accounting for an approximately 17% share of the Group's net business profit.

### Tobacco and Printing

In 2001, Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco") successfully reached all its production and sales targets. Net profit amounted to approximately HK\$91,560,000, up by approximately 47% over the previous year. During the year, Nanyang Tobacco actively developed a sales network for Nanyang manufactured and distributed cigarettes, and identified potential customers. Total sales for the year rose by approximately 2.1%.



In May, 2001, the "Chunghwa" brand of cigarettes distributed by Nanyang Tobacco began to be sold in 7-Eleven convenience stores, widening the brand's distribution range by over 400 retail outlets. In June, Nanyang Tobacco acquired the distribution rights for "DJ Mix" Lemon Fresh cigarettes in Hong Kong and Macau. Sales in the Hong Kong market in 2001 reached 7,228 cartons, up approximately 3.3% over the previous year. Nanyang Tobacco was also committed to expanding its domestic market. The "Double Happiness" brand achieved satisfactory results in Guangdong, Shanghai, Shenzhen and Fujian, with a 71% growth in annual sales. In 2001, most of Nanyang Tobacco's new products were in production and being well received in the market. Phase 2 of the new Nanyang factory in Tuen Mun, Hong Kong, was completed in June, 2001 and became fully operational in October that year. This new plant will further reduce operating costs for storage, enhance the operational efficiency of production, and strengthen warehouse management and the quality control of tobacco leaves.

The Wing Fat Printing Company, Limited ("Wing Fat Printing") realised substantial profit in 2001, with satisfactory results from all its domestic subsidiaries. Wing Fat Printing's net profit and turnover for the year were approximately HK\$70,000,000 and HK\$283,620,000 respectively, reflecting respective increases of about 20% and 20%. During the year, Wing Fat Printing developed numerous new products, including eight new tobacco packs. In recent years, Wing Fat Printing has committed to improving its system management. In 2001, it successfully attained the more demanding and thorough ISO 9001:2000 certification and implemented full management using a computerised system.



### Dairy

During the year, Shanghai Bright Dairy and Food Co., Ltd.'s ("Bright Dairy") sales network fully infiltrated the whole of Eastern China and is gradually over-running Northern and Southern China. Net profit and sales for 2001 amounted to approximately RMB165,000,000 and RMB3,513,000,000 respectively, a growth of approximately 46% and 54% over 2000.

Having undergone several years of development, Bright Dairy is currently the PRC's leading enterprise in the manufacture of dairy products, with a solid market share exceeding 80% in Shanghai, yielding excellent business results. Its products comprise fresh milk, yoghurt, powdered milk and other newly developed dairy products. Its operation encompasses the rearing of dairy cows, milk processing, retail and milk delivery services. During the year, Bright Dairy applied to

the China Securities Regulatory Commission for the issuance of A Shares. In November, 2001, Bright Dairy marked its first year of pre-listing consultation and is now awaiting final approval by the relevant departments.

In 2001, sales of new products developed and successfully marketed by Bright Dairy amounted to approximately RMB720,000,000, accounting for over 20% of total sales. In addition, to satisfy market needs and improve the external packaging of products, Bright Dairy made a total investment of approximately RMB27,000,000 in the importation of advanced equipment.

### Pharmaceutical and Bio-technology

In April, 2001, Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech") successfully completed Phase 1 clinical trials of H101, the anti-tumour drug, and obtained approval for Phases 2 and 3 clinical trials in July, and is undergoing active development of the H100 series products. Current progress of Phase 2 clinical trials is satisfactory. During the year, Sunway Biotech further upgraded the stability of the lyophilised preparation of H101 and established the corresponding testing methodologies of PFU, Resource Q and Protein Detection. Sunway Biotech also established cooperative relationships with a number of universities and tumour research institutes to conduct anti-cancer research into gland viruses and jointly explore an anti-immunity treatment for tumours.

The operating results of Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical") improved in 2001, with annual product sales totalling approximately RMB418,770,000. The successful development of the new medicine, "Docetaxel (taxotere)", represented a breakthrough in the company's research and production of anti-cancer drugs. In September, 2001, Sunve Pharmaceutical, Vita Life Sciences Limited of Australia and Lovin International Pharma Limited of Ireland signed a joint venture contract and articles of association for the joint venture "Shanghai Sanvit Pharmaceuticals Limited." Total investment is US\$12,000,000 and its principal scope of operation is effervescent tablets, ordinary tablets and capsules. In addition, cooperation between Sunve Pharmaceutical and Pierre Fabre Medicament of France to develop "Permixon" has made solid progress in sales markets, with the sales licence agreement having been signed, registered and approved by the PRC Government.

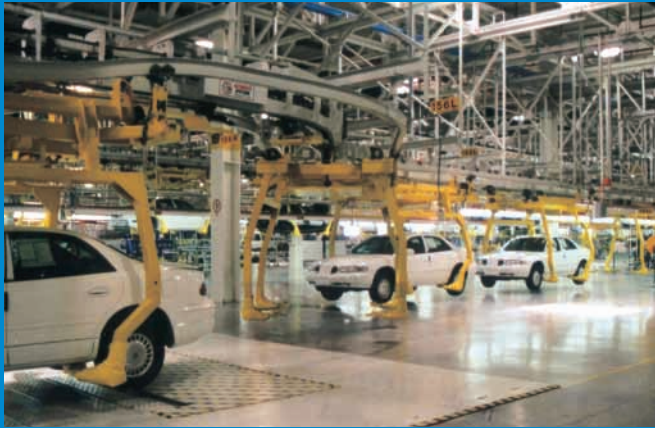
With completion of installation work on its new production facility in the first half of 2001, Mergen Limited ("Mergen") now has the most advanced array production workshops and equipment. Micro-arrays are now being produced in sterile workshops. Up to the present, Mergen has launched seven different spotted gene arrays, including human ExpressChip™, mouse ExpressChip™ and rat ExpressChip™. Due to the huge market demand for human ExpressChip™, this will become one of the main focuses of production for Mergen in 2002. In 2001, the U.S. Patent Office granted a patent for Mergen's Single Nucleotide Polymorphism (SNP) detection technology. During the year, Mergen successfully developed four new G-Protein Coupled Receptors (GPCR) that are useful in the treatment of central nervous system diseases, and applied for patents for them in the fourth quarter. Mergen also obtained the use of the technology to produce high-density spotted arrays from Incyte Genomics, which will enhance Mergen's advantages when negotiating for business.

### Retailing

Net profit for 2001 of Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") rose to approximately RMB25,670,000, a growth of some 9% over the previous year. During the year, Orient Shopping held an ongoing series of marketing campaigns that achieved encouraging results and continued to implement its operating strategy of brand name promotion, actively introducing new brand names and upgrading its level of operation through a series of sales promotion activities that attracted many consumers. Subsequent to its renovations, the home appliance mall introduced many international brand names and established specialty shops selling cutting-edge high-tech and new technical products, resulting in a doubling of sales.







## AUTOMOTIVE PARTS

- Shanghai Huizhong Automotive Manufacturing Co., Ltd. (50%)
- Shanghai Wanzhong Automotive Components Co., Ltd. (50%)
- Shanghai SIIIC Transportation Electric Co., Ltd. (30%)

The Group's automotive parts business registered a net profit in 2001 of approximately HK\$150,070,000, with flat profit over the previous year, and contributed approximately 12% to the Group's net business profit. The first quarter of 2001 showed noticeable increases in the demand for domestic cars. However, the fourth quarter was affected by China's accession to the WTO, with a resulting slowdown in sales growth.

Sales revenue of Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") in 2001 grew by approximately 8%, while profit remained flat. During the year, it noted satisfactory results for market expansion, and further localisation of projects was implemented. Good progress was also made in the OEM market for chassis component products for sedans. During the year, 644 new pieces of production equipment were introduced, and many renovation projects were completed, including the construction of an information platform.

In November, 2001, Shanghai Huizhong and Benteler Automobiltechnik GmbH & Co. KG signed the joint venture contract for Shanghai Benteler Huizhong Automotive Company Ltd. ("Benteler Huizhong"), in which Shanghai Huizhong has a 40% equity interest. Benteler Huizhong is engaged principally in the production and sales of welding ASM, axle, engine cradle, lower control arm and related structural components of the driving axle.

The year 2001 marked the first year of commercial production for Shanghai Wanzhong Automotive Components Co., Ltd. ("Shanghai Wanzhong"), which processes and manufactures components for Passat sedans. Total sales for the year were approximately RMB20,700,000, with a profit of some RMB3,180,000. At the end of the year, 43 sets of imported equipment were installed in the production lines. Shanghai Wanzhong has speeded up the implementation of its heavy truck technology renovation project and its large coach projects to upgrade and renovate heavy truck products and solidify its market share.



Net profit in 2001 of Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation") was approximately RMB54,550,000, up approximately 13% over the previous year, with steady growth in sales revenue. In 2001, SIIC Transportation focused on the development of automotive electronic products and high-tech products to cater to the needs of users in the sedan markets. It is also conducting negotiations pertaining to a number of high-tech production cooperation projects.



During the year, SIIC Transportation has consolidated the component and parts market of Shanghai Volkswagen and Shanghai General Motors with higher productions for power windows. Subsidiaries like Shanghai Valeo and Shanghai Delphi have captured the wiper and electronic control lock businesses of Jinbei GM and Changfeng Leopards. In 2001, Shanghai Brose became the only domestic metallic door manufacturer with its expansion into producing two-panelled doors for SVW/PQ24 and FAW-Volkswagen's BORA/A4. The new project of Shanghai Delphi's SGM/GL8 super door will become the business growth spot of 2002. SIIC Transportation has completed 40 new product development projects and applied for patents in 5 projects for the year.

## OTHER INVESTMENTS

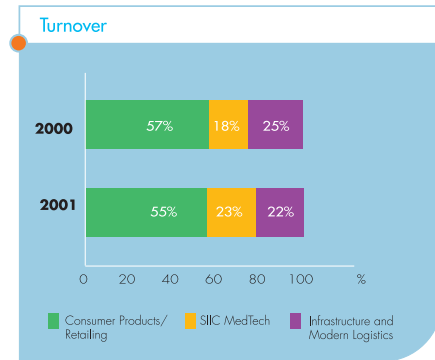
Compass Venture Partners, L.P. (the "Compass Fund"), in which the Group has an approximately 66% equity interest, is engaged principally in investment in the PRC domestic media and related industries, and expansion of the PRC domestic media market. During the year, it invested in Clear Media Limited ("Clear Media"), one of the largest outdoor advertising companies in the PRC. Clear Media is engaged primarily in advertising in public bus shelters in 28 cities nationwide. It has market shares of between around 40% to 90% in such major cities as Beijing, Shanghai, Guangzhou and Shenzhen. Its market share of bus shelter advertising boards in Shanghai alone amounts to 90%. Clear Media will continue to expand its market share in each city through acquisitions and will explore point-of-sale advertising displays in supermarkets. The company already has a contract with Shanghai Lianhua supermarket to erect point-of-sale advertising displays in over 200 supermarkets.

Clear Media was listed officially on The Stock Exchange of Hong Kong Limited on 19th December, 2001, raising approximately HK\$995,000,000. Its International Placing and Public Offering were over-subscribed by 8 and 15 times respectively. The current shareholding of the Compass Fund in Clear Media is approximately 4.1%. Clear Media's net profit for 2001 amounted to approximately HK\$59,000,000, exceeded the forecast in the Prospectus.

## TURNOVER

An analysis of the turnover by principal activities for the year ended 31st December, 2001 is as follow:

	2001 HK\$'000	2000 HK\$'000
Consumer products/retailing	1,756,014	1,694,549
SIIC MedTech	723,911	533,434
Infrastructure and modern logistics	719,493	732,538
	<b>3,199,418</b>	<b>2,960,521</b>



In recent years, the healthcare product market has been developing satisfactorily, with increasing market demand for healthcare products. Turnover of SIIC MedTech business segment for the year increased by approximately 35.7% over the previous year due primarily to the significant increases in sales of Hangzhou Qingchunbao, which rose by approximately HK\$184,630,000, derived principally from an upsurge in sales of Qingchunbao Anti-ageing Tablets.

