SHANGHAI
INDUSTRIAL HOLDINGS LIMITED

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ANNUAL REPORT 2000

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

A Member of SIIC

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Company Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Leung Lin Cheong, Roger

AUTHORISED REPRESENTATIVES

Mr. Zhuo Fu Min
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 (Hong Kong)
Morrison & Foerster (U.S.A.)
Fangda Partners (P.R.C.)
Pu Dong Law Office (P.R.C.)

PRINCIPAL BANKERS

Bank of China
Bank of Communications
Hang Seng Bank Limited
Kincheng Banking Corporation
The Chase Manhattan Bank
The China and South Sea Bank Limited
The China State Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
The Kwangtung Provincial Bank
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 and Senior Management Profile

DIRECTORS

Executive Directors

Mr. CAI Lai Xing, aged 58, is the Chairman of the Group, the Chairman and the President 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. Prior to that, he was 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 54, is the Vice Chairman of the Group, the Vice Chairman and Executive Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is also a Director of Everbright Bank of China, Shanghai Pudong Development Bank and Shenyin Wanguo Holdings Limited. 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 36 years of experience in economics, financial research and banking business and management.

Mr. ZHUO Fu Min, aged 49, is an Executive Director and the Chief Executive Officer of the Group, an Executive Director and Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman of SIIC Medical Science and Technology (Group) Limited, Nanyang Brothers Tobacco Company, Limited, Chia Tai Qingchunbao Pharmaceutical Co., Ltd., the Chairman of Shanghai Orient Shopping Centre Ltd. and a Director of Shanghai Information Investment Inc. 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 to Director of the Shanghai Municipal Economic System Reform Committee. He has more than 24 years of experience in running joint stock companies and corporate management.

Mr. LU Da Yong, aged 53, is an Executive Director and the Executive Deputy CEO of the Group, and Executive Director of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Director and General Manager of Nanyang Brothers Tobacco Company Limited, the Vice Chairman of Shanghai Huizhong Automotive Manufacturing Co., Ltd., Shanghai Wanzhong Automotive Components Co., Ltd., Shanghai Yanan Road Elevated Road Development Company Limited and Shanghai New Construction Development 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 33 years of experience in the tobacco industry.

Mr. LI Wei Da, aged 53, is an Executive Director and the Deputy CEO of the Group and the Managing Director of SIIC Medical Science and Technology (Group) Limited. He is also a Director of Shanghai Sunve Pharmaceutical Co., Ltd. Mr. Li was the Deputy General Manager of Shanghai Bearing Limited. He has over 32 years of experience in industrial enterprise management.

Mr. LU Yu Ping, aged 48, is an Executive Director and Deputy CEO of the Group. He is also the Vice Chairman of Shanghai SIIC Transportation Electric Co., Ltd., the Chairman of Shanghai Optical Communications Development Co., Ltd., the Vice Chairman of Shanghai Communication Technologies Centre and a Director of SIIC America Do Sul Ltda and SIIC Finance Company Limited. Mr. Lu graduated from Shanghai Finance and Economics University majored in finance, after then, he studied in Heriot-Watt University in U.K. and holds 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 Deusche Bank. He was also the Vice President of Shanghai Wan Tai (Group) Co., Ltd. He has over 23 years of experience in business finance, investment and enterprise management.

Mr. YU Li, aged 51, is an Executive Director of the Group, the Vice Chairman and Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman and President of SIIC Shanghai Holdings Co., Ltd. He graduated from Fudan University with a master’s degree in economics and holds the designation of senior economist. He was a Director of Shanghai Huangpu District Real Estate Management Bureau and a Director of the Land Management Bureau, a Deputy Director of Huangpu District, a Deputy General Manager of Lu Jia Zui Development Co. and the Vice Chairman and General Manager of Waigaoqiao Bonded Area New Development Company Limited.

Mr. CAO Fu Kang, aged 61, is an Executive Director of the Group, a Director of Shanghai Industrial Investment (Holdings) Company Limited, the Chairman of SIIC Management (Shanghai) Limited and SIIC International Investment 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 35 years of experience in enterprise management and product development.

Mr. WEN Song Quan, aged 54, is an Executive Director of the Group, a Director of Shanghai Industrial Investment (Holdings) Company Limited and the Chairman and General Manager 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 37 years of experience in printing management.

Mr. GE Wen Yao, aged 54, is an Executive Director of the Group, a Director of SIIC Medical Science and Technology (Group) Limited, and the Chairman of Shanghai Jahwa United Co., Ltd. and 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 Shanghai Johnson Co., of Sino-America JV. He has over 26 years of experience in cosmetics business management.

Mr. HUANG Yan Zheng, aged 54, is an Executive Director of the Group and the Chairman of Shanghai Sunve Pharmaceutical Co., Ltd. He is also the Vice President of Shanghai Pharmaceutical (Group) 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 26 years of experience in pharmaceutical business management.

Mr. GU Wen Xing, aged 55, is an Executive Director of the Group, a member of Innovation Committee of SIIC Shanghai Holdings Co., Ltd. and the Vice Chairman of SIIC Management (Shanghai) Limited. He is also a Director of Shanghai Information Investment Inc. He graduated from Shanghai East China Normal University. He was the Deputy Chief of Management and Policy and the Chief of System Reform of the Science & Technology Commission of Shanghai Municipality, and the Director of Shanghai Institute for Science of Sciences. He is also the Vice Chairman of Shanghai Enterprises Association for Science & Technology. He is a Member of the Ninth Committee of Shanghai Chinese People's Political Consultative Conference, and the Vice Chairman of Education, Science and Technology Committee. He has over 26 years of experience in the management and industry policy of science and technology.

Independent Non-executive Directors

The Honourable LEE Quo Wei, aged 82, is presently Chairman of Wideland Investors Limited and Wei Lun Foundation Limited, Honorary Chairman of Hang Seng Bank Limited, Vice-Chairman of Hysan Development Company 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 54, graduated with B.Sc. from McGill University and M.D. from Cornell University, certified in Cardiology. He has more than 21 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, the non-executive Chairman of Panda-Recruit Limited, and a Director of The Hongkong and Shanghai Banking Corporation Limited, City e-Solution Limited, The HSBC China Fund Limited and Phoenix Satellite Television Holdings 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 63, is the founding President of Hong Kong University of Science and Technology. He is a member of Hong Kong's Commission on Strategic Development, Council of Advisors on Innovation and Technology, and the Chairman of the Committee on Hong Kong-Mainland Technological Collaboration. He is also a member of the Chinese People's Political Consultative Conference.

Mr. LEUNG Pak To, Francis, aged 46, is the Group Vice-Chairman of BNP Paribas Peregrine Limited. He has over 20 years of experience in corporate finance involving in securities origination, underwriting and placing of equities, mergers and acquisitions, corporate restructuring and reorganization, development capital investments and other general corporate advisory activities. He has a master's degree from University of Toronto (Canada) in business administration.

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

Mr. LEUNG Lin Cheong, Roger, aged 47, 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 20 years of management experience in corporate secretarial practice and the administration of publicly-listed companies.

Mr. FEI Li Fu, aged 54, 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 the financial sector 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 in town planning and construction financial management.

Mr. HU Jia Hua, aged 53, is a Director and the Deputy General Manager of Nanyang Brothers Tobacco Company, Limited. He was 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 33 years of experience in industrial enterprise management.

Mr. ZHANG He Shi, aged 55, is a Director of Nanyang Brothers Tobacco Company, Limited. He graduated from Shanghai Finance and Economics University and also holds the designation of senior accountant. Mr. Zhang was the Deputy Chief of the Financial Department of Shanghai Light Industry Bureau and Factory Director of Shanghai Bicycle Factory. He has over 35 years of experience in industrial enterprise management.

Mr. ZHENG Zhi Ping, aged 54, 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 the Director and the Deputy General Manager of Shanghai Gao Yang International Tobacco Co., Ltd. He holds the designation of senior engineer in China 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 33 years of experience in the tobacco industry.

Mr. FENG Gen Sheng, aged 66, 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 52 years of experience in pharmaceutical business.

Mr. JIN Guo Ming, aged 40, is a Director and the Deputy General Manager of The Wing Fat Printing Company, Limited. He graduated from Zhejiang Institute of Metallurgy Economic. He also 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 53, 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. Mr. Chen 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 31 years of experience in printing and packaging business.

Ms. WANG Jia Feng, aged 49, 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 China Normal University and the designation of economist. She has 29 years of experience in enterprise management.

Mr. ZHOU Qi Ying, aged 53, 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 28 years of experience in industrial enterprise management.

Ms. MEI Li Jun, aged 45, is the General Manager of Shanghai Sunve Pharmaceutical Co., Ltd. and the 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 28 years of experience in pharmaceutical business.

Mr. DAI Zong Lin, aged 57, is a Director and the General Manager of Shanghai Huizhong Automotive Manufacturing Co., Ltd. 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 29 years of experience in enterprise management.

Ms. ZHOU Pei Lan, aged 57, is a Director and the General Manager of Shanghai SIIC Transportation Electric Co., Ltd. Ms. Zhou graduated from Shanghai Maritime University and holds the designation of senior economist. She has over 30 years of experience in enterprise management.

Mr. TANG Jian Hua, aged 43, is a Director and the General Manager of Shanghai Orient Shopping Centre Ltd. He graduated from Shanghai Amateur University (Sha Bei Division). He also holds a bachelor's degree conferred by Shanghai The 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 26 years of experience in retail enterprise management.

Mr. DAI Ao Qian, aged 63, is a Director and the General Manager of Shanghai Optical Communications Development Co., Ltd. and the Chairman of Shanghai Communication Technologies Centre. Mr. Dai graduated from Xi'an Jiaotong University majored in wireless communication, and holds the designation of senior engineer. He was 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 51, is the Vice Chairman and the General Manager of Shanghai Sunve Biotech Co., Ltd. He graduated from Shanghai Second Medical University 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 21 years of experience in biological gene research.

Mr. HU Qian Jin, aged 45, is a Director and the Chief Executive Officer of Mergen Limited in the U.S.A. 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 55, is a representative of the Group's Shanghai Representative Office and 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 54, is a Director of SIIC Medical Science and Technology (Group) Limited, a representative of the Group's Shanghai Representative Office 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 25 years of experience in corporate administration management.

Mr. JI Jian Zhong, aged 45, is the Financial Controller of the Group's Shanghai Representative Office and SIIC Management (Shanghai) Limited. He graduated from Beijing Management Cadre Institute, and holds the designation of senior accountant. He was the Chief of the account sector of Pu Dong Iron Inc. He has over 20 years of experience in corporate financial management.

Chairman's Statement

I have the pleasure to announce that the consolidated profit attributable to shareholders for the year ended 31st December, 2000 amounted to HK$1,134,669,000, representing an increase of approximately 12% as compared to last year. The Directors recommend the payment of a final dividend of HK30 cents per share.