Consumer products/retailing business segment maintained relative stable growth.

## PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

### Gross profit ratio

Gross profit ratio (excluding income from infrastructure projects) rose slightly in 2001 to approximately 37.9% from approximately 37.7% in 2000.

### Investment income

Investment income for 2001 decreased by approximately HK\$142,980,000, to around HK\$201,560,000 compared with approximately HK\$344,540,000 in 2000. The principal reasons for the significant decrease in interest income from bank deposits were the significant reductions in bank deposit rates in the U.S. and Hong Kong, and the Group's injection of approximately HK\$1,300,000,000 into long term investments which reduced bank deposits.

### Financial costs

Financial costs for the year decreased by approximately HK\$41,790,000 over 2000, primarily as a result of the Company's repayment of HK\$585,000,000 in long-term bank loans that became due within the year.

**Gain on disposal of interests in subsidiaries, associates and jointly controlled entities**

Gain on disposal of interests in subsidiaries, associates and jointly controlled entities increased by approximately HK\$137,010,000 to around HK\$154,360,000 compared with approximately HK\$17,350,000 in 2000. The main reason for the increase was due to the equity interest in Shanghai Jahwa of the Group's listed subsidiary, SIIC MedTech, was diluted from 40% to 28.15% subsequent to its listing on the A Share Market of the Shanghai Stock Exchange in March, 2001. As a result of this, SIIC MedTech derived an exceptional gain of approximately HK\$155,690,000, of which the Group's share of attributable profit was approximately HK\$100,000,000.

**Share of profits of jointly controlled entities**

Share of profits of jointly controlled entities for the year grew by approximately HK\$41,200,000 to around HK\$266,850,000 compared with approximately HK\$225,650,000 in 2000. This growth can be attributed primarily to the increased profits of Bright Dairy, the improved performance of Shanghai Optical Communications and the Group's share of exceptional gain attributable to the listing of Clear Media, held by the Compass Fund, on the Main Board of the Hong Kong Stock Exchange.

**Share of profits of associates**

As a result of the listing of Shanghai Jahwa on the A Share Market of the Shanghai Stock Exchange in March, 2001, the Company was considered an associate rather than a jointly controlled entity. This led to a significant increase in the Group's share of associates' profits.

**TAXATION**

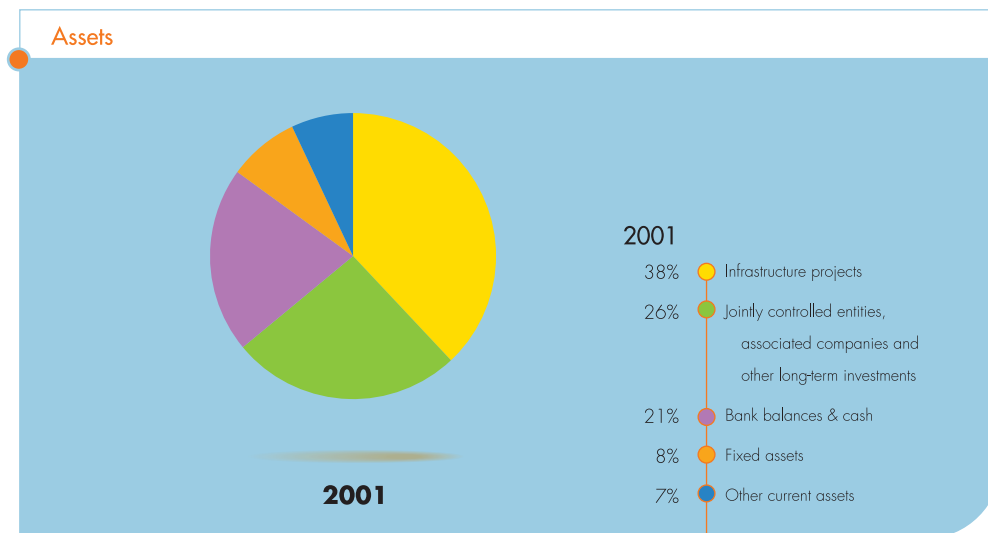
The Group's effective tax rate for the year was approximately 7.3% and was approximately 6.1% for 2000. The increase was due to the expiry of the tax concession period for Hangzhou Qingchunbao, the PRC tax rate of which went up from 12% to 24%.

**DIVIDEND**

During the year, the Group paid an interim dividend of HK14 cents (2000: HK11 cents) per share. The Board has recommended the payment of a final dividend of HK34 cents (2000: HK30 cents) per share, making a total annual dividend of HK48 cents (2000: HK41 cents) per share, for approval in the forthcoming annual general meeting. Dividend payout ratio was approximately 35.8% (2000: approximately 32.3%).

## ASSETS

As at 31st December, 2001, the Group had total assets of approximately HK\$14,836,200,000 (2000: approximately HK\$14,494,440,000).



## LOANS AND CAPITAL

- Short-term borrowings rose to approximately HK\$1,226,690,000, an increase of around HK\$610,950,000 over the previous year. This was due mainly to the transfer of long-term bank loans of approximately HK\$1,170,000,000 due in 2002 to short-term bank loans, as well as the repayment of long-term bank loans amounting to HK\$585,000,000 due in the year.
- Long-term borrowings lowered by approximately HK\$1,165,810,000 to around HK\$4,190,000 compared with approximately HK\$1,170,000,000 in 2000.
- All borrowings, denominated in US\$ and RMB of which approximately 95% were in US\$, wholly repayable before 2003.
- In 2001, the Group held approximately HK\$3,120,680,000 in bank balances and cash, of which the proportions of US\$, HK\$ and RMB were approximately 56%, 16% and 28% respectively.
- The Group is in a net cash position. The debt-equity structure in 2001 was relatively healthy, lending key support to the Group's business development. However, in line with the pace and actual fund requirements of business development, the Group will utilize on the current low-interest environment by further strengthening its financial structure with the objective of lowering



overall capital costs. In 2002, the Company successfully obtained a 5 year syndication loan of HK\$1,600,000,000. The loan agreement was signed by the Company and the participating banks on 10th April, 2002.

- The Group's shareholders' funds increased by approximately HK\$799,170,000 to around HK\$12,438,410,000.
- Gearing ratio reduced from approximately 12.8% to around 8.7%.

## POLICY ON FINANCIAL RISKS MANAGEMENT

### Interest rate risks

The Company has entered into interest rate hedging contracts with certain financial institutions in respect of its floating-rate bank loans for US\$150,000,000 in order to hedge against floating interest rate risks. These contracts will expire in June, 2002.

### Exchange rate risks

During the year, the Group did not enter into any exchange rate forward contracts in order to reduce business and investment risks due to unfavourable fluctuations in foreign currency exchange rates.

The Group will review its market, business operating conditions and financial position from time to time and will prudently conduct appropriate interest rate and exchange rate risks hedging activities as required in order to offset unfavourable fluctuations in interest rates and foreign currency exchange rates which may have adverse financial impact on the Group.

## CORPORATE GOVERNANCE

With increasing demands in the market for transparency and accountability, corporate governance has become an important part of management. Good corporate governance not only establishes good corporate image and strengthens the confidence in the Company of shareholders, investors and regulatory authorities, but also enhances internal management and monitoring, upgrades corporate management standards, increases corporate competitiveness and offers the greatest protection to shareholders through fulfilment.

The code of corporate governance adopted by the Group comprises:

- an established, sophisticated, internal management and process control system covering financial information management and investment decision-making processes, etc.
- two audit committee meetings held during the year. All members of this Committee are independent non-executive directors who strictly review annual and interim results reports, internal control and audit, financial reporting, and statutory and regulatory compliance and risk evaluation mechanisms, etc., and report directly to the Board.
- meetings of the Executive Committee of the Board held from time to time in addition to regular formal board meetings, to resolve issues relating to major business activities, project investment and coordination of the overall business of the Group. The responsibility of the Group's day-to-day management is delegated to senior management, which reports directly to the executive directors and the Executive Committee.
- the establishment of a management company in Shanghai, which further enhances mutual communication and disseminates corporate policies and operational strategies throughout the Group and its PRC member companies.
- occasional press conferences, during which the Group discloses its business development directions. In early November, 2001, we also proactively strengthened our communication with investors and the press by organising two visits for fund managers/analysts and members of the Hong Kong media to the Group's seven key member enterprises in Shanghai in order to enhance their understanding of the Group's business.
- overseas roadshows to introduce the Group's latest developments to local fund management companies in order to strengthen liaison with international investors and demonstrate transparent management. A number of these roadshows were organised during the year in Singapore and Japan.



## CORPORATE CULTURE

The Group believes that the nurture of a quality team of employees who are proactive, have initiative, and possess an innovative ability and a practical spirit effectively enhances the overall quality of the Group's enterprises and provide a solid foundation for business development. The Group therefore vigorously promotes cohesiveness among employees through continuing education, performance appraisals and training courses, and group recreational activities designed to sustain team spirit and create a quality corporate culture.

During the year, the Group organised a number of activities for employees of its member companies, including professional training courses, seminars, sports events and the selection of best employees. These events not only galvanised mutual communication among employees from different divisions and companies, but also enhanced cohesiveness and working morale with noticeable effects.

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2001.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 42 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 51 of the annual report.

An interim dividend of HK14 cents per share was paid during the year. The directors recommend a final dividend of HK34 cents per share to the shareholders on the register of members on 31st May, 2002.

## SHARE CAPITAL

Changes in the share capital of the Company during the year are set out in note 26 to the financial statements.

## INVESTMENT PROPERTY

At 31st December, 2001, the investment property of the Group was revalued by an independent property valuer on an open market value existing use basis at HK\$12 million. The valuation did not give rise to any surplus or deficit. Details are set out in note 13 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs for construction in progress of approximately HK\$107.9 million and acquired plant and machinery at a cost of approximately HK\$47.2 million, furniture, fixtures and equipment at a cost of approximately HK\$65.2 million and other assets at a cost of approximately HK\$14.1 million for the purpose of expanding the Group's business. These and other movements during the year in the property, plant and equipment of the Group and the Company 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:

Cai Lai Xing ( <i>Chairman</i> )	
Chen Wei Shu ( <i>Vice Chairman</i> )	
Zhuo Fu Min ( <i>Vice Chairman</i> )	
Lu Ming Fang ( <i>Chief Executive Officer</i> )	(appointed on 5th January, 2002)
Li Wei Da ( <i>Deputy CEO</i> )	
Lu Yu Ping ( <i>Deputy CEO</i> )	
Qian Shi Zheng ( <i>Deputy CEO</i> )	(appointed on 5th January, 2002)
Zhou Jie ( <i>Deputy CEO</i> )	(appointed on 5th January, 2002)
Yu Li	(resigned on 11th March, 2002)
Lu Da Yong	
Cao Fu Kang	
Wen Song Quan	
Ge Wen Yao	
Huang Yan Zheng	
Gu Wen Xing	

### Independent non-executive directors:

Lee Quo Wei  
 Lo Ka Shui  
 Woo Chia-Wei  
 Leung Pak To, Francis

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs. Lu Ming Fang, Qian Shi Zheng, Zhou Jie, Ge Wen Yao, Huang Yan Zheng, Lee Quo Wei, Lo Ka Shui, Woo Chia-Wei and Leung Pak To, Francis retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. Cai Lai Xing, Cao Fu Kang, Ge Wen Yao and Huang Yan Zheng has entered into a service agreement with the Company for an initial period of three years commencing 1st April, 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

Mr. Li Wei Da has entered into a service agreement with the Company for an initial period of three years commencing 22nd November, 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

Mr. Lu Yu Ping has entered into a service agreement with the Company for an initial period of three years commencing 8th March, 2000, 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 8th September, 2002.

Mr. Yu Li has entered into a service agreement with the Company for an initial period of three years commencing 3rd April, 1998, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Yu resigned as director of the Company on 11th March, 2002 and therefore his service agreement was terminated simultaneously.

Mr. Gu Wen Xing has entered into a service agreement with the Company for an initial period of three years commencing 20th June, 2000, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

The original service agreements of Messrs. Lu Da Yong and Wen Song Quan were terminated on 23rd September, 2001 and 1st August, 2001 respectively and new service agreements were entered into and became effective on the same day, which are for an initial period of three years and 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 23rd March, 2004 and 1st February, 2004 respectively.