All business segments of the Group recorded good progress, including (1) the infrastructure, (2) consumer products/retailing, (3) automotive parts, (4) information technology as well as (5) SIIC MedTech businesses. The infrastructure business remains the main contributor to Group revenues, and continues to provide a solid foundation for the development of the Group. Net profits from the automotive parts business recorded a slight growth of approximately 0.3 %, despite a weak PRC automobile consumer market in 2000. The consumer products/retailing business performed well, with net profit growing approximately 149%. The information technology business established last year started to contribute to the Group's revenues. Its net profit grew approximately 841%. The year 2000 was the first year for SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") as a separate listed subsidiary. Its net profit (excluding exceptional profit) increased approximately 20% as compared to 1999. After the year end, SIIC MedTech successfully spun off Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") as a listed company, which will result in an exceptional profit of approximately HK$100 million for the Group in 2001.

During the year, the Group developed new business areas, and at the same time enhanced the operating efficiency and competitive capabilities of the existing businesses by means of new and high technology and strengthened corporate management. As a result, existing businesses reported good performances and showed sound progress. Nanyang Brothers Tobacco Company, Limited, faced with a severe competitive sales market, restructured and lowered its operating costs. It fostered its existing sales network and expanded into new markets. This resulted a growth rate of approximately 78% and a profit of approximately HK$62,000,000. Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") has high growth in its business for four consecutive years, recording a growth of approximately 62% in net profit as compared to last year. It was named one of China's "Most Famous Brand Names" at the end of 1999. In the first half of 2000, it won its fifth consecutive award as a "Shanghai Famous

Brand". Shanghai Optical Communications Development Co., Ltd. received rewarding return from the investment in optical fibre and communications facilities during the year, and pursued to open up new business areas, particularly in system integration and e-commerce. The net profit for the year grew approximately 278% over last year. Competition in the automobile market in Mainland China led to price competition in automotive parts for Shanghai Huizhong Automotive Manufacturing Co., Ltd. In spite of this, it managed to lower its operating costs and consolidate its sales, and reported a better profit in the second half of the year. The Phase one of clinical trials of Shanghai Sunve Biotech Co., Ltd.'s H101 drug was completed and showed good results. SIIC MedTech started to build a base for supplies of herbal medicines — Echinacea from Chongming Island and Ningxia barbary wolfberry fruit — and actively set up research and development centres for each in Beijing, Shanghai and Hong Kong respectively.

During the year, the Group continued to use new and high technology to enhance the value of its existing businesses. In mid-2000, Bright Dairy which already has a wide delivery network, launched its e-commerce platform website, www.net1717.com. More than 1,500 products can be purchased through the website. Home milk deliveries increased 6.3 times to one million bottles of milk a day. The net profit of Bright Dairy showed a growth rate of approximately 62%.

The Group made great efforts to reform its business structure in order to enhance development. Subsequent to the year end, SIIC MedTech successfully spun off Shanghai Jahwa into a separate company listed on the Shanghai Stock Exchange "A Share" market. This listing benefited from the high price/earnings ratio of Mainland China's stockmarkets. The net proceeds from the 410-times oversubscribed listing were approximately RMB710 million. This greatly enhanced the Group's fund raising capabilities and business development. Bright Dairy is completing its corporate restructuring in preparation for public listing. In the year, the Group also restructured its assets so as to improve its asset mix. Shanghai Sunve Pharmaceutical Co. Ltd. disposed of its inferior assets and acquired the high quality assets of Shanghai Roche Pharmaceutical Co., Ltd. and Shanghai Givaudan Ltd., improving the prospects of its business.

The Group gradually implemented business transformation in order to strengthen the capability of its various businesses and to enhance shareholders' value, which attained preliminary achievement. During the year, the Group further developed its existing business areas while, at the same time, committing to actively develop information technology as well as logistics businesses as new core activities. In July 2000, the Group entered into agreement to acquire a 20% interest in Shanghai Information Investment Inc. ("SII"), and participated in the development of "Shanghai Infoport", a key development project of the Shanghai Municipal Government. This was an important step in the development of the Group's new information technology business. The major investment and business projects of SII include Shanghai Cable Network, Broadband Fiber Network, ATM Backbone, Eastday.com and IP value-added services.

As China is going to join WTO and Shanghai is gradually becoming an international trading centre, the Group moved into the modern logistics business during the year. This logistics business is being developed on an electronic information platform, which serves to provide good quality and efficient logistical services to large Chinese and foreign enterprises. The Shanghai Waigaoqiao Free Trade Zone Logistics Centre and the Shanghai Chemical Industry Zone logistics projects are both in progress, while other important logistics projects are in negotiation. The Group expects that its logistics business will gradually become one of the major revenue contributors over the next three years.

In 2000, the Group promoted its corporate image of developing new core businesses and helped international capital markets to have a better understanding of its business transformation. It did this by regularly updating the Company's website and conducting international road shows to explain details about the business and the implementation of the transformation strategy. The Group also set up its Shanghai management company in the year to further strengthen financial control and risk management over subsidiary and associated companies in Mainland China, and to tighten scrutiny over the management of their assets, debts and investment plans. The Group also started to use the "Economic Value-added" (EVA) concept internally, to emphasize the need to enhance shareholders' value. Return-on-equity served as one of the management's important performance appraisal indicators for subsidiaries/associated companies.

PROSPECTS

The year 2001 represents the beginning of a new era, and is also the first year of the Government of the PRC "Tenth Five-Year" plan. China is on the way to joining the WTO. With WTO membership, China will enter into a globalized economy and technology as well as severe international competition. At the same time, there will be many opportunities for China to enhance its economic capabilities. The business environment in Mainland China will face new challenges as well as opportunities. The Group, as the window company of the Shanghai Municipal Government in Hong Kong, based on its advantageous position in Hong Kong as well as in Shanghai, will grasp the enormous business opportunities opened by the "Tenth Five-Year" Plan and China's accession to the WTO and fully make use of Shanghai's favourable resources and high economic growth potential in ways that enhance shareholders' value. During the "Tenth Five-Year" Plan, Shanghai will actively develop six pillar industries and four new one, *inter alia*, the information technology, bio-medicine, logistics and automobile industries. The development of these industries in Shanghai will largely benefit the Group's business development and its new core business structure.

In the next three years, the Group's core business structure will emphasize on information technology, infrastructure and modern logistics apart from, inter alia, its consumer products business. Developing transportation infrastructure facilities is still a major focus for Shanghai. Apart from its existing investment in Shanghai's elevated road projects, the Group will target investments in the development and operation of container terminals. The Group will consolidate the high economic growth as well as attractive business opportunities provided by the Shanghai logistics sector to build up new revenue stream. Via its investment in SII, the Group has already actively participated in the construction of Shanghai Infoport, large-scale network infrastructure facilities and related value-added services. Subsequent to the year end, the Group has entered into a Shares Purchase Agreement at a consideration of approximately US$110,000,000 and became a substantial shareholder in Semiconductor Manufacturing International Corporation which is engaged in an integrated circuits project. This has been identified by the Shanghai Municipal Government as one of the major projects for the "Tenth Five-Year" Plan. The integrated circuit market in Mainland China is expected to enjoy remarkable growth in the future. As the project will commence its trial production by the end of 2001 and thereafter increase production capacity year by year, it is expected to contribute to the Group's revenue.

Knowledge is key to business these days and the pace of economic globalization is increasing. The Group has provided — and will continue to provide — training opportunities to its staff and to improve its human resources structure, in order to build up an excellent corporate culture. The Group will further adopt performance appraisal techniques internally by using the "Economic Value-added" concept in order to enhance shareholders' value. In the days ahead, the management will prudently manage its financial resources and set up quality internal management systems. It will take a proper perspective in leveraging on business opportunities and committing to the transformation of the Group's business. It will fully make use of the Group's advantageous position — foundation in Hong Kong, support from Shanghai, opportunities in the whole nation — in order to provide better returns for shareholders.

On behalf of the Board, I would like to take this opportunity to extend our gratitude to our shareholders for their support and to our staff for their dedication and contribution in the past year.

CAI LAI XING
Chairman

Hong Kong, 18th April, 2001

Business Structure

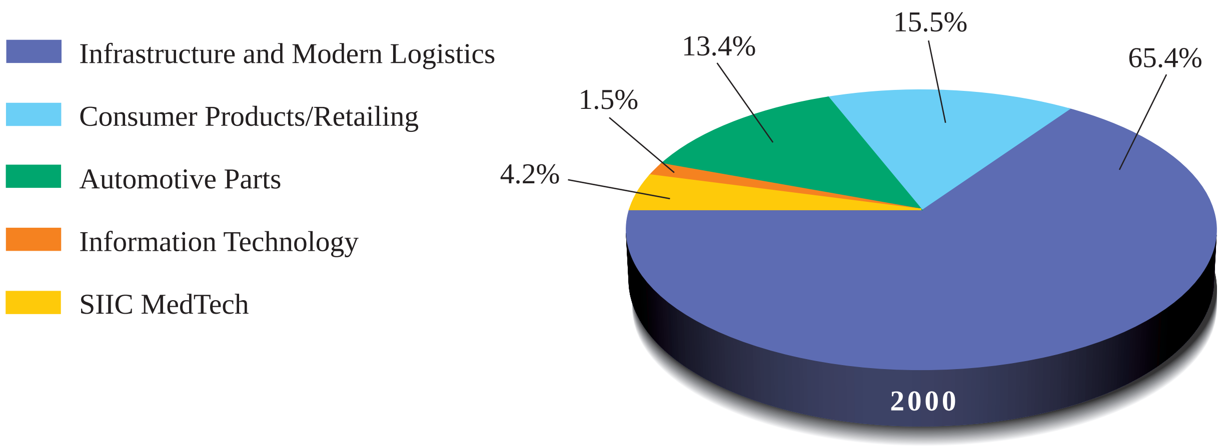
- **Infrastructure and Modern Logistics**
  - Shanghai Yanan Road Elevated Road Development Co., Ltd. (50.2%)
  - Shanghai New Construction Development Co., Ltd. (35%)
  - Logistics Projects
- **Consumer Products/ Retailing**
  - Nanyang Brothers Tobacco Company, Limited (100%)
  - The Wing Fat Printing Company, Limited (93.1%)
  - Shanghai Bright Dairy and Food Co., Ltd. (40%)
  - Shanghai Sunve Biotech Co., Ltd. (49.8%)
  - Shanghai Sunve Pharmaceutical Co., Ltd. (48%)
  - Mergen Limited (50%)
  - Shanghai Orient Shopping Centre Ltd. (51%)
- **Automotive Parts**
  - Shanghai Huizhong Automotive Manufacturing Co., Ltd. (50%)
  - Shanghai Wanzhong Automotive Components Co., Ltd. (50%)
  - Shanghai SIIC Transportation Electric Co., Ltd. (30%)
- **InformationTechnology**
  - Shanghai Information Investment Inc. (20%)
  - Shanghai Optical Communications Development Co., Ltd. (24.9%)
  - Shanghai Communication Technologies Center (25%)
  - Shanghai High-Tech Venture Fund (25%)
  - S.I. Technology Fund (50%)
- **SIIC MedTech**
  - SIIC Medical Science and Technology (Group) Limited (63.9%)

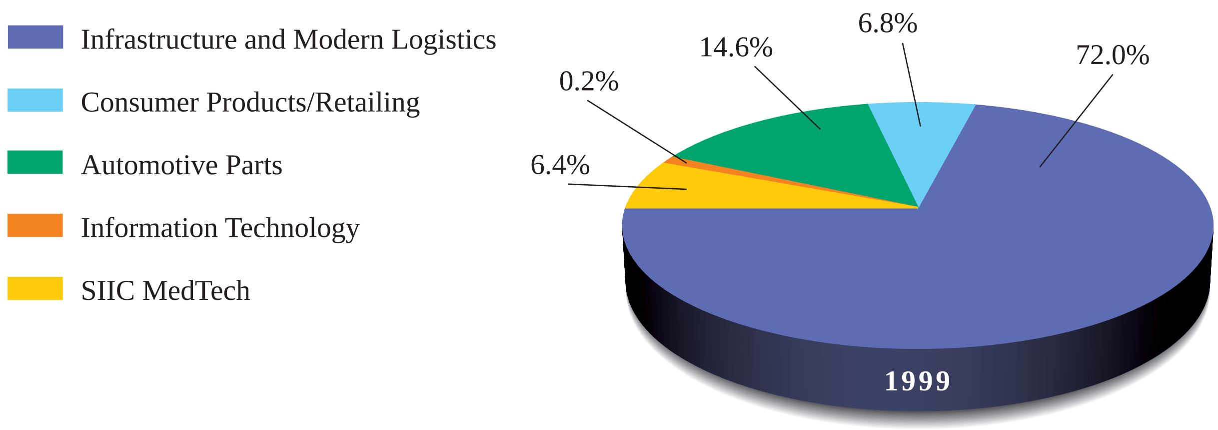
SHANGHAI INDUSTRIAL HOLDINGS LIMITED

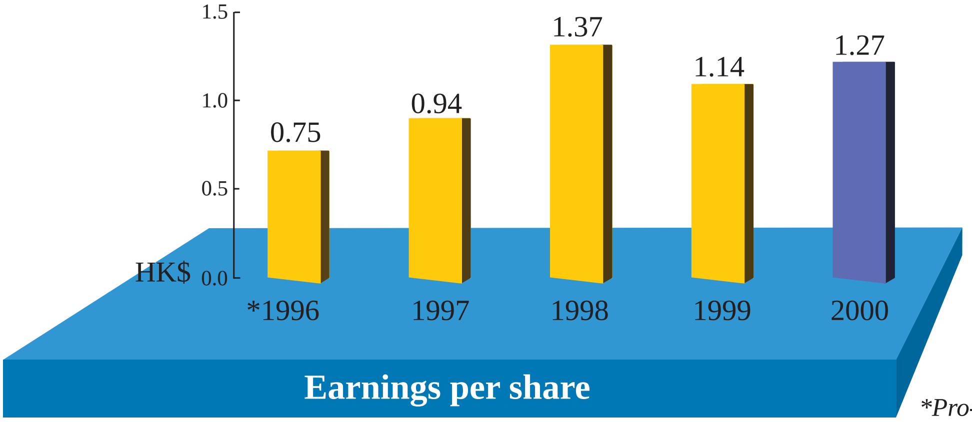
BUSINESS REVIEW

Business Review

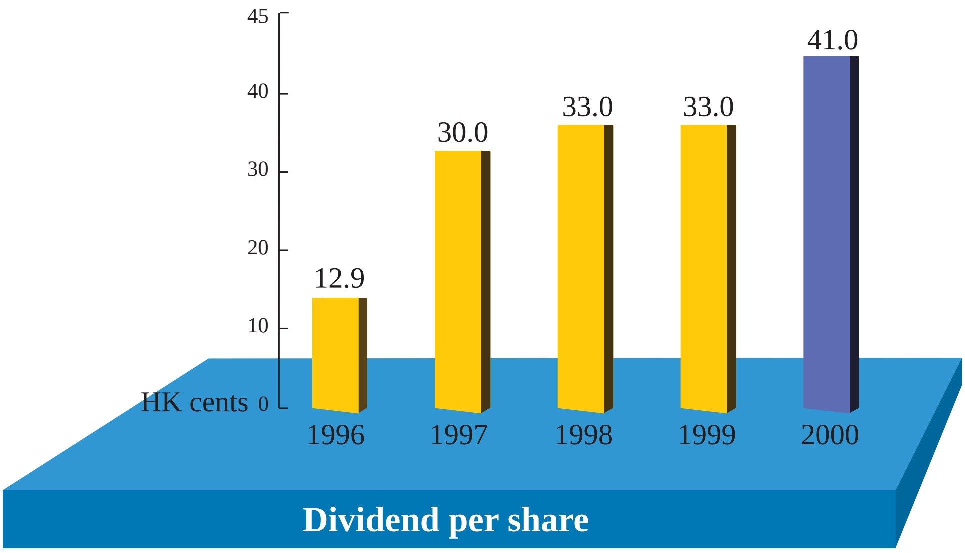
Net Profit By Business

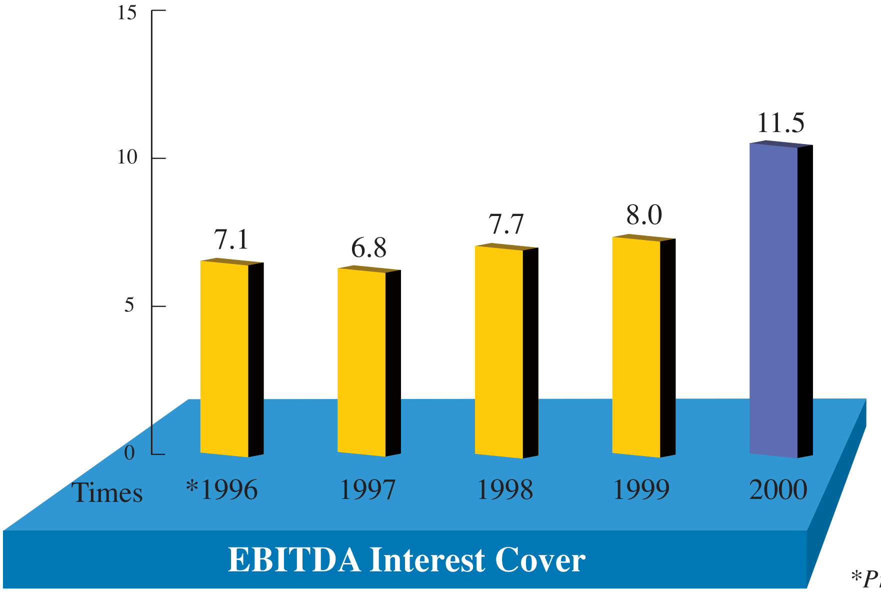




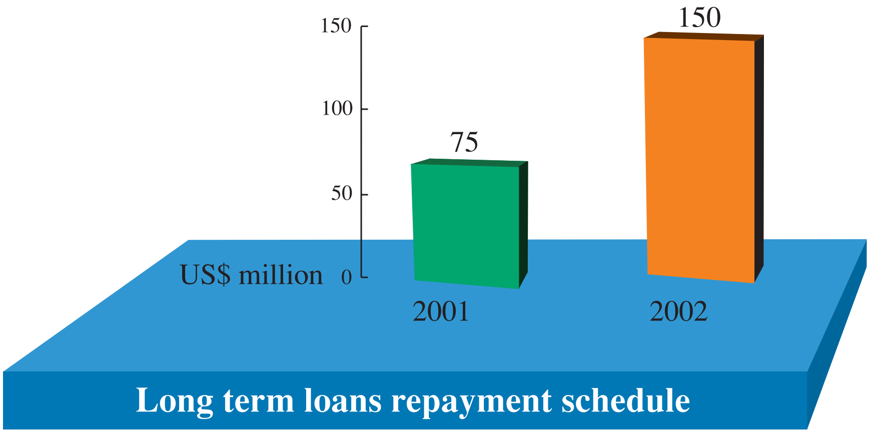


*Pro-forma combined



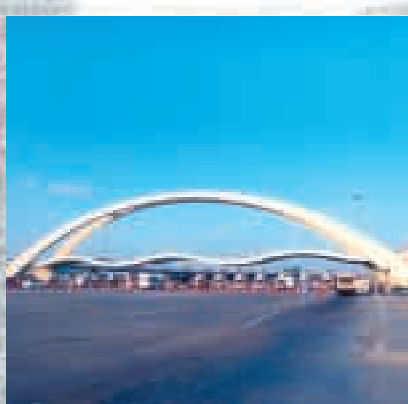


*Pro-forma combined



SHANGHAI INDUSTRIAL HOLDINGS LIMITED

INFRASTRUCTURE AND MODERN LOGISTICS



INFRASTRUCTURE AND MODERN LOGISTICS

Stable investment returns reported by the Group's infrastructure business act as a cashflow support and balance the risks associated with the Group's commitment to invest in its new core businesses.

Infrastructure Facilities

The Group's elevated road projects continued to contribute stable revenues to the Group. The net profit arising from these projects amounted to approximately HK$730,000,000, representing approximately 65.4% of the Group's net business profit. The Yanan Elevated Road, Inner Ring Road and North-South Elevated Expressway are the principal routes of the network of expressways within Shanghai, and provided the Group with stable investment returns.

During the year, the Group entered into a joint venture agreement with Hutchison Whampoa, COSCO Pacific and the Shanghai Port Authority to invest in Shanghai Pudong Waigaoqiao Container Terminal Phase One. The project is actively under way. The Group has a 10% interest in the project. Waigaoqiao Terminal Phase One has advanced container crane machinery and equipment, able to load and unload 1,000,000 T.E.U. containers per year. The Terminal had constructed berths for the largest container vessels. The investment enables the Group to participate in the development of Shanghai's new transportation facilities, and opens up new areas for the long-term development of the Group's infrastructure business.

Modern Logistics

The Group was actively involved with the establishment of a logistics business in the year, in line with Shanghai's overall development plan for the establishment of modern logistics industry during the "Tenth Five-Year Plan". The Group committed to invest in modern logistics projects involving land, sea and air transportation, and targeted the establishment of a logistics business and related ancillary facilities based on electronic information platform. In view of Shanghai's high economic growth, the Group aims to make its investments in the most economically active part of China — Shanghai. Apart from investing in Shanghai Waigaoqiao Free Trade Zone Logistics Centre and a project which is being established in the Shanghai Chemical Industry Zone, other important logistics projects of the Group were also at the preparatory stage.