The original service agreements of Messrs. Chen Wei Shu and Zhuo Fu Min were terminated on 5th January, 2002 and new service agreements were entered into and became effective on the same day, which are for an initial period of three years and 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 5th July, 2004.

Each of Messrs. Lu Ming Fang, Qian Shi Zheng and Zhou Jie has entered into a service agreement with the Company for an initial period of three years commencing 5th January, 2002 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 5th July, 2004.

The term of office of each of the non-executive directors is the period up to his retirement as required by the Company's Articles of Association.



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, 2001, save as disclosed herein, 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").

Name of Director	Number of shares of the Company held as personal interest
Cai Lai Xing	4,000,000
Chen Wei Shu	2,000,000
Zhuo Fu Min	1,500,000
Lu Ming Fang	1,000,000
Lu Da Yong	1,500,000
Cao Fu Kang	1,000,000
Wen Song Quan	1,000,000
Ge Wen Yao	1,000,000
Huang Yan Zheng	850,000

## SHARE OPTIONS

- (a) The Company's share option scheme (the "SIHL Scheme") was adopted on 17th May, 1996 for the primary purpose of providing incentives to executive directors and eligible employees of the Company or its subsidiaries, and will expire on 17th May, 2006. Under the SIHL Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options. Under the SIHL Scheme, the exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

In accordance with Chapter 17 (Share Schemes) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), as amended, with effective from 1st September, 2001, the listed issuers could grant further share options under their existing schemes at exercise prices of at least the higher of the closing price of the shares on the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31st December, 2001, the number of shares in respect of which options had been granted and remained outstanding under the SIHL Scheme was 57,580,000, representing 6.4% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders or in other cases, a prior approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the total number of shares in respect of which options may be granted under the SIHL Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIHL Scheme.

The fair value of the options granted in the current year measured as at 16th March, 2001 and 21st July, 2001 being the dates of grant, totalled approximately HK\$23,393,000 and HK\$23,973,000 respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 34.04% based on historical volatility;
2. annual dividends of 32.28% of earnings based on historical dividends; and
3. the Hong Kong Exchange Fund Notes rate of 3.41% and based on the estimated expected life of 2 years.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.





The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted in the year.

Consideration received for share options granted during the year was HK\$16.

The closing prices of the Company's shares immediately before 16th March, 2001 and 21st July, 2001, being the dates of grant of options during the year, were HK\$12.95 and HK\$13.00 respectively.

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised ranged from HK\$13.14 to HK\$15.11.

- (b) In July, 2000, pursuant to an agreement entered into by the Company, SII International Holding Limited and SAIL Technology Holding Limited ("SAIL Technology"), independent third parties to the Group, the Company acquired the entire equity interest of Active Services Group Limited ("Active Services"), a company incorporated in the British Virgin Islands. The sole asset of Active Services is an investment in a jointly controlled entity which is engaged in the development of communication infrastructure and cable networks and the provision of information technology and internet-related services. The consideration for the acquisition of Active Services was satisfied by the payment of US\$120,000,000 in cash and the granting by the Company to SAIL Technology an option to subscribe for a maximum of 50,000,000 shares or a minimum of 1,000,000 shares of HK\$0.10 each in the Company at an exercise price of HK\$15.90, subject to adjustment. The option period commenced from six months after the completion date on 29th September, 2000 and ended on 28th March, 2002. No option was exercised by SAIL Technology up to the expiry date.



The following table discloses movements in the Company's share options during the year:

		Number of shares subject to share options					Outstanding at
	Month of grant	Exercise price per share HK\$	Outstanding at 1st January, 2001	Granted during the year	Exercised during the year	Lapsed during the year	31st December, 2001
Category 1 : Directors (note (a))							
Chen Wei Shu	January 1999	9.568	1,500,000	—	—	—	1,500,000
Zhuo Fu Min	January 1999	9.568	1,400,000	—	—	—	1,400,000
Lu Ming Fang	August 1998	10.432	1,500,000	—	(1,000,000)	—	500,000
	January 1999	9.568	1,200,000	—	—	—	1,200,000
	July 2001	10.432	—	1,500,000	—	—	1,500,000
Li Wei Da	April 1997	30.912	2,000,000	—	—	(2,000,000)	—
	January 1999	9.568	1,200,000	—	—	—	1,200,000
Lu Yu Ping	March 2001	10.496	—	1,550,000	—	—	1,550,000
Zhou Jie	August 1998	10.432	1,500,000	—	—	—	1,500,000
	January 1999	9.568	1,200,000	—	—	—	1,200,000
Lu Da Yong	January 1999	9.568	1,200,000	—	—	—	1,200,000
Cao Fu Kang	January 1999	9.568	1,000,000	—	—	—	1,000,000
Wen Song Quan	January 1999	9.568	1,000,000	—	—	—	1,000,000
Gu Wen Xing	March 2001	10.496	—	500,000	—	—	500,000
Yu Li	August 1998	10.432	2,000,000	—	—	—	2,000,000
	January 1999	9.568	1,000,000	—	—	—	1,000,000
Total for directors			17,700,000	3,550,000	(1,000,000)	(2,000,000)	18,250,000
Category 2: Employees (note (a))							
	April 1997	30.912	6,400,000	—	—	(6,400,000)	—
	May 1997	30.912	3,500,000	—	—	(3,500,000)	—
	August 1998	10.432	16,870,000	—	(1,220,000)	—	15,650,000
	January 1999	9.568	12,600,000	—	(1,000,000)	—	11,600,000
	March 2001	10.496	—	5,700,000	(120,000)	—	5,580,000
	July 2001	10.432	—	6,500,000	—	—	6,500,000
Total for employees			39,370,000	12,200,000	(2,340,000)	(9,900,000)	39,330,000
Total for SIHL Scheme			57,070,000	15,750,000	(3,340,000)	(11,900,000)	57,580,000
Category 3: Others (note (b))							
	September 2000	15.90	50,000,000	—	—	—	50,000,000
Total for all categories			107,070,000	15,750,000	(3,340,000)	(11,900,000)	107,580,000

Options granted under the SIHL Scheme are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.



- (c) The share option scheme of SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a subsidiary of the Company (the "SIIC MedTech Scheme"), was adopted on 3rd December, 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 10th November, 2009. Under the SIIC MedTech Scheme, the Board of Directors of SIIC MedTech may grant options to eligible employees, including directors of SIIC MedTech and its subsidiaries, to subscribe for shares in SIIC MedTech for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options are exercisable on the expiry of three years after the date of grant. The exercise price is determined by the directors of SIIC MedTech, and will not be less than the higher of the closing price of SIIC MedTech's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

At 31st December, 2001, the number of shares in respect of which options had been granted under the SIIC MedTech Scheme was 38,700,000, representing 6.2% of the shares of SIIC MedTech in issue at that date. The total number of shares in respect of which options may be granted under the SIIC MedTech Scheme is not permitted to exceed 10% of the shares of SIIC MedTech in issue at any point in time, without prior approval from SIIC MedTech's shareholders.

No employee of SIIC MedTech shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIIC MedTech Scheme.

Pursuant to the SIIC MedTech Scheme, certain directors and employees of SIIC MedTech have interests in share options ("SIIC MedTech Options") to subscribe for shares in SIIC MedTech ("SIIC MedTech Shares") which were granted to them in January 2000 at an exercise price of HK\$1.69 per share as follows:

**Number of SIIC MedTech Shares subject to SIIC MedTech Options**

	Outstanding at 1st January, 2001	Lapsed during the year	Outstanding at 31st December, 2001
<b>Directors:</b>			
Name of director			
Zhuo Fu Min	8,000,000	—	8,000,000
Feng Gen Sheng	6,000,000	—	6,000,000
Li Wei Da	6,000,000	—	6,000,000
Chen Shu Zi	4,000,000	—	4,000,000
Ge Wen Yao	2,500,000	—	2,500,000
Wu Jian Zhuang	2,500,000	—	2,500,000
	29,000,000	—	29,000,000
<b>Employees:</b>	10,200,000	500,000	9,700,000
	39,200,000	500,000	38,700,000

The SIIC MedTech Options can be exercised during the period from 21st January, 2003 to 20th January, 2006.

Save as disclosed above, at no time during the year was the Company or any of 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, 2001, 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")	548,076,000
Shanghai Industrial Investment Treasury Company Limited ("STC")	548,066,000
Shanghai Investment Holdings Limited ("SIH")	548,066,000

Note: Top Modern Limited and SIIC Capital (B.V.I.) Limited are the beneficial owners of 10,000 and 80,000,000 ordinary shares of the Company. SIIC owns 100% of Top Modern Limited and STC, which owns 100% of SIH, which in turn owns 100% of SIIC Capital (B.V.I.) Limited and is accordingly deemed by the SDI Ordinance to be interested in the ordinary shares of the Company held by Top Modern Limited, SIIC Capital (B.V.I.) Limited, STC and SIH.

Save as disclosed above, the Company has not been notified of any other interests as at 31st December, 2001 representing 10% or more of the issued share capital of the Company.

## CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 41(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 Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 41(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 or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms not less favourable than terms available to third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

## DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, 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.

## 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").

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 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.

Save as disclosed above, none of the directors or the substantial shareholders of the Company had an interest in a business, which competes or may compete with the business of the Group.

## 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

Other than the repurchase by the Company of certain of its shares on the Stock Exchange as described in note 26 to the financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$1.2 million.

## RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 40 to the financial statements.

## POST BALANCE SHEET EVENT

Details of significant post balance sheet event are set out in note 46 to the financial statements.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**CAI LAI XING**

*Chairman*

Hong Kong, 15th April, 2002

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
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Hong Kong

執業會計師  
香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

## TO THE SHAREHOLDERS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED

上海實業控股有限公司

*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 51 to 115 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare 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.

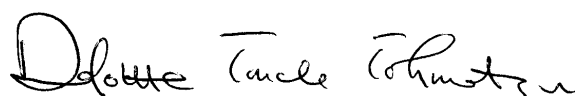
**Basis of opinion**

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, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.



Certified Public Accountants

Hong Kong, 15th April, 2002

For the year ended 31st December, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
			(As restated)
Turnover	4	3,199,418	2,960,521
Cost of sales		(1,539,281)	(1,388,035)
Gross profit		1,660,137	1,572,486
Investment income	5	201,555	344,544
Other revenue		31,981	29,772
Distribution costs		(487,857)	(477,833)
Administrative expenses		(280,965)	(282,545)
Other operating expenses		(34,687)	(21,769)
Profit from operations	6	1,090,164	1,164,655
Interest on bank and other borrowings wholly repayable within five years		(93,771)	(135,560)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities	7	154,360	17,348
Share of results of jointly controlled entities		266,846	225,649
Share of results of associates		72,370	42,475
Profit from ordinary activities before taxation		1,489,969	1,314,567
Taxation	9	(108,854)	(80,300)
Profit before minority interests		1,381,115	1,234,267
Minority interests		(178,581)	(99,598)
Profit for the year	10	1,202,534	1,134,669
Dividends	11	395,491	293,255
Earnings per share	12		
— Basic		HK\$1.34	HK\$1.27
— Diluted		HK\$1.32	HK\$1.25



At 31st December, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
			(As restated)
Non-Current Assets			
Investment property	13	12,000	12,000
Property, plant and equipment	14	1,131,438	977,551
Interest in jointly controlled entities	17	1,984,235	1,819,468
Interest in associates	18	1,672,061	284,084
Investments in infrastructure and other projects	19	5,676,703	5,818,061
Investments in securities	20	252,453	211,185
Deposits paid on acquisition of property, plant and equipment	21	16,816	15,714
		10,745,706	9,138,063
Current Assets			
Inventories	22	373,320	418,050
Trade and other receivables	23	587,252	764,959
Taxation recoverable		7,533	—
Investments in securities	20	1,718	248,792
Pledged bank deposits		53,571	3,869
Bank balances and cash		3,067,104	3,920,709
		4,090,498	5,356,379
Current Liabilities			
Trade and other payables	24	570,127	553,959
Taxation payable		30,457	39,639
Short-term borrowings	25	1,226,692	615,740
		1,827,276	1,209,338
Net Current Assets		2,263,222	4,147,041
		13,008,928	13,285,104



At 31st December, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
			(As restated)
Capital and Reserves			
Issued capital	26	89,806	89,786
Accumulated profits	28	3,763,454	3,048,901
Other reserves	29	8,585,148	8,500,555
		12,438,408	11,639,242
Minority interests		482,309	401,062
Non-Current Liabilities			
Unsecured long-term bank and other borrowings	30	4,187	1,170,000
Deferred taxation	31	84,024	74,800
		88,211	1,244,800
		13,008,928	13,285,104

The financial statements on pages 51 to 115 were approved and authorised for issue by the Board of Directors on 15th April, 2002 and are signed on its behalf by:

Lu Ming Fang  
Chief Executive Officer

Qian Shi Zheng  
Deputy CEO



At 31st December, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
			(As restated)
Non-Current Assets			
Property, plant and equipment	14	8,051	8,077
Interest in subsidiaries	16	13,026,274	13,199,064
		13,034,325	13,207,141
Current Assets			
Deposits, prepayments and other receivables		20,903	21,236
Investment in securities	20	1,625	22,197
Dividend receivable		750,000	780,000
Bank balances and cash		757,456	801,445
		1,529,984	1,624,878
Current Liabilities			
Other payables and accrued charges		60,138	60,364
Short-term borrowings	25	1,170,000	585,000
		1,230,138	645,364
Net Current Assets		299,846	979,514
		13,334,171	14,186,655
Capital and Reserves			
Issued capital	26	89,806	89,786
Accumulated profits	28	2,756,115	2,472,536
Other reserves	29	10,488,250	10,454,333
		13,334,171	13,016,655
Non-Current Liability			
Unsecured long-term bank borrowings	30	—	1,170,000
		13,334,171	14,186,655

Lu Ming Fang  
Chief Executive Officer

Qian Shi Zheng  
Deputy CEO



	2001 HK\$'000	2000 HK\$'000
Exchange difference arising from translation of financial statements of PRC operations	(162)	(141)
Share of PRC statutory reserves of an associate	(648)	(130)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	—	(213)
Net losses not recognised in the consolidated income statement	(810)	(484)
Profit for the year	1,202,534	1,134,669
Total recognised gains	1,201,724	1,134,185
Elimination against reserves of goodwill arising on acquisition of subsidiaries/additional interest in a subsidiary	—	(414,901)
Elimination against reserves of goodwill arising on acquisition of subsidiaries by jointly controlled entities	—	(23,394)
Capital reserve arising on acquisition of an associate	—	6,169
Elimination against reserves of goodwill arising on acquisition of jointly controlled entities	—	(482,661)
	1,201,724	219,398
Prior period adjustment arising from the effect of change in accounting policy (note 2)		
— increase in accumulated profits at 1st January	269,756	195,016



## Consolidated Cash Flow Statement

For the year ended 31st December, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	32	1,206,829	1,154,469
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(395,491)	(293,255)
Interest paid on bank and other borrowings		(93,771)	(202,642)
Dividends paid to minority shareholders of subsidiaries		(70,690)	(44,557)
Interest received		137,941	273,533
Dividends received from jointly controlled entities		156,067	4,936
Dividends received from associates		38,408	13,797
Income received from unlisted investments, other than infrastructure projects		11,004	2,913
Rental income received		3,717	2,387
Dividends received from listed investments		2,845	14,143
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(209,970)	(228,745)
TAXATION			
PRC income tax paid		(49,025)	(28,333)
Hong Kong Profits Tax paid		(20,328)	(1,311)
Hong Kong Profits Tax refunded		—	18,846
NET CASH OUTFLOW FROM TAXATION		(69,353)	(10,798)

For the year ended 31st December, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Capital contributions to associates		(1,103,532)	(53,040)
Purchase of investments in securities		(256,028)	(700,599)
Purchase of property, plant and equipment		(234,325)	(91,055)
Capital contributions to jointly controlled entities		(163,848)	(173,678)
Increase in pledged bank deposits		(49,702)	(3,869)
(Advances to) repayment from jointly controlled entities		(19,104)	89,980
Purchase of additional interests in subsidiaries		(3,623)	(50,233)
Purchase of unlisted investments, other than infrastructure projects		(3,363)	(88,230)
Deposits paid on acquisition of property, plant and equipment		(1,102)	(15,714)
Proceeds from disposal of investments in securities		479,517	562,982
Capital receipts from infrastructure projects		110,939	96,222
Repayment from (advances to) investees		10,389	(6,858)
Proceeds from disposal of property, plant and equipment		8,254	11,340
Proceeds from partial disposal of an associate		6,355	—
Purchase of subsidiaries (net of cash and cash equivalents acquired)	33	1,896	(936,000)
Partial disposal of interest in a subsidiary		140	—
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	34	—	(312)
Proceeds from disposal and partial disposal of interests in jointly controlled entities		—	71,049
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(1,217,137)</b>	<b>(1,288,015)</b>
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		<b>(289,631)</b>	<b>(373,089)</b>
<b>FINANCING</b>			
	35		
Repayment of borrowings		(606,072)	(630,140)
Repurchase of shares		(40,525)	(20,513)
Expenses incurred in connection with the issue of shares		(49)	(90)
Proceeds from issue of shares		33,986	121,612
Capital contributions in cash by minority shareholders of subsidiaries		27,612	1,946
Borrowings raised		21,074	25,319
<b>NET CASH OUTFLOW FROM FINANCING</b>		<b>(563,974)</b>	<b>(501,866)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(853,605)</b>	<b>(874,955)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>3,920,709</b>	<b>4,795,664</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, representing bank balances and cash</b>		<b>3,067,104</b>	<b>3,920,709</b>

## 1. GENERAL

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 42.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

### **Dividends proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the accumulated profits of the Group and the Company as at 1st January, 2000 by HK\$195,016,000 and as at 1st January, 2001 by HK\$269,756,000 respectively.

### **Leases**

SSAP 14 (Revised) *Leases* has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.



## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES (continued)

### Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 *Segment Reporting*. Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

### Goodwill

In the current year, the Group has adopted SSAP 30 *Business Combinations* and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisition prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its estimated useful life. Negative goodwill arising on acquisition after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investment in securities, 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 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

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

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisition after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill (continued)

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised to income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### 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 is included in the Company's balance sheet at cost less any identified impairment loss.

#### Interest in joint ventures

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 interest 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 plus the unamortised premium paid on acquisition in so far as it has not already been written off or amortised less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities are included in the consolidated income statement.

#### Interest in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognised any identified impairment loss in the value of individual investments.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments in infrastructure projects

The Group's investments in infrastructure projects are recorded at cost, as reduced by any identified impairment loss. Payments receivable each year under the joint venture and operation management agreements are apportioned between income and reduction of the carrying value of the investments so as to reflect a constant periodic rate of return on the net investment in these infrastructure projects.

Where the estimated recoverable amount of these investments falls below their carrying amount, the carrying amount of the investments, to the extent that it is considered to be irrecoverable, is written off immediately to the income statement.

#### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

#### Revenue recognition

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

Income from infrastructure projects where the Group is contracted to receive a pre-determined minimum sum over the period of the project is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment in these infrastructure projects.

Interest income 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 letting of properties and plant and machinery under operating leases, is recognised on a straight line basis over the period of the respective leases.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (continued)

Income from investment in securities is recognised when the Group's right to receive payment has been established.

#### 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 valuation 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, including the renewable period.

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost or valuation less depreciation or amortisation at the balance sheet date and any accumulated impairment losses.

Land and buildings which have been previously classified as investment properties are stated at their valuation immediately prior to transfer less subsequent depreciation. No further valuation will be carried out on these land and buildings.

Properties in the course of construction for production are carried at cost less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

The cost or valuation of leasehold land is amortised over the period of the lease using the straight line method.

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 or valuation of other property, plant and equipment, other than construction in progress, 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	4% – 5%
Furniture, fixtures and equipment	20% – 33 <sup>1</sup> / <sub>3</sub> % or over the period of the lease in case of fixtures in rented premises
Motor vehicles	20% – 30%
Plant and machinery	6 <sup>2</sup> / <sub>3</sub> % – 20%

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.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method or, in the case of merchandise held for resale in a department store, cost is calculated using the retail price method.

#### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### **Retirement benefits costs**

Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense 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 an asset will crystallise in the foreseeable future.

#### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations in the mainland People's Republic of China (the "PRC") are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### 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.

#### 4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	2001 HK\$'000	2000 HK\$'000
Sales of goods	2,479,925	2,227,983
Income from infrastructure projects	719,493	732,538
	3,199,418	2,960,521

#### 5. INVESTMENT INCOME

	2001 HK\$'000	2000 HK\$'000
Interest income	137,941	273,533
Gain on disposal of investments in securities	46,048	51,568
Income from unlisted investments, other than infrastructure projects	11,004	2,913
Dividend income from listed investments	2,845	14,143
Rental income from property, plant and equipment	3,717	2,387
	201,555	344,544

## 6. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Basic salaries and allowances	244,454	223,769
Bonuses	66,162	55,474
Retirement benefits scheme contributions, net of forfeited contributions of HK\$939,574 (2000: HK\$108,997)	14,981	14,826
	325,597	294,069
Impairment loss of goodwill (included in administrative expenses)	1,158	—
Auditors' remuneration	5,000	4,300
Depreciation and amortisation of property, plant and equipment	108,114	98,588
Impairment loss on investments in infrastructure and other projects (included in other operating expenses)	17,277	9,823
Impairment loss on investment in securities (included in other operating expenses)	17,410	—
Net unrealised holding (gain) loss on investment in securities	(1,135)	9,846
Operating lease rentals in respect of equipment and motor vehicles	1,177	1,755
Operating lease rentals in respect of land and buildings to		
— ultimate holding company	8,179	8,245
— fellow subsidiaries	41,620	41,588
— others	15,623	23,758
Research and development costs	10,610	5,498
Loss (gain) on disposal of property, plant and equipment	969	(5,780)





## 7. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	2001 HK\$'000	2000 HK\$'000
Gain on deemed disposal of interest in a jointly controlled entity	155,694	—
Gain on partial disposal of an associate	1,552	—
Loss on disposal and partial disposal of interests in subsidiaries	(2,886)	(2,474)
Gain on disposal and partial disposal of interest in jointly controlled entities	—	19,822
	154,360	17,348

## 8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	776	776
Other emoluments of executive directors:		
Basic salaries and allowances	23,105	20,557
Bonuses	19,569	19,501
Retirement benefits scheme contributions	1,962	1,961
Total directors' emoluments	45,412	42,795

**8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (continued)**

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
Up to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	3	3
HK\$3,000,001 to HK\$3,500,000	—	1
HK\$4,000,001 to HK\$4,500,000	2	1
HK\$4,500,001 to HK\$5,000,000	1	1
HK\$5,000,001 to HK\$5,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	—	1
HK\$6,500,001 to HK\$7,000,000	1	1
HK\$7,000,001 to HK\$7,500,000	1	—

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

All the five highest paid employees of the Group in both years were executive directors of the Company. Details of their emoluments are disclosed above.

## 9. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
— Hong Kong Profits Tax		
— current year	8,510	15,985
— overprovision in prior years	(5,096)	—
— PRC income tax		
— current year	56,528	27,725
— overprovision in prior years	(7,304)	(10,000)
	52,638	33,710
Deferred taxation (note 31)		
— current year	7,124	3,750
— effect of change in tax rate	2,100	—
	9,224	3,750
Share of PRC income tax of jointly controlled entities	35,127	34,574
Share of PRC income tax of associates	11,865	8,266
	46,992	42,840
	108,854	80,300

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries and associate are also entitled to reduced tax rates because they are classified as high technology entities under relevant rules. The current year's PRC income tax charges are arrived at after taking into account these various tax incentives.

The Group had no significant unprovided deferred taxation for the year.