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

CONSUMER PRODUCTS/ RETAILING

CONSUMER PRODUCTS/RETAILING

The net profit of the consumer products/retailing business amounted to approximately HK$173,200,000, representing an increase of approximately 149% as compared to last year. The year's figure represented approximately 15.5% of the Group's net business profit. The Group's consumer products/retailing business showed good progress and contributed to the Group's revenues.

Tobacco and Printing

Nanyang Brothers Tobacco Company, Limited ("Nanyang Brothers") reported significant business growth. Turnover was approximately 28% higher than in 1999. Net profit recorded an increase of approximately 78%. All markets' turnover increased well beyond expectations. Apart from improvements in internal administration, personnel and financial management, operating costs were lowered and efficiency increased following the renovation of production control systems.

In addition, Nanyang Brothers reinforced its sales network, and increased its network in Mainland China by almost 1,000 outlets, representing a growth rate of approximately 16.7% as compared to last year. Nanyang Brothers aimed at consolidating its existing markets, and in line with its corporate objectives and strategies, Nanyang Brothers also promoted its products and increased its market share, and at the same time enhancing product sales and expanding into new markets. During the year, Nanyang Brothers launched well-received sales promotion programmes in different parts of China. Turnover in Mainland China market increased by approximately 45%.

In May 2000, new brands "Alain DELON" and "Wealth" started to launch in duty-free shops in Shenzhen and Zhuhai, and on Kowloon-Guangzhou Railways. Some 2,100 cases had been sold by the end of 2000. "Liushuiyin" was launched in Hong Kong in May 2000. "Polar Bear" menthol products were launched in Vietnam, Saipan and Guam in June.

The business objectives for 2001 are to increase turnover and profit by "refining internal management processes and expanding sales markets". Nanyang Brothers will further explore into the export potential for "Double Happiness" in Taiwan, India and Southeast Asia, and the markets for menthol cigarettes in the Philippines. Phase II construction of the new factory in Tuen Mun, Hong Kong commenced in the year was expected to be completed by mid-2001 and to start production by August.

During the year, Nanyang Brothers and its strategic partners launched the first comprehensive international commercial tobacco web site (www.tob-business.com). Nanyang Brothers owns a 45% interest in the site, which was launched in August 2000. More value-added services will be added on the website, providing advertising and information for customers; and making use of information technology to support Nanyang Brothers's information management software.

The Wing Fat Printing Company, Limited ("Wing Fat Printing") recorded an increase in net profit of approximately 30%.

During the year, Wing Fat Printing employed new skills for "EXCELLENT JINSHENG" cigarettes made by Asia Modern (Hong Kong) International Ltd. and the "Alain DELON" brand manufactured by Nanyang Brothers and SEITA S.A. of France. Wing Fat Printing made good progress in internal restructuring in order to better allocate resources to its member companies with business potential.

Wing Fat Printing's newly-established packaging materials trading business commenced operation in mid-2000. It is designed to explore the market for printing consumer product packaging. In view of the prospering consumer market in Mainland China, this business is expected to bring a steady flow of income and business prospects to Wing Fat Printing.

Dairy

Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") recorded satisfactory results for four consecutive years. Net profit increased by approximately 62% as compared to last year, with annual compound average growth rate of profit before tax reaching 47%. Bright Dairy ranked first in Mainland China's synthetical index for dairy industry, and is a nationally famous brand. Its sales network covers 14 major cities of China. It has over 86% of the Shanghai market for milk products. During the year, Bright Dairy brand was chosen as the designated dairy products supplier for China's sportsmen and women in the 2000 Sydney Olympics.

Subsequent to the year end, Bright Dairy applied to the China Securities Regulatory Commission for listing on the "A" share market. The listing of which will greatly enhance its business development. As part of the legal requirements for the listing, Bright Dairy had been restructured and converted into a public company, with four additional shareholders, among which is Danone Group of France, each holding a 5% interest. The acquisition of the joint venture operations of the French Danone Group in Shanghai and Guangzhou was in progress.

Bright Dairy launched its e-commerce platform, www.net1717.com, to build sales and its delivery network for its milk products. This received good response from customers. More than 1,500 products are available through the website, and it pushed deliveries to one million bottles a day by the year end as compared to 158,000 bottles at the beginning of the year. The milk delivery service was promoted across the whole nation. The project recorded a profit and is expected to continue to contribute revenues to Bright Dairy. During the year, the number of Kedi convenient stores increased by 27 outlets. The total number of convenient stores came up to over 260.

In July 2000, Bright Dairy and Wuxi Dairy Products Co. formed a joint venture company, Wuxi Bright Dairy Co., Ltd. to manufacture milk products. Annual production capacity is scheduled to be one million tons. Bright Dairy will further expand the Jiangsu and Suzhou markets for its dairy products aiming to promote its products to the whole nation.

Pharmaceutical and Bio-technology

Shanghai Sunve Biotech Co., Ltd. ("Sunve Biotech") has successfully launched its drug for cancer chemotherapy — "SunGran". Turnover trebled and market share in Shanghai reached 30%. The enhancement of production technology led to SunGran's increase in its production capacity from approximately 15,000 units per month to approximately 24,000 units per month. Sunve Biotech effectively controlled operating costs and was able to allocate production and sales resources to new projects similar to SunGran. Several new products and development projects were under assessment.

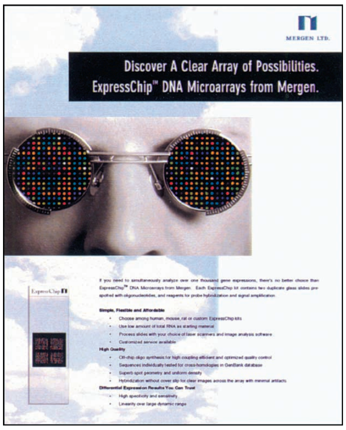
Subsequent to the approval by the State Drug Administration to proceed to Phase I clinical testing as a "Type 1" state bio-medicine, Sunve Biotech's new developed DNA anti-cancer drug H101 Phase I clinical tests were basically completed in March 2001, and showed high safety rate result in the drug. Phase II testing, which emphasizes on drug effectiveness, will be completed by 2001. For more than half the year, research and development work on a more innovative new product H102 was carried out with the viral experiment clinic of Washington University of the US. Several viral models were set up, and is upon completion of the preliminary development stages, with work moved on in association with the university. In 2001, H102 will undergo drug effectiveness testing and drug substance testing before clinical experiments. Clinical approval will be sought by the end of 2001.

Passing the Good Manufacturing Practice (GMP) examination is the prerequisite step for production of existing products and prior production of new developed products. Sunve Biotech passed the GMP examination administered by the State Drug Administration of the PRC in August 2000. This also enhanced the quality of management standards and quality control system.

Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical") restructured its assets and acquired a 30% interest in Shanghai Roche Pharmaceutical Co., Ltd. ("Shanghai Roche") and a 15% interest in Shanghai Givaudan Ltd. ("Shanghai Givaudan"), adding quality assets to the Group.

Shanghai Roche has so far maintained its leading market position for diagnostic drugs in China. Its anti-tumor drug "Mabthera" and weight-lifting drug "Xenical" are both dynamic products. In particular, "Xenical" will be the most widely produced diagnostic drugs in China. Shanghai Givaudan has advanced technology for making fragrance and flavors, and holds a leading position in the flavors and fragrance industry. It projects a 15% increase in annual turnover, and will be a manufacturer, developer and seller providing comprehensive flavors and fragrance products and related after-sales services.

During the year, Sunve Pharmaceutical's Sulfadiazine product and Florfenicol product received approval from the US Food and Drug Administration (FDA). Other product such as Wei Shaxin, were also successfully launched to the market. Certain other products obtained approval for production or clinical testing approval.



Mergen Limited ("Mergen") launched ExpressChip™ products, including mouse ExpressChip™, rat ExpressChip™ and human ExpressChip™. All received good response from customers. Mergen's manufacturing facilities coped well with the product launch, and the products are expected to contribute significantly to the company's 2001 turnover. In 2001, Mergen will launch the 5000 gene mouse chip and the 5000 gene human chip to satisfy the keen market demand.

Mergen successfully validated the on-chip Single Nucleotide Polymorphism (SNP) detection technology in multiple genes, and is seeking collaborators to co-develop such a platform into commercial products. In addition, by continuous effort and using existing DNA microarray advanced technology, Mergen successfully identified several novel genes in the year, particularly for G-Protein Coupled Receptors (GPCRs), and is pursuing appropriate patent registration. Many leading pharmaceutical companies expressed interests on the GPCRs development project. Mergen will continue to patent newly developed products, including multi-chamber microarray. As when those new products are launched to the market, Mergen will receive a stable return through royalties.

Mergen actively explored the Mainland China market, and distributed its products to Japan, Korea, United Kingdom, Germany, Taiwan and Israel. Customers can buy goods via the Internet. Mergen was in advanced negotiations with many leading pharmaceutical companies for manufacturing projects, and expects to confirm many manufacturing contracts as well as to initiate various market launch programmes.

Retailing

Shanghai Orient Shopping Centre Ltd. ("Orient Shopping Centre") recorded a stable profit in 2000. During the year, Orient Shopping Centre took opportunity of sales promotion and enhanced quality services to increase sales returns.

Shanghai Orient Shopping will further set up a wide network of commercial retail outlets, and operate with reputable brands and chain stores.

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

AUTOMOTIVE PARTS

AUTOMOTIVE PARTS

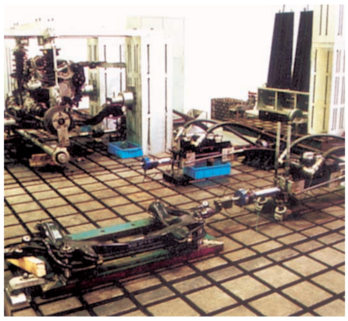
In 2000, the automobile sales market was weak and consumers expected price reductions. In spite of this, the Group's automotive parts business recorded a net profit of approximately HK$150,250,000, representing an increase of approximately 0.3%. This represented approximately 13.4% of the Group's net business profit.

Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") reported a better profit from mid-year, and showed good progress in exploring sales markets and in reducing its operating costs. In 2001, Shanghai Huizhong will develop its sales network for automotive parts, and enhance its management systems and product awareness.

Original Equipment Manufacturing (OEM) sales reported prominent progress. The Gold Cup M1 project for front/rear shock absorber and pedal assembly reached the testing stage. Shanghai Huizhong started to deliver products of Qingdao Yizhong Company's chassis system. It also invested to improve its technology, such as for the Santana sedan cars automotive parts assembly programme, which was completed. This added 677 equipment items.