## 10. PROFIT FOR THE YEAR

Of the Group's profit for the year, a profit of HK\$719,595,000 (2000: HK\$1,047,568,000) has been dealt with in the financial statements of the Company.

## 11. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
		(As restated)
Interim dividend of HK14 cents per share (2000: HK11 cents per share)	125,688	98,590
2000 final dividend of HK30 cents per share (1999 final dividend: HK22 cents per share)	269,756	195,016
Additional dividend due to exercise of share options/issue of new shares on subscription	47	—
Overprovision of final dividend resulting from repurchase of shares	—	(351)
	395,491	293,255

A final dividend of HK34 cents (2000 final dividend: HK30 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2001	2000
Earnings:		
Profit for the year and earnings for the purpose of basic and diluted earnings per share	HK\$1,202,534,000	HK\$1,134,669,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	898,671,854	891,633,057
Effect of dilutive potential ordinary shares — share options	12,503,406	17,897,513
Weighted average number of ordinary shares for the purpose of diluted earnings per share	911,175,260	909,530,570

## 13. INVESTMENT PROPERTY

THE GROUP  
HK\$'000

At valuation	
At 31st December, 2000 and 2001	12,000

The investment property was revalued at 31st December, 2001 by DTZ Debenham Tie Leung Limited, an independent property valuer, on an open market value existing use basis. This valuation did not give rise to any surplus or deficit during the year.

The Group's 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.

## 14. 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
<b>THE GROUP</b>						
<b>COST OR VALUATION</b>						
At 1st January, 2001	263,685	251,407	44,677	926,338	68,110	1,554,217
Acquired on acquisition of subsidiaries	21,339	1,137	—	18,669	—	41,145
Additions	8,921	65,150	5,199	47,180	107,875	234,325
Transfers/reclassifications	173,065	979	678	(9,204)	(165,518)	—
Disposals	(142)	(54,277)	(678)	(1,577)	—	(56,674)
At 31st December, 2001	466,868	264,396	49,876	981,406	10,467	1,773,013
Comprising:						
At cost	465,868	264,396	49,876	981,406	10,467	1,772,013
At valuation — 1996	1,000	—	—	—	—	1,000
	466,868	264,396	49,876	981,406	10,467	1,773,013
<b>DEPRECIATION AND AMORTISATION</b>						
At 1st January, 2001	43,592	104,257	34,037	394,780	—	576,666
Acquired on acquisition of subsidiaries	1,127	392	—	2,727	—	4,246
Provided for the year	12,496	36,871	3,335	55,412	—	108,114
Eliminated on disposals	(17)	(45,980)	(599)	(855)	—	(47,451)
At 31st December, 2001	57,198	95,540	36,773	452,064	—	641,575
<b>NET BOOK VALUE</b>						
At 31st December, 2001	409,670	168,856	13,103	529,342	10,467	1,131,438
At 31st December, 2000	220,093	147,150	10,640	531,558	68,110	977,551

In current year, land and buildings include certain assets carried at a cost or revaluation of HK\$7,721,450 (2000: HK\$2,549,620) in aggregate with accumulated depreciation of HK\$1,448,743 (2000: HK\$376,069) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounting to HK\$223,482 (2000: HK\$76,489).

**14. PROPERTY, PLANT AND EQUIPMENT (continued)**

In current year, plant and machinery includes certain assets carried at a cost of HK\$15,750,800 (2000: nil) in aggregate with accumulated depreciation of HK\$9,652,280 (2000: nil) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounting to HK\$1,575,080 (2000: nil).

	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
<b>COST</b>				
At 1st January, 2001	—	19,357	7,222	26,579
Additions	2,803	1,222	—	4,025
At 31st December, 2001	2,803	20,579	7,222	30,604
<b>DEPRECIATION</b>				
At 1st January, 2001	—	11,910	6,592	18,502
Provided for the year	37	3,525	489	4,051
At 31st December, 2001	37	15,435	7,081	22,553
<b>NET BOOK VALUE</b>				
At 31st December, 2001	2,766	5,144	141	8,051
At 31st December, 2000	—	7,447	630	8,077



## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
The net book value of property interests comprises:				
Properties held under				
— long leases in Macau	1,323	1,371	—	—
— medium-term leases in Hong Kong	288,720	136,711	—	—
— medium-term land use rights in the PRC	119,627	82,011	2,766	—
	409,670	220,093	2,766	—

The Group's land and buildings stated at 1996 valuation were valued at 31st December, 1996 by an independent firm of professional property valuers on an open market value basis before being transferred from investment properties. No further valuation has been carried out on these properties.

## 15. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of subsidiaries	914
Acquisition of additional interest in subsidiaries	244
At 31st December, 2001	1,158
AMORTISATION AND IMPAIRMENT	
Impairment loss during the year and at 31st December, 2001	(1,158)
NET BOOK VALUE	
At 31st December, 2001	—
At 31st December, 2000	—

## 16. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	803,449	800,077
Amounts due from subsidiaries	12,222,825	12,398,987
	<b>13,026,274</b>	<b>13,199,064</b>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year of the balance sheet date. Accordingly, such amounts have been classified as non-current. Details of the Company's principal subsidiaries at 31st December, 2001 are set out in note 42.

## 17. INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets of jointly controlled entities	1,785,508	1,639,845
Amounts due from jointly controlled entities	198,727	179,623
	<b>1,984,235</b>	<b>1,819,468</b>

The amounts due from jointly controlled entities are unsecured and repayable after one year. Except for an amount of approximately HK\$179.4 million (2000: HK\$168.2 million) which bears interest at commercial rate, the remaining balance is non-interest bearing.

Details of the Group's principal jointly controlled entities at 31st December, 2001 are set out in note 43.

## 18. INTEREST IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets of associates	1,638,797	284,084
Goodwill arising on acquisition of an associate/additional interest in an associate less amortisation	33,264	—
	1,672,061	284,084
Goodwill arising on acquisition of an associate/additional interest in an associate		
COST		
Arising on acquisition of an associate/additional interest in an associate and balance at 31st December, 2001	33,548	—
AMORTISATION		
Provided for the year and balance at 31st December, 2001	284	—
NET BOOK VALUE		
At 31st December, 2001	33,264	—

During the year, the Group acquired an approximately 17% equity interest in Semiconductor Manufacturing International Corporation ("SMIC"). The total consideration for the acquisition is approximately US\$185.6 million (approximately HK\$1,448 million). Part of the consideration of approximately HK\$1,089 million was paid and the unpaid portion of the consideration of approximately HK\$359 million is included in note 37.

In the opinion of the directors, the Group can exercise significant influence over the financial and operating policy decisions of SMIC and accordingly SMIC is classified as an associate.

The amortisation period adopted for goodwill ranges from five to twenty years.

Details of the Group's principal associates at 31st December, 2001 are set out in note 45.



## 19. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Unlisted investment in infrastructure projects		
— Yanan Road, at cost	1,405,344	1,405,344
— Inner Ring Road and the North-South Elevated Expressway, at cost	4,649,400	4,649,400
Less: Capital receipts from infrastructure projects	(472,679)	(361,740)
	5,582,065	5,693,004
Unlisted investments in other projects, at cost in		
— the PRC	114,230	127,887
— Hong Kong	5	5
Less: Impairment loss recognised	(19,600)	(13,227)
	94,635	114,665
Amounts due from investees, net of impairment loss	3	10,392
	5,676,703	5,818,061

The Group's investment in Yanan Road at 31st December, 2001 represents a 50.2% interest in the registered capital of 上海延安路高架道路發展有限公司 Shanghai Yanan Road Elevated Road Development Co., Ltd. ("Shanghai Yanan Road JV") which is a sino-foreign cooperative joint venture company established under the laws of the PRC for the period from 6th November, 1995 to 31st December, 2017 and is engaged in the construction, operation, management and maintenance of an elevated road in Shanghai, the PRC.

## 19. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS (continued)

Under the terms of the relevant joint venture agreement and operation management agreement, the Group is contracted to receive a pre-determined sum from Shanghai Yanan Road JV in quarterly instalments during the period from March 1997 to December 2017 as a return on its investment. Should the operating profit of Shanghai Yanan Road JV be inadequate to pay the required contracted instalments to the Group, then the shortfall and interest accrued thereon will be paid by the PRC joint venture partner of Shanghai Yanan Road JV. Any excess of the operating profit of Shanghai Yanan Road JV over the contracted instalment will not be shared by the Group and is attributable to the PRC joint venture partner. At the expiry of the cooperative period, the exclusive right to operate the Yanan Road will revert to the Shanghai Municipal People's Government at nil consideration and the remaining assets and liabilities of Shanghai Yanan Road JV will be attributable to the PRC joint venture partner.

The Group's investment in Inner Ring Road and the North-South Elevated Expressway at 31st December, 2001 represents a 35% interest in the registered capital of 上海新建設發展有限公司 Shanghai New Construction Development Co., Ltd. ("Shanghai New Construction JV") which is a sino-foreign cooperative joint venture company established under the laws of the PRC for the period from 18th April, 1997 to 30th April, 2017 and is engaged in the operation, management and maintenance of the Inner Ring Road and the North-South Elevated Expressway in Shanghai, the PRC.

Under the terms of the relevant joint venture agreement and operation management agreement, the Group is contracted to receive a pre-determined minimum sum from Shanghai New Construction JV in quarterly instalments during the period from June 1997 to April 2017 as a return on the investment. Should the profits of Shanghai New Construction JV available for distribution be inadequate to pay the required contracted minimum instalments to the Group, then the shortfall will be paid by the PRC joint venture partner of Shanghai New Construction JV. Any excess of profit of Shanghai New Construction JV available for distribution over the contracted minimum instalment, except to the extent of any additional amount payable to the Group pursuant to the operation management agreement, will not be shared by the Group and is attributable to the PRC joint venture partner. At the expiry of the cooperation period, the exclusive right to operate and manage the Inner Ring Road and the North-South Elevated Expressway will revert to the Shanghai Municipal People's Government at nil consideration and the remaining assets and liabilities of Shanghai New Construction JV will be attributable to the PRC joint venture partner.



## 19. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS (continued)

In addition to the infrastructure projects, the Group's other unlisted investments include principally interests in various companies established in the PRC which are engaged in the provision of printing services, manufacture of paper products, manufacture, sale of packaging materials and operation of a training centre. Pursuant to various addendums to the joint venture agreements with the respective PRC joint venture partners, the Group has forfeited its economic interests in connection with the operation and management of these companies in return for the receipt of contracted annual payments. The results, assets and liabilities of these investee companies are insignificant to the Group.

The amounts due from investees are unsecured and have no fixed repayment terms. Other than an amount of approximately HK\$9,377,000 which carried interest at commercial rates for the year ended 31st December, 2000, the remaining balances are non-interest bearing.

In the opinion of the directors, for the purpose of the preparation of the Group's consolidated financial statements, the above joint ventures are not regarded as the Group's subsidiaries, jointly controlled entities or associates because they carry contracted returns over the period of the respective joint venture.

In the opinion of the directors, the underlying value of the above unlisted investments are at least equal to their carrying values.

## 20. INVESTMENT IN SECURITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
<b>Investment securities</b>				
Unlisted and non-current equity securities:				
PRC	11,700	—	—	—
<b>Other investments</b>				
Equity securities:				
Listed	6,966	273,761	1,625	22,197
Unlisted	235,505	186,216	—	—
	242,471	459,977	1,625	22,197
Comprising				
Listed				
Hong Kong	6,873	245,724	1,625	22,197
PRC	93	28,037	—	—
Unlisted				
PRC	207,425	46,986	—	—
United States of America	28,080	131,040	—	—
Others	—	8,190	—	—
	242,471	459,977	1,625	22,197
Market value of listed securities	6,966	273,761	1,625	22,197
Carrying amount of other investments analysed for reporting purposes as:				
Current	1,718	248,792	1,625	22,197
Non-current	240,753	211,185	—	—
	242,471	459,977	1,625	22,197
Carrying amount of investment in securities analysed for reporting purposes as:				
Current	1,718	248,792	1,625	22,197
Non-current	252,453	211,185	—	—
	254,171	459,977	1,625	22,197



## 21. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

### THE GROUP

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities in Hong Kong.