Domestic manufacturing projects had good progress, including the Phase II domestic PPAP certification of 22 kinds of automotive parts for the Buick suspension ASM rear module and the front/rear damper module; the production certification for five categories of 33 kinds of automotive parts for Passat car. 19 of them submitted OTS samples for approval. Assembly of accessories projects progressed, including the sample certification of the SH4261 cab-ahead-of-engine towing truck and SH3282 cab-ahead-of-engine self-dumping truck, the technical design and accessories assembly of the SH4262 15 tons high power cab-ahead-of-engine towing truck which had passed the road tests. The production capacity for new products for the year 2000 amounted to approximately 79.5%. Sales of 15 tons heavy trucks increased by approximately 63%.

In September 2000, Shanghai Huizhong entered into agreement to form a joint venture company Shanghai Krupp Presta Huizhong Automotive Shanghai Co., Ltd. for the manufacture of car steering column products. Krupp Presta Group is a major supplier of automotive parts in Europe and United States of America, and is one of the worldwide leading manufacturer of steering system products. Investment in the joint venture project amounted to US$10,500,000. Shanghai Huizhong holds a 40% interest.

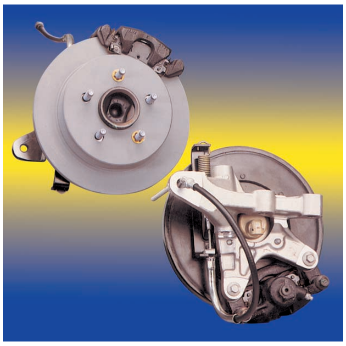


During the year, Shanghai Wanzhong Automotive Components Co., Ltd. ("Shanghai Wanzhong") showed good progress in technology enhancement. Newly imported equipment was prepared for production.

To coincide with the launch of the third generation of Santana sedan cars, Shanghai Wanzhong commenced production in January 2001. It is scheduled to make 40,000 units each of steering knuckle with brake assembly and suspension ASM rear module for the third generation Santana sedan cars as well as 20,000 units of manufacturing engine cradle/lower control arm.

Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation Electric") recorded a stable profit in 2000.

Central controller (LRH) for the Satana sedan cars model 2000 of Shanghai Volkswagon were approved for sale in October 2000. Power windows manufactured and designed by SIIC Transportation Electric for Buick automobiles and a new product, SGM W-Car horn, were delivered its sales at the same time. In 2001, SIIC Transportation Electric will further renovate the equipment for making power windows, so as to manufacture quality products and to enhance production efficiency as well as to develop its electronic components business.



SIIC Transportation Electric's joint venture company, Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd. commenced sales of its manufactured Passat B5 Wiper and Audi A6 Wiper in March and September of 2000 respectively, and reported good sales record; Shanghai Delphi Automotive Door Latch and Security Systems Co., Ltd. and Shanghai Brose Automotive Components Co., Ltd. were scheduled to gradually launch new products.

During the year, SIIC Transportation Electric completed a restructuring of its assets. The scope of business was approved to include electric switch, cigar lighter, ignition cable and DC motor. Product lines increased to 20 categories and more than 200 different items. In particular, "Shengjia" and "Globe" are both reputable brands in the market of Mainland China. Upon restructuring, SIIC Transportation Electric became the strongest key company in the automotive parts industry. It will further strengthen its market share, reinforce after-sales services as well as exploring its export market.

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY

The net profit of the information technology business amounted to approximately HK$17,000,000, representing an increase of approximately 841%. This represented approximately 1.5% of the Group's net business profit. Through its investment in Shanghai Information Investment Inc. ("SII"), the Group participated in the development of "Shanghai Infoport" and the establishment of new core information technology business.

SII

The Group announced in July 2000 and completed acquisition of a 20% interest in SII in September. SII made good progress on its major investment projects:

1. *Shanghai Cable Network*

   SII owns a 51% interest in Shanghai Cable Network Co., Ltd. ("Cable Network") which is fully responsible for the construction, operation and maintenance of Shanghai Cable TV networking. Shanghai Cable TV Network was established in 1992, and owns more than 4,500km of fiber optics. It covers up to 97% of the urban areas. It has more than 3,200,000 users and home coverage exceeds 85%. It transmits more than 30 TV programmes, and is one of the world's largest city cable TV systems.

   Cable Network upgraded Shanghai Cable TV's access network. The two-way HFC network upon upgrading to 860MHz, was able to transmit simulated and digital TV messages through different frequencies, and to provide high-speed, broadband and interactive data and speech transmission services to family users. By the end of 2000, the broadband two-way upgrading was made available to around one million families, and two-way upgrading for 700,000 families was completed in the year of 2000. Cable Network also launched China's first 24-hour on-line broadband internet access services — Cableplus services.

2. *Shanghai Information Pipeline*

   To cope with the changes in China's telecommunication industry, the opening up of the industry, and to accelerate the construction of Shanghai's information infrastructure facilities, SII formed a wholly-owned subsidiary, Shanghai Information Pipeline Co., Ltd. ("Information Pipeline"). Using new construction and upgrading facilities, and in compliance with the regulations of the Shanghai Municipal Government, Information Pipeline started work on a city-wide broadband fiber network, to enhance the composite use and operating standard of information pipeline resources, and committed to its network construction, maintenance and management.

By the year end, Information Pipeline had commenced construction of the first 349.8km of the network and had completed 209km. 38,793km of optical fiber were installed along Shanghai Subway/Metro No. 1 and 2. Twenty-seven optical fibre toning engine rooms were built. It also provided general services to other telecommunications operating entities such as China Netcom, China Unicom, Cable Network and China Mobile.

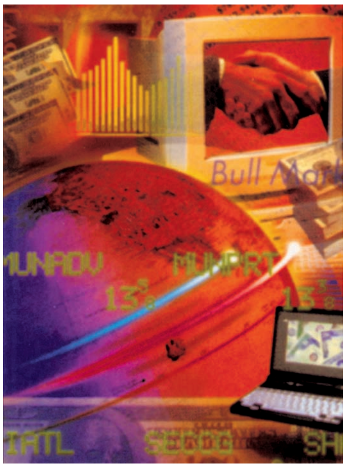
3. *Shanghai ATM Backbone*

In November 2000, SII and Shanghai Telecom Company increased their capital investment in Shanghai Information Network Co., Ltd. The registered capital was increased from RMB60,000,000 to RMB130,000,000. The additional funds are being used to expand the Shanghai ATM backbone which is a key part of the "Shanghai Infoport" project in 2000. Upon expansion and upgrading, the transmission rate in between the core switch of Shanghai ATM network reached 2.5Gbps. Edge switch increased to 89 modules. A suburban broadband network is being constructed, with the X.25, DDN network gradually transformed to the broadband platform.

The broadband backbone network after expansion is at present the most sizable ATM city backbone network, comprising high volume broadband interactive capabilities, network congestion control, flow control and quality control capability. Access points covered the whole city and sub-urban area, and will form the inter-networking of the cities of Beijing, Tianjin and Guangzhou.

4. *Eastday.com*

Shanghai Orient Webcasting Co., Ltd. ("Eastday.com") is a large comprehensive services website formed by various leading Shanghai news media. It was successfully launched in May 2000. SII has a 10% interest.



Eastday.com has approval from relevant authorities to publish news on the Internet. It has been established and positioned as a comprehensive website services provider. Eastday.com offers news reporting, updates information services, and comprehensive e-commerce services. Its strong position on news has swiftly built its reputation as a brand. It will continually update services content to explore more characteristic and sizable e-commerce projects for the website.

5. *Shanghai Symphony Telecommunications*

In December 2000, Shanghai Telecom Company, AT&T in U.S. and SII entered into a contract to form Shanghai Symphony Telecommunications Co., Ltd. ("SST"). The total investment involved is US$25,000,000. SST will provide IP value-added services to international enterprises in Shanghai Pudong. SII has a 15% interest.

SST is China's first telecommunications operating enterprise. Its establishment has the support of relevant government authorities, the Shanghai Municipal Government and China Telecommunications Group. The joint venture uses the network, equipment, technology, customers base and advanced services of its shareholders and provides IP value-added services, including IP VPN, access management, CPE, firewall management and webhosting services.

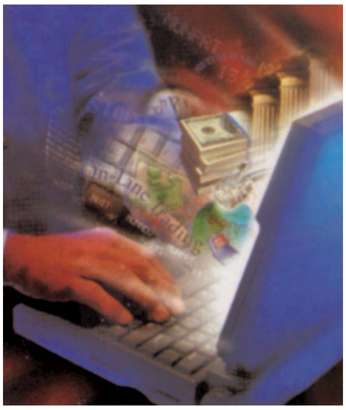
Shanghai Optical Communications

Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications") actively explored new markets, and reported promising revenues.

Shanghai Optical Communications was engaged in new major development projects. Projects included:

(i) Optical Passive Component manufacturing project — a joint venture company was formed with a U.S. enterprise for the development, manufacture and sale of optical passive component. The project will be a key investment project and will make substantial progress in 2001 for manufacture.

(ii) Polymer Lithium-ion Battery project — polymer lithium-ion battery can be widely used for mobile phones and notebook computers, and offers good business prospects. Shanghai Optical Communications is seeking investment partners for the project. Polymer lithium-ion battery project is a new development for Shanghai Optical Communications. Once the technology matures, it is expected to become an important part of the Shanghai Optical Communications' development plan.



Shanghai Optical Communications' major associated companies continued to contribute revenues:

(a) *Lucent Technologies of Shanghai, Ltd.*

ADM-16/1 technology transfer was completed in early 2000. Production capacity increased to US$20,000,000 a month, and promising revenues were reported. In July 2000, the company began to construct a new manufacturing plant that is expected to commence production by the third quarter of 2001. ADM 16-1 JUNIOR, a product newly developed by the research centre will be launched to the market.

(b) *Lucent Technologies Shanghai Fibre Optics Co., Ltd.*

Due to the fast development of the construction of international Internet systems, the worldwide supply of optical fibre has been in keen demand, which greatly benefited the company's business. After refining the manufacturing technology, annual manufacturing capacity increased substantially, and sales turnover increased by approximately 47%.

(c) *Shanghai Scientific-Atlanta Co., Ltd.*

The company manufactures optical fibre-based CATV system. It reported good sales results, and reached the budgeted profit level.

Most of the products from the Shanghai Communication Technologies Center were completed on schedule. SV-2000 encoder reached the pre-production stage; SV110A digital satellite receiver, SV300 MPEG-II Multiplexer, SD150 digital video decoding card completed sample development; SB510 high-quality monitoring system and DVB conditional access system reached the product

demonstration and trial use stage. SB510 system was the first domestically developed image system used to broadcast simultaneously the course of broadband laparoscope operation to Shanghai, Beijing and Hangzhou.

Products using MPEG-2 technology is developing with enhanced sales capabilities and management system. It is expected to bring to the company more market opportunities.

High Technology Investment Fund

The Shanghai Hi-Tech Venture Fund formed by the Group and the Shanghai Municipal Government, and the S. I. Technology Fund formed by the Group, Singapore government's Temasek Holdings (Pte) Ltd. and the Singapore Technologies Group served as the Group's prior business venture in the field of information technology. Both investment funds engaged into some information technology investment projects, and reported good progress.

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

SIIC MEDTECH

SIIC MEDTECH

The net profit of the Group's listed subsidiary, SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") for the year ended 31st December, 2000 amounted to HK$72,318,000, representing an increase of approximately 20% over the pro forma combined results of the previous year (excluding exceptional income). The net profit shared by the Group amounted to approximately HK$46,600,000. Due to the dilution effect of SIIC MedTech's spin-off at the end of 1999, the net profit of the SIIC MedTech business fell approximately 28.8% and representing approximately 4.2% of the Group's net business profit.

The Group embarked on a comprehensive strategic plan designed to integrate medicines with therapy and to focus on the development of modern Chinese medicines and bio-pharmaceutical products. As a result of this focused management approach and the application of appropriate technology and development, Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao") and Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") recorded sustained business growth. As at the year end of 2000, they increased net profit by approximately 34% and approximately 63% respectively. SIIC MedTech established a number of key networks in order to accelerate the modernisation of its Chinese medicine business. It also leveraged on innovative technologies and seized the initiatives offered by new business opportunities.

1. ***Raw Materials Network***

   During the year, SIIC MedTech co-founded Ning Xia SIIC Viopes Nutraceuticals Co. Limited with Ningxia Academy of Agriculture & Forestry Sciences. This will develop, produce and sell health supplements using Ningxia barbary wolfberry fruit. In mid-2000, SIIC MedTech entered into a framework agreement with Shanghai SIIC Modern Agriculture Development Co., Ltd., to create a natural herb plantation; it commenced initial Echinacea plantings at Chong Min Island, which was in good progress.

2. ***Research and Development Network***

(i) *Beijing Centre*

The Beijing research and development centre will start with health supplements and then follow up with patent medicines. After the year end, SIIC MedTech and the China Academy of Traditional Chinese Medicine, China's top Chinese medicine research institute, entered into a cooperation agreement to further develop traditional Chinese medicines. They will improve the way these preparations are presented and boost the technology used. Both approaches will help modernise Chinese medicines. The new products are designed to appeal strongly to the Asian market.

(ii) *Shanghai Centre*

The Shanghai research and development centre mainly develops high technology Chinese medical products. The Group emphasizes the use of compound formulae. Two products are in an advanced stage of development: a plaster to eliminate phlegm and cure asthma, and a capsule to increase bone strength. As the population in the Mainland ages and awareness of osteoporosis increases, such products are expected to enjoy a significant market share.

(iii) *Hong Kong Centre*

The Hong Kong research and development centre continued to develop projects with reputable local educational institutions in order to fully utilise existing resources and to use Hong Kong's unique advantages, especially access to international markets for Chinese medicines.

3. ***Sales Network***

(i) *Hangzhou Qingchunbao*

Fifteen pharmaceutical products manufactured by Hangzhou Qingchunbao account for some 90% of total sales. Six of these are categorized as "Type A" drugs and nine as "Type B". It is expected that sales of health care products from Hangzhou Qingchunbao will increase steadily and that they will contribute significantly to the Group's revenues.

(ii) *Shanghai Jahwa*

Shares in Shanghai Jahwa were listed in the "A" share market of Shanghai Stock Exchange on 15th March, 2001 and were 410 times over-subscribed. Shanghai Jahwa raised approximately RMB712,600,000 (net of expenses), thus producing an exceptional profit of approximately HK$150 million, with approximately HK$100 million being attributed to the Group in 2001. Proceeds are for the development of core operations that can significantly improve Shanghai Jahwa's competitiveness and market share, as well as for enhancing business growth, leading to higher returns for shareholders.

4. ***Medical Services Network***

(i) *Shanghai Pharmaceutical Network*

Shanghai Pharmaceutical Network (www.e135.com) is an e-commerce platform dealing in medical products and is in operation. It is approved by the PRC authorities. The network has established 36 pharmaceutical mini-networks in 26 provinces and municipalities, and provides on-line product delivery through regional medical sales offices owned by its PRC parent entity, Shanghai Medicine Co., Ltd. More than 50 hospitals, 30 medicine trading firms and 60 drugstores use the e135 platform, which carries more than 5,000 items.

The development objectives in 2001 are to establish a medicine procurement system which will attract major enterprises as its participants; to improve the hospital ordering system; and to consolidate and improve the pharmaceutical products data base.

(ii) *Telemedicare Business System*

In February 2000, SIIC MedTech and Cyber-care, Inc., a U.S. company, entered into an agreement to set up a joint venture company, SIIC-CYBeR Pacificare Limited. This venture mainly engages in the exclusive promotion and application of its patented portable Internet Domestic Telemedicare Monitor System in various Asian markets. Cyber-Care, Inc. provides network devices and equipment and SIIC MedTech has production rights to the Telemedicare Monitor System. SIIC MedTech will fully capitalize the technological edge provided by the advanced Telemedicare Monitor System and enhance the integrated operations so as to offer a highly professional system that can take medical services in the PRC and Asia into a new era.

Highlights for Next Year

During the year, the Group gradually implemented business transformation, and actively developed the information technology business and modern logistics business as well as the medicine and biotechnology business. In the first year of the new century, the Group is taking advantage of business opportunities, employing innovative ideas in its development and further refining its business.

- **Information Technology**

  Following the completion of its acquisition of a 20% interest in the "Shanghai Infoport" investment project in September 2000, the Group continued to seek appropriate investment opportunities. It acquired an approximate 11% interest in Semiconductor Manufacturing International Corporation ("SMIC") in Shanghai subsequent to the year end. This involved a consideration of approximately US$110,000,000 (approximately HK$858,000,000). This will allow the Group to participate in the semiconductor circuit manufacturing processing project being established in the Shanghai Zhang Jiang High Technology Park. Demand for integrated circuits in Mainland China greatly exceeds supply. Most integrated circuit products are imported. Investing in integrated circuit projects in Mainland China therefore does not only help meeting the local demand, but can be achieved with operating costs 15–20% lower than in international markets. This will enhance export possibilities. SMIC is currently being established producing 20 cm diameter and 0.25 micron technology semiconductor circuits, which is an advanced technology in the industry. SMIC has many orders from worldwide customers, and is expected to start deliveries by the end of 2001. The SMIC project is one of the major development projects in Shanghai during the "Tenth Five-Year plan". The Group expects to enjoy high economic returns from the project in the future.

- **Modern Logistics**

  The Group has long-term strategies to actively participate in the logistics business. It continues to seek investment projects with high development potential. The Group is now establishing a logistics system based on an electronic information platform to serve sea, land and air transportation. It is expected that in the three years' time, the logistics business will be one of the major revenue generators for the Group.

- **Container Terminal**

  Shanghai has formulated its objectives to be an international transportation centre. Apart from the three construction phases of Waigaoqiao Container Terminal, which is currently in the development stage, there is also the development of Yangshan Seaport project. The Group will make a thorough assessment of related projects and will participate in suitable ones at appropriate time.

- **Medicine and Biotechnology**

  The Group is actively developing its medicine and bio-technology business in China and in the United States. It is concentrating on commercializing research and development work, mainly involving bio-technological areas such as anti-cancer drugs, human DNA chips. SIIC Medical Science and Technology (Group) Limited is the Group's vehicle for its medicine business. It is developing a comprehensive sales network, quality research and development bases and is expanding into international markets.

- **Listing in Mainland China**

  The Group made full use of good timing to raise capital on Mainland China's securities market. It listed Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") on the "A" share market subsequent to the year end. This received good response. The spin-off will provide the Group with an exceptional profit of approximately HK$100 million.

  Shanghai Bright Dairy and Food Co., Ltd. is actively preparing for an "A" share listing. This will be on a larger scale than that of Shanghai Jahwa, and is expected to happen in the second half of 2001.

- The Group plans its business transformation and at the same time reinforces and enhances the operating return of its existing businesses. It makes use of good business environment to expand market shares and pursues to enhance management quality as well as competitive capabilities, and to consolidate the foundation that contributes profit.

Internal Management Policy

1. Investment Appraisal

The Group's policy is to enhance the overall quality of its management as well as its corporate governance. In the course of assessing investment possibilities, the Group carries out internal reviews and risk control procedures. Tightly scrutinized inter-departmental appraisal systems and assessment procedures enable the Group to keep track on areas of investment and financial risks, so as to establish the most favourable investment portfolio for the Group.

2. Management By Objectives

In its day-to-day management, the Group uses a "management by objectives" plan emanating down from the top management to every unit within the Group. This approach enhances the commitment of each business to operational and administrative policies. By means of periodic review and refining of each unit's objectives, the Group carries out its corporate objectives by consolidating all subsidiary objectives in a way to pursue the ultimate corporate goal.

3. Economic Value-added Concept

During the year, the Group adopted international corporate management standards, and implemented the "Economic Value-added" (EVA) concept as an operating performance appraisal indicator as well as a way to assess investment projects and corporate financing. It emphasized the importance of returns on equity and opportunity costs.

4. Corporate Culture

The management believes that building an excellent corporate culture is the best way to promote staff cohesiveness as well as to motivate and to encourage their working initiatives. Corporate culture is not only built on strict rules and systems, but also induced to develop gradually. Using an approach described as "Progressiveness, Devotedness, Harmony, Fidelity", the Group has built a vigorous image. As people are the ultimate foundation of a corporation, the Group organises staff training sessions and continuing education programmes. It employs performance appraisal and incentive schemes so as to foster a team spirit of excellence that encourages innovation and commitment to work.

The management believes that through well-organized internal management policies, the Group will enhance the overall quality and image of its corporate management.

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 41 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2000 are set out in the consolidated income statement on page 58 of the annual report.

An interim dividend of HK11 cents per share was paid during the year. The directors recommend a final dividend of HK30 cents per share to the shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 119 and 120 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Changes in the share capital of the Company during the year are set out in note 25 to the financial statements.

Details of movements in the share options of the Company during the year are set out in note 26 to the financial statements.

RESERVES

Movements in the accumulated profits and other reserves of the Group and the Company during the year are set out in notes 27 and 28 to the financial statements, respectively.

INVESTMENT PROPERTY

At 31st December, 2000, 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$68.5 million and acquired plant and machinery at a cost of approximately HK$8.8 million, furniture, fixtures and equipment at a cost of approximately HK$11.4 million and other assets at a cost of approximately HK$2.4 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.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2000 are set out in note 41 to the financial statements.

PRINCIPAL JOINTLY CONTROLLED ENTITIES

Details of the Group's principal jointly controlled entities at 31st December, 2000 are set out in note 42 to the financial statements.

PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 31st December, 2000 are set out in note 44 to the financial statements.