## 22. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	268,593	309,031
Work in progress	21,598	15,520
Finished goods	49,881	63,662
Merchandise held for resale	33,248	29,837
	373,320	418,050

The inventories are stated at cost.

## 23. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$258,872,000 (2000: HK\$184,053,000) and their aged analysis is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade receivables:		
Within 30 days	119,841	86,505
Within 31 – 60 days	57,396	40,347
Within 61 – 90 days	39,471	29,806
Within 91 – 180 days	34,210	27,395
Within 181 – 360 days	2,277	—
Over 360 days	5,677	—
	258,872	184,053



## 24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$121,243,000 (2000: HK\$91,860,000) and their aged analysis is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade payables:		
Within 30 days	89,438	63,092
Within 31 – 60 days	15,380	11,901
Within 61 – 90 days	8,646	4,465
Within 91 – 180 days	6,294	4,581
Within 181 – 360 days	387	4,876
Over 360 days	1,098	2,945
	121,243	91,860

## 25. SHORT-TERM BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Current portion of long-term bank loans (note 30)	1,170,000	585,000	1,170,000	585,000
Short-term bank loans	40,280	14,673	—	—
Other short-term loans	16,412	16,067	—	—
	1,226,692	615,740	1,170,000	585,000
Analysed as:				
Secured	23,458	—	—	—
Unsecured	1,203,234	615,740	1,170,000	585,000
	1,226,692	615,740	1,170,000	585,000



## 26. ISSUED CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
— at 1st January, 2000, 31st December, 2000 and 31st December, 2001	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
— balance at 1st January, 2000	886,080,000	88,608
— exercise of share options	13,370,000	1,337
— shares repurchased and cancelled	(1,594,000)	(159)
— balance at 31st December, 2000	897,856,000	89,786
— exercise of share options	3,340,000	334
— shares repurchased and cancelled	(3,139,000)	(314)
— balance at 31st December, 2001	898,057,000	89,806

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$0.10 each	Price per share (HK\$)		Aggregate consideration paid HK\$'000
		Highest	Lowest	
March 2001	1,571,000	12.95	12.60	20,218
July 2001	1,568,000	13.00	12.80	20,307

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the accumulated profits of the Company as set out in note 28.

**26. ISSUED CAPITAL (continued)**

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

All the shares issued by the Company during the year ranked pari passu with the then existing shares in all respects.

**27. SHARE OPTIONS**

At 31st December, 2001, the following options to subscribe for shares were outstanding:

Month of grant	Exercise price per share HK\$	Number of shares subject to share options
August 1998	10.432	19,650,000
January 1999	9.568	22,300,000
September 2000	15.900	50,000,000
March 2001	10.496	7,630,000
July 2001	10.432	8,000,000
		<b>107,580,000</b>

Options granted in September 2000 are exercisable from 29th March, 2001 to 28th March, 2002. Other options granted are exercisable not earlier than six months nor later than three and a half years after the date the options are accepted.

## 28. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1st January				
— as originally stated	2,779,145	2,082,180	2,202,780	1,543,720
— prior period adjustment in respect of change in accounting policy for dividend recognition	269,756	195,016	269,756	195,016
— as restated	3,048,901	2,277,196	2,472,536	1,738,736
Profit for the year	1,202,534	1,134,669	719,595	1,047,568
Transfers to PRC statutory reserves, net of minority interests' share (note 29)	(51,965)	(49,196)	—	—
Dividends (note 11)	(395,491)	(293,255)	(395,491)	(293,255)
Shares repurchased and cancelled:				
Premium on shares	(40,211)	(20,354)	(40,211)	(20,354)
Transfer to capital redemption reserve	(314)	(159)	(314)	(159)
At 31st December	3,763,454	3,048,901	2,756,115	2,472,536

The accumulated profits of the Group include HK\$77.4 million (2000: HK\$11.1 million) retained by jointly controlled entities and HK\$77.8 million (2000: HK\$48.5 million) retained by associates.

The Company's reserve available for distribution to shareholders as at 31st December, 2001 represents the accumulated profits of HK\$2,756.1 million (2000: HK\$2,472.5 million).

## 29. OTHER RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill HK\$'000	PRC statutory reserves HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1st January, 2000	9,196,261	—	299	8,519	(89,913)	129,782	9,244,948
Premium arising on issue of shares	120,275	—	—	—	—	—	120,275
Expenses incurred in connection with the issue of shares	(90)	—	—	—	—	—	(90)
Transfer arising on shares repurchased and cancelled	—	159	—	—	—	—	159
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	(141)	—	—	(141)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	—	—	—	(213)	—	—	(213)
Share of PRC statutory reserves of an associate	—	—	—	—	—	(130)	(130)
Share of goodwill arising on acquisition of subsidiaries by jointly controlled entities	—	—	—	—	(23,394)	—	(23,394)
Goodwill arising on acquisition of subsidiaries/additional interests in a subsidiary	—	—	—	—	(414,901)	—	(414,901)
Goodwill arising on acquisition of jointly controlled entities	—	—	—	—	(482,661)	—	(482,661)
Capital reserve arising on acquisition of an associate	—	—	—	—	6,169	—	6,169
Realised on disposal and partial disposal of a jointly controlled entity	—	—	—	(90)	684	(1,368)	(774)
Realised on disposal and partial disposal of interests in subsidiaries	—	—	—	—	2,112	—	2,112
Transfers, net of minority interests' share (note 28)	—	—	—	—	—	49,196	49,196
At 31st December, 2000	9,316,446	159	299	8,075	(1,001,904)	177,480	8,500,555
Premium arising on issue of shares	33,652	—	—	—	—	—	33,652
Expenses incurred in connection with the issue of shares	(49)	—	—	—	—	—	(49)
Transfer arising on shares repurchased and cancelled	—	314	—	—	—	—	314
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	(162)	—	—	(162)
Share of PRC statutory reserves of an associate	—	—	—	—	—	(648)	(648)
Realised on deemed disposal of interest in a jointly controlled entity	—	—	—	—	648	(454)	194
Realised on partial disposal of an associate	—	—	—	—	—	(673)	(673)
Transfers, net of minority interests' share (note 28)	—	—	—	—	—	51,965	51,965
At 31st December, 2001	9,350,049	473	299	7,913	(1,001,256)	227,670	8,585,148



## 29. OTHER RESERVES (continued)

The goodwill comprises approximately HK\$2,242 million (2000: HK\$2,243 million) in respect of goodwill, approximately HK\$103 million (2000: HK\$103 million) in respect of negative goodwill and approximately HK\$1,138 million (2000: HK\$1,138 million) in respect of capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong.

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1st January, 2000	9,196,261	—	1,137,728	10,333,989
Premium arising on issue of shares	120,275	—	—	120,275
Expenses incurred in connection with the issue of shares	(90)	—	—	(90)
Transfer arising on shares repurchased and cancelled	—	159	—	159
At 31st December, 2000	9,316,446	159	1,137,728	10,454,333
Premium arising on issue of shares	33,652	—	—	33,652
Expenses incurred in connection with the issue of shares	(49)	—	—	(49)
Transfer arising on shares repurchased and cancelled	—	314	—	314
At 31st December, 2001	9,350,049	473	1,137,728	10,488,250

The Company's capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong was not realised profits and is an undistributable reserve.

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

## 30. UNSECURED LONG-TERM BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans	1,170,000	1,755,000	1,170,000	1,755,000
Other loan	4,187	—	—	—
	1,174,187	1,755,000	1,170,000	1,755,000
Less: Bank and other borrowings due within one year included under current liabilities (note 25)	(1,170,000)	(585,000)	(1,170,000)	(585,000)
Amount due after one year	4,187	1,170,000	—	1,170,000
The bank and other borrowings are repayable as follows:				
Within one year	1,170,000	585,000	1,170,000	585,000
Between one to two years	4,187	1,170,000	—	1,170,000
	1,174,187	1,755,000	1,170,000	1,755,000



### 31. DEFERRED TAXATION

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Balance brought forward	74,800	71,050
Charge for the year (note 9)	9,224	3,750
Balance carried forward	84,024	74,800

The deferred tax liability represents principally the tax effect of timing differences arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements.

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

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of property in the PRC as it is not expected that the potential deferred taxation liability will crystallise in the foreseeable future.



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

	2001 HK\$'000	2000 HK\$'000
Profit from ordinary activities before taxation	1,489,969	1,314,567
Dividend income from listed investments	(2,845)	(14,143)
Income from unlisted investments, other than infrastructure projects	(11,004)	(2,913)
Interest income	(137,941)	(273,533)
Interest on borrowings	93,771	135,560
Rental income	(3,717)	(2,387)
Share of results of jointly controlled entities	(266,846)	(225,649)
Share of results of associates	(72,370)	(42,475)
Impairment loss of goodwill	1,158	—
Depreciation and amortisation of property, plant and equipment	108,114	98,588
Net unrealised holding (gain) loss on investment in securities	(1,135)	9,846
Gain on disposal of investment in securities	(46,048)	(51,568)
Loss (gain) on disposal of property, plant and equipment	969	(5,780)
Loss on disposal and partial disposal of interests in subsidiaries	2,886	2,474
Gain on partial disposal of an associate	(1,552)	—
Gain on disposal and partial disposal of interest in jointly controlled entities	—	(19,822)
Gain on deemed disposal of interest in a jointly controlled entity	(155,694)	—
Impairment loss on investments in infrastructure and other projects	17,277	9,823
Impairment loss on interest in a jointly controlled entity	—	2,100
Impairment loss on investment in securities	17,410	—
Decrease in inventories	49,191	94,889
Decrease in trade and other receivables	171,852	6,525
(Decrease) increase in trade and other payables	(46,616)	118,367
Net cash inflow from operating activities	1,206,829	1,154,469



### 33. PURCHASE OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	36,899	—
Interest in a jointly controlled entity	—	164,411
Inventories	4,461	—
Trade and other receivables	378	—
Bank balances and cash	7,159	—
Trade and other payables	(6,578)	—
Bank loans	(30,137)	—
Minority interests	(2,303)	—
	9,879	164,411
Goodwill arising on the Group's acquisition of subsidiaries	914	390,000
Goodwill arising on the subsidiary's acquisition of a jointly controlled entity	—	381,589
	914	771,589
	10,793	936,000
Satisfied by:		
Investment in infrastructure and other projects	6,116	—
Interest in an associate	(586)	—
Cash consideration paid	5,263	936,000
	10,793	936,000
Net inflow (outflow) of cash and cash equivalents in connection with the purchase of subsidiaries:		
Bank balances and cash acquired	7,159	—
Cash paid	(5,263)	(936,000)
	1,896	(936,000)

**33. PURCHASE OF SUBSIDIARIES (continued)**

The subsidiaries acquired during the year contributed HK\$8,140,910 to the Group's net operating cash flows, paid HK\$2,990,109 in respect of the net returns on investments and servicing of finance, utilised HK\$10,339,881 for investing activities and raised HK\$905,317 in respect of financing activities.

The subsidiaries acquired during the year contributed HK\$42,169,030 and HK\$4,453,347 to the Group's turnover and profit before taxation respectively.

**34. DISPOSAL OF A SUBSIDIARY**

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	19
Inventories	—	16
Trade and other receivables	—	452
Bank balances and cash	—	312
Trade and other payables	—	(437)
Net assets	—	362
Attributable goodwill previously written off against reserves	—	2,112
Loss on disposal of a subsidiary	—	(2,474)
	—	—
Satisfied by:		
Cash consideration received	—	—
Analysis of net outflow of cash and cash equivalents in connection with the disposal of a subsidiary:		
Cash consideration received	—	
Bank balances and cash disposed of	—	(312)
Net outflow of cash and cash equivalents in connection with the disposal a subsidiary	—	(312)

The subsidiary disposed of during the year ended 31st December, 2000 did not have significant impact on the Group's cash flows or operating results for the year.