BORROWINGS AND INTEREST CAPITALISED

Bank and other borrowings of the Group which are repayable within one year or on demand are classified as current liabilities. A repayment analysis of the bank and other borrowings is set out in notes 24 and 29 to the financial statements.

No interest was capitalised by the Group during the year.

DONATIONS

During the year, the Group made charitable and other donations totalling HK$0.6 million.

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 *(Chairman)*	
Chen Wei Shu *(Vice Chairman)*	
Zhuo Fu Min *(Chief Executive Officer)*	
Lu Da Yong *(Executive Deputy CEO)*	
Li Wei Da *(Deputy CEO)*	
Lu Yu Ping *(Deputy CEO)*	(appointed on 8th March, 2000)
Yu Li	
Cao Fu Kang	
Wen Song Quan	
Ge Wen Yao	
Huang Yan Zheng	
Gu Wen Xing	(appointed on 20th June, 2000)

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. Cai Lai Xing, Chen Wei Shu, Zhuo Fu Min, Yu Li, Wen Song Quan and Gu Wen Xing retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company. Other than the service agreements with Messrs. Li Wei Da, Lu Yu Ping, Yu Li and Gu Wen Xing, all the service agreements are 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. 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, such notice not to be given at any time before 20th December, 2002.

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, 2000, 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	No. 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 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	1,000,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Under the Company's share option scheme, details of which are set out in note 26(a) to the financial statements, certain directors of the Company have personal interests in share options to subscribe for shares in the Company which were granted to them as follows:

Name of director	Month of grant	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2000	Exercised during the year	Outstanding at 31.12.2000
Cai Lai Xing	July 1996	8.808	4,000,000	(4,000,000)	—
Chen Wei Shu	August 1996	8.808	2,000,000	(2,000,000)	—
	January 1999	9.568	1,500,000	—	1,500,000
Zhuo Fu Min	August 1996	8.808	1,500,000	(1,500,000)	—
	January 1999	9.568	1,400,000	—	1,400,000
Lu Da Yong	August 1996	8.808	1,500,000	(1,500,000)	—
	January 1999	9.568	1,200,000	—	1,200,000
Li Wei Da	April 1997	30.912	2,000,000	—	2,000,000
	January 1999	9.568	1,200,000	—	1,200,000
Yu Li	August 1998	10.432	2,000,000	—	2,000,000
	January 1999	9.568	1,000,000	—	1,000,000
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
Ge Wen Yao	August 1996	8.808	1,000,000	(1,000,000)	—
Huang Yan Zheng	August 1996	8.808	1,000,000	(1,000,000)	—
			23,300,000	(11,000,000)	12,300,000

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

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

Certain directors of the Company have personal 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:

Name of director	**Number of SIIC MedTech Shares subject to SIIC MedTech Options granted during the year and outstanding at 31.12.2000**
Zhuo Fu Min	8,000,000
Li Wei Da	6,000,000
Ge Wen Yao	2,500,000
	16,500,000

Save as disclosed above, at no time during the year was the Company or its holding companies or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following persons are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") (note)	533,096,000
Shanghai Industrial Investment Treasury Company Limited (note)	533,086,000
Shanghai Investment Holdings Limited	453,086,000

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, SIIC Capital (B.V.I.) Limited and Shanghai Industrial Investment Treasury Company Limited which in turn owns 100% of Shanghai Investment Holdings Limited and is accordingly deemed by the SDI Ordinance to be interested in the ordinary shares of the Company beneficially owned by Top Modern Limited, SIIC Capital (B.V.I.) Limited and Shanghai Investment Holdings Limited.

Save as disclosed above, the Company has not been notified of any other interests as at 31st December, 2000 representing 10% or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 40(I) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 40(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 no less favourable than terms available to third parties; and

(iv) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or its holding companies or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

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 of EPO which has a medical application for increasing erythrocyte. Shanghai United is a conglomerate engaging in three principal areas of business being high technology, supermarket chain, and textile manufacturing. Some of Shanghai United's investments in high technology enterprises are also engaged in medical and pharmaceutical related operations. Shanghai United has interest in Shanghai Medical Equipment Co., Ltd. ("Med Equipment"), a medical device company, SIIC Kehua Biology Company Limited ("Kehua Biology") and Zhejiang Zuoli Pharmaceutical Company ("Zuoli"). Med Equipment is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. Kehua Biology is engaged in the development, production and distribution of clinical diagnosis reagent and related products. Its main products include hepatitis B testing agent, hepatitis C antibody diagnosis testing agent and HIV antigen. Zuoli is engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products.

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 of Hong Kong Limited as described in note 25 to the financial statements, there was no purchase, sale of redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

POST BALANCE SHEET EVENTS

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

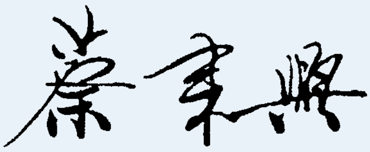
CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2000 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, 18th April, 2001

Auditors' Report

德勤·關黃陳方會計師行

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

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 58 to 118 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, 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Hong Kong, 18th April, 2001

Consolidated Income Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2000

	NOTES	2000 HK$'000	1999 HK$'000
Turnover	3	2,960,521	3,300,590
Cost of sales		(1,388,035)	(1,646,651)
Gross profit		1,572,486	1,653,939
Investment income	4	344,544	253,269
Other revenue		29,772	39,760
Distribution costs		(477,833)	(540,321)
Administrative expenses		(282,545)	(295,747)
Other operating expenses		(21,769)	(94,520)
Profit from operations	5	1,164,655	1,016,380
Finance costs	6	(135,560)	(178,590)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities	7	17,348	105,765
Share of results of jointly controlled entities		225,649	145,618
Share of results of associates		42,475	40,638
Profit from ordinary activities before taxation		1,314,567	1,129,811
Taxation	9	(80,300)	(43,259)
Profit before minority interests		1,234,267	1,086,552
Minority interests		(99,598)	(75,300)
Profit for the year	10	1,134,669	1,011,252
Dividends	11	367,995	292,517
Earnings per share	12		
— Basic		HK$1.27	HK$1.14
— Diluted		HK$1.25	HK$1.12

Consolidated Balance Sheet

AT 31ST DECEMBER, 2000

	NOTES	2000 HK$'000	1999 HK$'000
Non-Current Assets			
Investment property	13	12,000	12,000
Property, plant and equipment	14	977,551	990,663
Interests in jointly controlled entities	16	1,782,743	1,724,154
Interests in associates	17	277,880	207,905
Investments in infrastructure and other projects	18	5,818,061	5,829,018
Investments in securities	19	211,185	280,510
Deposits paid on acquisition of property, plant and equipment	20	15,714	—
		9,095,134	9,044,250
Current Assets			
Inventories	21	418,050	512,955
Trade and other receivables	22	807,888	608,611
Taxation recoverable		—	18,846
Investments in securities	19	248,792	128
Bank balances and cash		3,924,578	4,795,664
		5,399,308	5,936,204
Current Liabilities			
Trade and other payables	23	558,166	503,111
Taxation payable		39,639	35,573
Proposed dividend		269,756	195,016
Short-term borrowings	24	615,740	635,561
		1,483,301	1,369,261
Net Current Assets		3,916,007	4,566,943
		13,011,141	13,611,193

	NOTES	2000 HK$'000	1999 HK$'000
Capital and Reserves			
Issued capital	25	89,786	88,608
Accumulated profits	27	2,779,145	2,082,180
Other reserves	28	8,500,555	9,244,948
		11,369,486	11,415,736
Minority interests		396,855	369,407
Non-Current Liabilities			
Long-term bank borrowings	29	1,170,000	1,755,000
Deferred taxation	30	74,800	71,050
		1,244,800	1,826,050
		13,011,141	13,611,193

The financial statements on pages 58 to 118 were approved by the Board of Directors on 18th April, 2001 and are signed on its behalf by:

ZHUO FU MIN
Chief Executive Officer

LU DA YONG
Executive Deputy CEO

Balance Sheet

AT 31ST DECEMBER, 2000

	NOTES	2000 HK$'000	1999 HK$'000
Non-Current Assets			
Property, plant and equipment	14	8,077	10,588
Interests in subsidiaries	15	13,199,064	13,041,134
Amounts due from jointly controlled entities	16	—	176,856
		13,207,141	13,228,578
Current Assets			
Deposits, prepayment and other receivables		21,236	36,334
Investments in securities	19	22,197	128
Dividend receivable		780,000	—
Bank balances and cash		801,445	1,432,116
		1,624,878	1,468,578
Current Liabilities			
Other payables and accrued charges		60,364	118,008
Proposed dividend		269,756	195,016
Short-term borrowings	24	585,000	585,000
		915,120	898,024
Net Current Assets		709,758	570,554
		13,916,899	13,799,132
Capital and Reserves			
Issued capital	25	89,786	88,608
Accumulated profits	27	2,202,780	1,543,720
Other reserves	28	10,454,333	10,333,989
		12,746,899	11,966,317
Non-Current Liabilities			
Long-term bank borrowings	29	1,170,000	1,755,000
Amounts due to subsidiaries	15	—	77,815
		1,170,000	1,832,815
		13,916,899	13,799,132

ZHUO FU MIN
Chief Executive Officer

LU DA YONG
Executive Deputy CEO

Consolidated Statement of Recognised Gains and Losses

FOR THE YEAR ENDED 31ST DECEMBER, 2000

	2000 HK$'000	1999 HK$'000
Revaluation increase on an investment property	—	299
Exchange difference arising from translation of financial statements of PRC operations	(141)	152
Share of PRC statutory reserves of an associate	(130)	(3,675)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	(213)	(43)
Net loss not recognised in the consolidated income statement	(484)	(3,267)
Net profit for the year	1,134,669	1,011,252
Total recognised gains and losses	1,134,185	1,007,985
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)	(7,212)
Elimination against reserves of goodwill arising on acquisition of a subsidiary by an associate	—	(3,613)
Capital reserve arising on acquisition of an associate	6,169	—
Elimination against reserves of goodwill arising on acquisition of jointly controlled entities	(482,661)	—
	219,398	997,160