## 35. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Issued capital, share premium and capital redemption reserve HK\$'000	Minority interests HK\$'000	Bank and other loans HK\$'000
At 1st January, 2000	9,284,869	369,407	2,390,561
Issue of shares for cash	121,612	—	—
Expenses incurred in connection with the issue of shares	(90)	—	—
Shares repurchased and cancelled			
Consideration paid	(20,513)	—	—
Premium charged to accumulated profits	20,354	—	—
Transfer from accumulated profits	159	—	—
Capital contributions in cash by minority shareholders of subsidiaries	—	1,946	—
Acquired on increasing the Group's interest in a subsidiary	—	(25,332)	—
Share of profits by minority shareholders of subsidiaries	—	99,598	—
Dividends paid to minority shareholders of subsidiaries	—	(44,557)	—
Borrowings raised	—	—	25,319
Repayments during the year	—	—	(630,140)
At 31st December, 2000	9,406,391	401,062	1,785,740
Issue of shares for cash	33,986	—	—
Expenses incurred in connection with the issue of shares	(49)	—	—
Shares repurchased and cancelled			
Consideration paid	(40,525)	—	—
Premium charged to accumulated profits	40,211	—	—
Transfer from accumulated profits	314	—	—
Capital contributions in cash by minority shareholders of subsidiaries	—	27,612	—
Acquired on increasing the Group's interest in subsidiaries	—	(3,379)	—
Acquired on acquisition of subsidiaries	—	2,303	30,137
Increase in minority interests arising on partial disposal of subsidiaries	—	3,026	—
Share of profits by minority shareholders of subsidiaries	—	178,581	—
Dividends paid and payable to minority shareholders of subsidiaries	—	(126,896)	—
Borrowings raised	—	—	21,074
Repayments during the year	—	—	(606,072)
At 31st December, 2001	9,440,328	482,309	1,230,879

### 36. OPERATING LEASE ARRANGEMENTS

#### The Group as lessee

At the balance sheet date, the Group and the Company had commitments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	48,379	49,701	4,190	4,284
In the second to fifth year inclusive	170,557	174,428	1,732	67
After five years	327,674	244,945	—	—
	546,610	469,074	5,922	4,351

Operating lease payments represent rental payable by the Group and the Company for certain office and factory properties. Leases are negotiated for an average term of 20 years and rentals are fixed for an average of 2 years.

Included in the above are operating lease commitments for land and buildings of approximately HK\$542 million (2000: HK\$467 million) and HK\$5.9 million (2000: HK\$4.4 million) payable by the Group and the Company respectively to the ultimate holding company and fellow subsidiaries.

The Group and the Company had no significant operating lease commitments for equipment and motor vehicles at the balance sheet date.

### 36. OPERATING LEASE ARRANGEMENTS (continued)

#### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP			
	Land and buildings		Plant and machinery	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	755	2,109	2,131	—
In the second to fifth year inclusive	1,770	8,540	6,393	—
After five years	—	1,442	—	—
	2,525	12,091	8,524	—

The Company had no significant operating lease arrangements at the balance sheet date.

### 37. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investment in SMIC	358,581	—
— investments in the PRC the subsidiaries and jointly controlled entities	163,263	45,480
— acquisition of property, plant and equipment	17,458	160,340
— additions in construction in progress	5,641	—
	544,943	205,820
Capital expenditure authorised but not contracted for in respect of		
— investments in the PRC subsidiaries and jointly controlled entities	186,916	186,916

## 37. CAPITAL COMMITMENTS (continued)

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

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investments in the PRC subsidiaries and jointly controlled entities	12,070	9,202
— acquisition of property, plant and equipment	41,553	128,173
— additions in construction in progress	1,645	—
	55,268	137,375
Capital expenditure authorised but not contracted for in respect of		
— acquisition of property, plant and equipment	—	22,959

## 38. OTHER COMMITMENTS

At the balance sheet date, there were outstanding interest rate hedging contracts entered into by the Company with certain financial institutions to hedge the floating interest rate risk of the Company's bank loans of US\$150 million (2000: US\$225 million).



### 39. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in respect of banking facilities extended to				
— subsidiaries	—	—	215,000	220,120
— jointly controlled entities	49,533	—	—	—
	49,533	—	215,000	220,120

Details of contingent liabilities given by the Group and the Company to connected persons are set out in note 42 (I)(c).

### 40. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits scheme for their qualifying employees. To comply with the Mandatory Provident Fund Schemes Ordinance (the "MPFO"), a Mandatory Provident Fund Scheme (the "MPF Scheme") has also been established. New employees joined on or after 1st December, 2000, however, must join the MPF Scheme. The assets of both 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 defined contribution retirement benefits scheme 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 in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the balance sheet date, no forfeited contributions are available to reduce the contribution payable in the future years.



## 41. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

## (I) Connected Persons

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

Connected persons	Nature of transaction	THE GROUP	
		2001 HK\$'000	2000 HK\$'000
<b>Transactions</b>			
<i>Ultimate holding company:</i>			
Shanghai Industrial Investment (Holdings) Company Limited	Rentals paid on land and buildings (note (ii))	8,179	8,245
<i>Fellow subsidiaries:</i>			
Nanyang Enterprises Properties Limited	Rentals paid on land and buildings (note (ii))	19,800	19,800
SIIC Estate Company Limited	Rentals paid on land and buildings (note (ii))	969	969
上海實業發展有限公司 (Shanghai SIIC Development Ltd.)	Rentals paid on land and buildings (note (ii))	18,978	18,979
上海上實(集團)有限公司 (SIIC Shanghai Holdings Co., Ltd.)	Rentals paid on land and buildings (note (ii))	1,810	1,589
<i>Joint venture partners of the Company's PRC subsidiaries:</i>			
中國(杭州)青春寶集團公司 (China (Hangzhou) Qingchunbao Group Co.)	Sales of finished medicine and health products (note (ii))	41	28,913
("China Qingchunbao") and its subsidiaries	Purchase of raw materials (note (ii))	2,621	1,429
<b>Balances</b>			
<i>Joint venture partner of the Company's PRC subsidiary:</i>			
China Qingchunbao and its subsidiaries	Balance at 31st December		
	— trade receivables	147	2,543
	— trade payables	1,116	173
	— dividend payable	50,000	—



## 41. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (I) Connected Persons (continued)

Notes:

- (i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.
  - (ii) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage profit mark-up.
- (b) Details of operating lease commitments with connected parties are set out in note 36.
- (c) As at 31st December, 2001, the Company had given guarantees amounting to approximately HK\$39 million (2000: HK\$35 million) to various banks in respect of credit facilities granted to The Wing Fat Printing Company, Limited ("Wing Fat") which is 93.3% indirectly owned by the Group. Also, the Group had provided advances to Wing Fat for financing its operations. As at 31st December, 2001, the Group had advanced approximately HK\$159 million (2000: HK\$159 million) to Wing Fat. The advances are unsecured, interest-free and have no fixed repayment terms. The guarantees given by the Company and advances made by the Group were the only financial assistance given by Wing Fat's shareholders to Wing Fat.

As at 31st December, 2000, the Company had given a guarantee amounting to HK\$5 million to a bank in respect of credit facilities granted to SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") which was a non-wholly owned subsidiary of the Group. The guarantee given by the Group was the only financial assistance given by the shareholders of SIIC MedTech to SIIC MedTech. The guarantee was released during the year.

## 41. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (II) Related Parties, Other Than Connected Persons

- (a) The significant transactions with related parties, other than connected persons, during the year, and significant balances with them at the balance sheet date, are as follows:

Related parties	Nature of transaction	THE GROUP	
		2001 HK\$'000	2000 HK\$'000
Transactions			
Jointly controlled entities:			
Sonconpak Limited	Purchase of packing materials (note (i))	—	1,712
Dragon Wealth Assets Limited	Service income (note (ii))	1,919	1,914
	Promotional expenses paid (note (ii))	3,724	7,453
Daily Wealth Investments Limited	Purchase of finished goods (note (i))	1,418	2,944
	Material cost received (note (i))	529	1,520
Associate:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Collection made on behalf of the group	23,289	5,474
	Payment made on behalf of the Group	21,364	9,346
Balances			
Jointly controlled entities:			
Dragon Wealth Assets Limited	Balance at 31st December — long-term receivable (note (iii))	3,120	3,120
Shanghai Jahwa United Co., Ltd.	Balance at 31st December — loan receivable (note (iii))	4,000	—
Mergen Holdings Ltd.	Balance at 31st December — long-term receivable (note (iii))	195,217	176,113
Associates:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Balance at 31st December — other receivable	19,037	18,004
	— short-term loan (note (iv))	7,541	—
濟南泉永印務有限公司 (Jinan Quanyong Printing Co., Ltd.)	Balance at 31st December short-term loan (note (iv))	—	3,738



## 41. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (II) Related Parties, Other Than Connected Persons (continued)

Notes:

- (i) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage profit mark-up.
  - (ii) These transactions were carried out in accordance with the terms of the agreement entered into between the relevant parties.
  - (iii) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
  - (iv) The loan is unsecured, bears interest at commercial rates and is repayable on demand.
- (b) As at 31st December, 2001, the Group had fixed bank deposits of approximately HK\$28 million (2000: nil) and HK\$21 million (2000: nil) pledged to banks in respect of banking facilities granted to an associate and a jointly controlled entity respectively.

## 42. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/registered capital	Percentage of issued/ registered capital held by the attributable		Principal activities
			Company/ subsidiaries	to the Group	
S.I. Infrastructure Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	100%	Investment holding
SIHL Treasury Limited	Hong Kong	Ordinary shares – HK\$2	100%	100%	Provision of treasury management services
SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech")	Cayman Islands/ Hong Kong	Ordinary shares – HK\$62,000,000	64.3%	64.3%	Investment holding
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.)	PRC	RMB128,500,000	55%	35.4%	Manufacture and sale of Chinese medicine and health food
Nanyang Tobacco (Marketing) Company, Limited	British Virgin Islands/PRC and Macau	Ordinary shares – US\$1 – HK\$100,000,000	100%	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares – HK\$2	100%	100%	Manufacture of cigarettes
		Non-voting deferred shares – HK\$8,000,000	—	—	
上海東方商廈有限公司 (Shanghai Orient Shopping Centre Ltd.)	PRC	RMB37,340,000	51%	51%	Management and operation of a shopping centre
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares – HK\$2,000,000	93.3%	93.3%	Manufacture and sale of packaging materials and printed products
		Non-voting deferred shares – HK\$1,829,510	—	—	

With the exception of S. I. Infrastructure Holdings Limited and SIHL Treasury Limited, all the above subsidiaries are indirectly held by the Company.



## 42. PRINCIPAL SUBSIDIARIES (continued)

None of the deferred shares are held by the Group. The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have practically no rights to dividends or to participate in any distributions on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

## 43. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31st December, 2001 and which are all established in the PRC are as follows:

Name of jointly controlled entity	Percentage of registered capital		Principal activities
	held by the subsidiaries	attributable to the Group	
Mergen Limited	50%	50%	Research and development of biotechnology products
上海光明乳業有限公司 (Shanghai Bright Dairy and Food Co., Ltd.)	40%	40%	Manufacture, distribution and sale of dairy and related products
上海滙眾汽車製造有限公司 (Shanghai Huizhong Automotive Manufacturing Company Limited) ("Shanghai Huizhong")	50%	50%	Manufacture and sale of automobile components and spare parts
上海萬眾汽車零件有限公司 (Shanghai Wanzhong Automotive Components Co., Ltd.)	50%	50%	Manufacture and sale of automobile components and spare parts
上海三維製藥有限公司 (Shanghai Sunve Pharmaceutical Co., Ltd.)	48%	48%	Manufacture and sale of pharmaceutical products
上海三維生物技術有限公司 (Shanghai Sunway Biotech Co., Ltd.)	90%	49.8%	Manufacture and sale of pharmaceutical products
上海市信息投資股份有限公司 (Shanghai Information Investment Inc.)	20%	20%	Development of communication infrastructure and cable network and provision of internet-related services

**43. PRINCIPAL JOINTLY CONTROLLED ENTITIES (continued)**

All the above jointly controlled entities are indirectly held by the Company.

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

A summary of the financial information of Shanghai Huizhong, the major jointly controlled entity of the Group, is set out in note 44.

**44. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP'S MAJOR JOINTLY CONTROLLED ENTITY**

The following is a summary of the financial information extracted from the audited financial statements of Shanghai Huizhong for the year ended 31st December, 2001:

**Consolidated results for the year:**

For the year ended 31st December

	Shanghai Huizhong	
	2001 HK\$'000	2000 HK\$'000
Turnover	3,371,696	3,122,674
Profit from ordinary activities before taxation	289,536	305,872
Profit from ordinary activities before taxation attributable to the Group	144,768	152,936



#### 44. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP'S MAJOR JOINTLY CONTROLLED ENTITY (continued)

##### Consolidated financial position:

At 31st December

	2001 HK\$'000	2000 HK\$'000
Non-current assets	1,332,663	1,476,572
Current assets	1,612,956	1,641,733
Current liabilities	(896,809)	(1,135,719)
Net assets	2,048,810	1,982,586
Net assets attributable to the Group	1,024,405	991,293



## 45. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December, 2001 and which are all established in the PRC are as follows:

Name of associates	Percentage of registered capital		Principal activities
	held by the subsidiaries	attributable to the Group	
Semiconductor Manufacturing International Corporation	17%	17%	Investment holding and manufacture and marketing of advanced technology semiconductors
上海家化聯合股份有限公司 (Shanghai Jahwa United Co., Ltd.)	28.15%	18.1%	Manufacture, distribution and sale of personal care and cosmetics products
濟南泉永印務有限公司 (Jinan Quanyong Printing Co., Ltd.)	48%	45%	Provision of printing services
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	29%	27%	Manufacture of stamping foil
上海實業交通電器有限公司 (Shanghai SINC Transportation Electric Co., Ltd.)	30%	30%	Manufacture, distribution and sale of automobile components
上海乾通汽車附件有限公司	31.5%	31.5%	Manufacture, distribution and sales of automobile components
浙江天外煙草印刷有限公司 (Zhejiang Tianwai Tobaccos Printing Co., Ltd.)	35%	33%	Provision of printing services

All the above associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.



#### 46. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company has entered into a syndicated loan agreement relating to term loan and revolving credit facilities of HK\$1.6 billion. The loan is unsecured, bears interest at commercial rates and is repayable before 30th April, 2007.

#### 47. SEGMENT INFORMATION

For management purposes, the Group is currently organised into five operating divisions — consumer products/retailing, infrastructure and modern logistics, Chinese medicine and health food, automotive parts and information technology. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Consumer products/retailing	— manufacture and sale of cigarettes, packaging materials and printed products and operation of a shopping centre
Infrastructure and modern logistics	— investment in elevated road projects and modern logistic projects
Chinese medicine and health food operated under SIIC MedTech	— manufacture and sale of Chinese medicine and health food
Automotive parts	— manufacture and sale of automobile components and spare parts
Information technology	— development of communication infrastructure and information technology business

## 47. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

2001

	Consumer products/ retailing HK\$'000	Infrastructure and modern logistics HK\$'000	SIIC MedTech HK\$'000	Automotive parts HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
Income statement:						
External sales	1,756,014	719,493	723,911	—	—	3,199,418
Segment results	171,705	718,245	150,109	—	—	1,040,059
Less: Net corporate administrative expenses						(87,836)
Add: Interest income						137,941
Profit from operations						1,090,164
Interest on bank and other borrowings wholly repayable within five years						(93,771)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities						154,360
Share of results of jointly controlled entities	67,622	(301)	259	146,388	52,878	266,846
Share of results of associates	26,571	—	27,576	19,830	(1,607)	72,370
Profit from ordinary activities before taxation						1,489,969
Taxation						(108,854)
Profit from ordinary activities after taxation						1,381,115



## 47. SEGMENT INFORMATION (continued)

2001

	Consumer products/ retailing HK\$'000	Infrastructure and modern logistics HK\$'000	SIIC MedTech HK\$'000	Automotive parts HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:							
ASSETS							
Segment assets	2,324,922	5,923,964	750,708	161,028	291,639	—	9,452,261
Interest in jointly controlled entities	452,772	54,299	15,360	1,116,954	344,850	—	1,984,235
Interest in associates	133,075	—	284,012	153,571	1,101,403	—	1,672,061
Unallocated corporate assets							1,727,647
Consolidated total assets							14,836,204
LIABILITIES							
Segment liabilities	389,525	6,548	212,152	—	1,384	—	609,609
Unallocated corporate liabilities							1,305,878
Consolidated total liabilities							1,915,487
Other information:							
Capital additions	253,338	691	11,962	—	1,073	4,160	271,224
Depreciation and amortisation	91,243	22	11,573	—	35	5,241	108,114
Impairment losses	1,158	—	—	—	17,410	17,277	35,845

## 47. SEGMENT INFORMATION (continued)

2000

	Consumer products/ retailing HK\$'000	Infrastructure and modern logistics HK\$'000	SIIC MedTech HK\$'000	Automotive parts HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
Income statement:						
External sales	1,694,550	732,537	533,434	—	—	2,960,521
Segment results	130,036	731,938	112,660	—	—	974,634
Less: Net corporate administrative expenses						(83,512)
Add: Interest income						273,533
Profit from operations						1,164,655
Interest on bank and other borrowings wholly repayable within five years						(135,560)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities						17,348
Share of results of jointly controlled entities	28,603	—	23,490	151,988	21,568	225,649
Share of results of associates	25,398	—	—	18,593	(1,516)	42,475
Profit from ordinary activities before taxation						1,314,567
Taxation						(80,300)
Profit from ordinary activities after taxation						1,234,267



## 47. SEGMENT INFORMATION (continued)

2000

	Consumer products/ retailing HK\$'000	Infrastructure and modern logistics HK\$'000	SIIC MedTech HK\$'000	Automotive parts HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:							
ASSETS							
Segment assets	2,538,785	6,304,605	633,468	98,109	224,723	—	9,799,690
Interest in jointly controlled entities	436,182	—	120,016	1,045,462	217,808	—	1,819,468
Interest in associates	123,649	—	—	146,507	13,928	—	284,084
Unallocated corporate assets							2,591,200
Consolidated total assets							14,494,442
LIABILITIES							
Segment liabilities	382,647	6,548	125,583	53,040	235	—	568,053
Unallocated corporate liabilities							1,886,085
Consolidated total liabilities							2,454,138
Other information:							
Capital additions	77,618	—	7,993	—	—	5,444	91,055
Depreciation and amortisation	82,037	—	10,785	—	—	5,766	98,588
Impairment losses	11,923	—	—	—	—	—	11,923
Non-cash expense	—	—	—	—	—	9,846	9,846

## 47. SEGMENT INFORMATION (continued)

## Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services.

	Sales revenue by geographical market		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
PRC	2,471,323	2,229,556	969,930	912,031
South-East Asia	303,321	302,767	20,969	19,335
Other Asian countries	140,922	158,091	24,602	14,838
Hong Kong	124,068	124,372	14,083	16,940
Other areas	159,784	145,735	10,475	11,490
	3,199,418	2,960,521	1,040,059	974,634
Less: Net corporate administrative expenses			(87,836)	(83,512)
Add: Interest income			137,941	273,533
Profit from operations			1,090,164	1,164,655

The Group's consumer products/retailing division is located in the PRC and Hong Kong while the infrastructure and modern logistics division, SIIIC MedTech division, automotive parts division and information technology division are located in the PRC.



#### 47. SEGMENT INFORMATION (continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Geographical region				
PRC	11,032,885	9,328,390	74,974	21,868
South-East Asia	13,146	1,761	—	—
Hong Kong	3,761,063	5,031,166	195,254	69,187
Other areas	29,110	133,125	996	—
	14,836,204	14,494,442	271,224	91,055



	Year ended 31st December,				
	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
RESULTS					
Turnover	3,556,846	3,557,772	3,300,590	2,960,521	3,199,418
Profit from operations	768,473	1,267,751	1,016,380	1,164,655	1,090,164
Finance costs	(145,672)	(188,288)	(178,590)	(135,560)	(93,771)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities	725	—	105,765	17,348	154,360
Share of results of jointly controlled entities	197,031	156,472	145,618	225,649	266,846
Share of profits of associates	28,740	35,811	40,638	42,475	72,370
Profit from ordinary activities before taxation	849,297	1,271,746	1,129,811	1,314,567	1,489,969
Taxation	(82,301)	(67,991)	(43,259)	(80,300)	(108,854)
Profit before minority interests	766,996	1,203,755	1,086,552	1,234,267	1,381,115
Minority interests	(18,631)	(49,957)	(75,300)	(99,598)	(178,581)
Profit for the year	748,365	1,153,798	1,011,252	1,134,669	1,202,534
Earnings per share — basic	HK\$0.94	HK\$1.37	HK\$1.14	HK\$1.27	HK\$1.34
As at 31st December,					
	1997 HK\$'000 (As restated)	1998 HK\$'000 (As restated)	1999 HK\$'000 (As restated)	2000 HK\$'000 (As restated)	2001 HK\$'000
ASSETS AND LIABILITIES					
Total assets	13,117,064	14,907,441	14,980,454	14,494,442	14,836,205
Total liabilities	(3,516,023)	(3,801,773)	(3,000,295)	(2,454,138)	(1,915,488)
Minority interests	(268,693)	(332,084)	(369,407)	(401,062)	(482,309)
Shareholders' funds	9,332,348	10,773,584	11,610,752	11,639,242	12,438,408
Shareholders' equity per share	HK\$11.15	HK\$12.22	HK\$13.10	HK\$12.96	HK\$13.85

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of Shanghai Industrial Holdings Limited (the “Company”) will be held at the Conference Room of the Company at 26/F., Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Friday, 31st May, 2002 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited Consolidated Financial Statements of the Company and the Reports of the Directors and the Auditors for the year ended 31st December, 2001.
2. To declare the final dividend for the year ended 31st December, 2001.
3. (a) To re-elect directors.  
  
(b) To authorise the board of directors to fix their remuneration.
4. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
5. As Special Business, to consider and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“**THAT:**

- A. subject to the following provisions of this Resolution and pursuant to Section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- B. the approval in paragraph (A) of this Resolution shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
- C. the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (A) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), (ii) the exercise of the subscription or conversion rights attaching to any warrants, convertible bonds or other securities issued by the Company which are convertible into shares of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of

shares or rights to acquire shares in the capital of the Company, or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

D. for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- i. the conclusion of the next annual general meeting of the Company.
- ii. the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Hong Kong to be held; and
- iii. the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Company or by the Directors of the Company to holders of shares on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

6. As Special Business, to consider and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- A. subject to paragraph (B) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase ordinary shares in the capital of the Company (“Shares”) and warrants of any type that may from time to time be issued by the Company (“Warrants”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in



accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

- B. the aggregate nominal amount of Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (A) of this Resolution shall not exceed 10% of the aggregate nominal amount of the Shares in issue at the date of the passing of this Resolution and the aggregate number of Warrants which may be repurchased by the Company pursuant to such approval shall not exceed 10% of the aggregate amount of the outstanding Warrants to subscribe for Shares in issue as at the date of passing of this Resolution and the authority pursuant to paragraph (A) of this Resolution shall be limited accordingly; and

- C. for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- i. the conclusion of the next annual general meeting of the Company;
- ii. the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws of Hong Kong to be held; and
- iii. the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”

7. As Special Business, to consider and if thought fit, pass with or without any amendments, the following resolution as an Ordinary Resolution:

“**THAT** conditional upon resolutions Nos. 5 and 6 set out in the notice convening this meeting being duly passed, the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot and issue shares pursuant to resolution No. 5 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to

resolution No. 6 set out in the notice convening this meeting, provided that such an amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution.”

By Order of the Board

**Roger L. C. Leung**

*Company Secretary*

Hong Kong, 15th April, 2002

*Registered Office:*

26th Floor,  
Harcourt House,  
39 Gloucester Road,  
Hong Kong.

**Notes:**

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed.
3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the registered office of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed from 29th May, 2002, (Wednesday) to 31st May, 2002, (Friday), both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the dividend to be approved at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by 4:00 p.m. on 28th May, 2002, (Tuesday).