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER, 2000

	NOTES	2000 HK$'000	1999 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	31	1,158,676	1,073,600
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(293,255)	(291,392)
Interest paid on bank and other borrowings		(202,642)	(177,812)
Dividends paid to minority shareholders of subsidiaries		(48,764)	(41,748)
Interest received		273,533	222,033
Dividends received from listed investments		14,143	11,612
Dividends received from associates		13,797	17,666
Dividends received from jointly controlled entities		4,936	124,788
Income received from unlisted investments, other than infrastructure projects		2,913	3,698
Rental income		2,387	1,620
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(232,952)	(129,535)
TAXATION			
PRC income tax paid		(28,333)	(26,998)
Hong Kong Profits Tax paid		(1,311)	(2,866)
Hong Kong Profits Tax refunded		18,846	3,199
NET CASH OUTFLOW FROM TAXATION		(10,798)	(26,665)
INVESTING ACTIVITIES			
Purchase of a subsidiary (net of cash and cash equivalents)	32	(936,000)	—
Purchase of investments in securities		(700,599)	(65,158)
Capital contributions to jointly controlled entities		(173,678)	(97,538)
Purchase of property, plant and equipment		(91,055)	(116,230)
Purchase of unlisted investments, other than infrastructure projects		(88,230)	(12,271)
Capital contributions to associates		(53,040)	(8,084)
Purchase of additional interests in a subsidiary		(50,233)	—
Deposits paid on acquisition of property, plant and equipment		(15,714)	—
(Advances to) repayment from investees		(6,858)	5,289
Disposal and partial disposal of interests in subsidiaries (net of cash and cash equivalents)	33	(312)	166,302

	NOTE	2000 HK$'000	1999 HK$'000
Proceeds from disposal of investments in securities		562,982	79,357
Capital receipts from infrastructure projects		96,222	117,344
Repayment from (advances to) jointly controlled entities		89,980	(155,404)
Proceeds from disposal and partial disposal of interests in jointly controlled entities		71,049	14,879
Proceeds from disposal of property, plant and equipment		11,340	33,824
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,284,146)	(37,690)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		(369,220)	879,710
FINANCING	34		
Repayment of borrowings		(630,140)	(284,344)
Repurchase of shares		(20,513)	—
Expenses incurred in connection with the issue of shares		(90)	(35)
Proceeds from issue of shares		121,612	46,408
Borrowings raised		25,319	243,457
Capital contributions in cash by minority shareholders of subsidiaries		1,946	206,350
Repayment to ultimate holding company		—	(193,500)
NET CASH (OUTFLOW) INFLOW FROM FINANCING		(501,866)	18,336
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(871,086)	898,046
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		4,795,664	3,897,618
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		3,924,578	4,795,664

Notes to the Financial Statements

For the year ended 31st December, 2000

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 41.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared 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.

Goodwill

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

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

Goodwill — continued

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

Investments in subsidiaries

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

Investments in subsidiaries are stated at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Interests in joint ventures

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

Where a group company undertakes its activities under joint venture arrangements directly, constituted as jointly controlled entities the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

Interests in joint ventures — continued

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

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

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in infrastructure projects

The Group's investments in infrastructure projects are initially recorded at cost. 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 to which it is considered to be irrecoverable, is written off immediately to the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES — continued

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.

Income from investments 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 valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

2. SIGNIFICANT ACCOUNTING POLICIES — continued

Investment properties — continued

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 receivable 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.

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.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

Property, plant and equipment — continued

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 assets, 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% – 33⅓% or over the period of the lease in case of fixtures in rented premises
Motor vehicles	20% – 30%
Plant and machinery	6⅔% – 20%

Borrowing costs

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

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

Inventories

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

Research and development costs

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

Retirement benefits scheme

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

Taxation

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

Foreign currencies

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

On consolidation, the financial statements of operations outside Hong Kong are translated at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in reserves.

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.

2. **SIGNIFICANT ACCOUNTING POLICIES — continued**

Cash equivalents

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

3. **TURNOVER**

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

	2000 HK$'000	1999 HK$'000
Sale of goods	2,227,983	2,556,388
Income from infrastructure projects	732,538	744,202
	2,960,521	3,300,590

4. **INVESTMENT INCOME**

	2000 HK$'000	1999 HK$'000
Interest income	273,533	222,033
Gain on disposal of investments in securities	51,568	14,306
Dividend income from listed investments	14,143	11,612
Income from unlisted investments, other than infrastructure projects	2,913	3,698
Rental income from property, plant and equipment	2,387	1,620
	344,544	253,269

5. PROFIT FROM OPERATIONS

	2000 HK$'000	1999 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
Basic salaries and allowances	223,769	259,006
Bonus	55,474	50,936
Retirement benefits scheme contributions, net of forfeited contributions of HK$108,997 (1999: HK$47,100)	14,826	18,070
	294,069	328,012
Amortisation of brand names	—	1,320
Auditors' remuneration	4,300	4,100
Depreciation and amortisation of property, plant and equipment	98,588	110,986
Impairment loss on unlisted investments, other than infrastructure projects	9,823	1,083
Net unrealised loss on investments in securities	9,846	93,437
Operating lease rentals in respect of equipment and motor vehicles	1,755	3,080
Operating lease rentals in respect of land and buildings to		
— ultimate holding company	5,599	7,070
— fellow subsidiaries	46,799	47,229
— others	21,193	28,057
Research and development costs	5,498	6,616
Gain on disposal of property, plant and equipment	(5,780)	(9,183)

6. FINANCE COSTS

	2000 HK$'000	1999 HK$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	135,560	172,772
— loan from ultimate holding company	—	5,818
	135,560	178,590

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

	2000 HK$'000	1999 HK$'000
(Loss) gain on disposal and partial disposal of interests in subsidiaries	(2,474)	105,025
Gain on disposal and partial disposal of interests in jointly controlled entities	19,822	—
Gain on disposal and partial disposal of interests in associates	—	740
	17,348	105,765

8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2000 HK$'000	1999 HK$'000
Directors' fees:		
Executive	—	—
Independent non-executive	776	896
Other emoluments of executive directors:		
Basic salaries and allowances	20,557	17,335
Bonus	19,501	16,645
Retirement benefits scheme contributions	1,961	1,715
Total directors' emoluments	42,795	36,591

The emoluments of the directors were within the following bands:

	2000 Number of directors	1999 Number of directors
Up to HK$1,000,000	6	6
HK$1,000,001 to HK$1,500,000	3	2
HK$3,000,001 to HK$3,500,000	1	1
HK$4,000,001 to HK$4,500,000	1	1
HK$4,500,001 to HK$5,000,000	1	—
HK$5,000,001 to HK$5,500,000	1	2
HK$5,500,001 to HK$6,000,000	1	1
HK$6,000,001 to HK$6,500,000	1	1
HK$6,500,001 to HK$7,000,000	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

	2000 HK$'000	1999 HK$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
— Hong Kong Profits Tax		
— current year	15,985	2,820
— tax refund for prior year	—	(3,199)
— PRC income tax		
— current year	27,725	22,624
— overprovision in prior years	(10,000)	(10,000)
	33,710	12,245
Deferred taxation (note 30)	3,750	(2,041)
Share of PRC income tax of jointly controlled entities	34,574	24,602
Share of PRC income tax of associates	8,266	8,453
	42,840	33,055
	80,300	43,259

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 mainland People's Republic of China (the "PRC"), the Group's PRC subsidiaries, jointly controlled entities and associates are entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC income tax for the following three years.

The tax holiday for 正大青春寶葯業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) ("CTQ"), a subsidiary of the Company, expired in 1997. However, pursuant to an approval received from local tax authorities on 16th September, 1998, CTQ was classified as one of the approved "High Technology entities". Accordingly, CTQ is entitled to a preferential PRC income tax rate of 12% for the three years ended 31st December, 2000.

9. TAXATION — continued

During the year, a jointly controlled entity, 上海家化聯合股份有限公司 (Shanghai Jahwa United Co., Ltd.), was in its fifth profitable year and was entitled to a 50% relief from PRC income tax at the applicable tax rate of 27%. Its subsidiaries are, however, subject to PRC income tax calculated at 33%.

The tax holiday for 上海東方商廈有限公司 (Shanghai Orient Shopping Centre Ltd.), a subsidiary of the Company, expired in 2000 and is subject to PRC income tax calculated at 33%.

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$1,047,568,000 (1999: HK$727,893,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2000 HK$'000	1999 HK$'000
Interim dividend of HK11 cents per share (1999: HK11 cents per share)	98,590	97,447
Proposed final dividend of HK30 cents per share (1999: HK22 cents per share)	269,756	195,016
Additional final dividend for the prior period due to exercise of share options/issue of new shares on subscription	—	54
Overprovision of final dividend resulting from repurchased of shares	(351)	—
	367,995	292,517

The amount of the final dividend proposed for the year ended 31st December, 2000 has been calculated by reference to 899,185,000 (1999: 886,435,000) ordinary shares in issue as at the date of this report.

12. EARNINGS PER SHARE

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

	2000	1999
Earnings:		
Profit for the year and earnings for the purpose of basic and diluted earnings per share	HK$1,134,669,000	HK$1,011,252,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	891,633,057	883,609,477
Effect of dilutive potential ordinary shares — share options	17,897,513	22,488,093
Weighted average number of ordinary shares for the purpose of diluted earnings per share	909,530,570	906,097,570

13. INVESTMENT PROPERTY

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

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

The investment property was revalued at 31st December, 2000 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.

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
THE GROUP						
COST OR VALUATION						
At 1st January, 2000	260,425	247,986	41,535	941,955	19,571	1,511,472
Additions	72	11,351	2,351	8,816	68,465	91,055
Transfers/reclassifications	3,188	4,492	2,276	9,970	(19,926)	—
Disposals	—	(12,234)	(1,485)	(34,403)	—	(48,122)
Eliminated on disposal of a subsidiary	—	(188)	—	—	—	(188)
At 31st December, 2000	263,685	251,407	44,677	926,338	68,110	1,554,217
Comprising:						
At cost	262,685	251,407	44,677	926,338	68,110	1,553,217
At valuation — 1996	1,000	—	—	—	—	1,000
	263,685	251,407	44,677	926,338	68,110	1,554,217
DEPRECIATION AND AMORTISATION						
At 1st January, 2000	34,312	86,681	30,603	369,213	—	520,809
Provided for the year	9,280	27,950	4,794	56,564	—	98,588
Eliminated on disposals	—	(10,205)	(1,360)	(30,997)	—	(42,562)
Eliminated on disposal of a subsidiary	—	(169)	—	—	—	(169)
At 31st December, 2000	43,592	104,257	34,037	394,780	—	576,666
NET BOOK VALUE						
At 31st December, 2000	220,093	147,150	10,640	531,558	68,110	977,551
At 31st December, 1999	226,113	161,305	10,932	572,742	19,571	990,663

14. PROPERTY, PLANT AND EQUIPMENT — continued

	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE COMPANY			
COST			
At 1st January, 2000	16,918	7,222	24,140
Additions	2,439	—	2,439
At 31st December, 2000	19,357	7,222	26,579
DEPRECIATION			
At 1st January, 2000	8,415	5,137	13,552
Provided for the year	3,495	1,455	4,950
At 31st December, 2000	11,910	6,592	18,502
NET BOOK VALUE			
At 31st December, 2000	7,447	630	8,077
At 31st December, 1999	8,503	2,085	10,588

14. PROPERTY, PLANT AND EQUIPMENT — continued

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
The net book value of the Group's property interests comprises:		
Properties held under		
— long leases in Macau	1,371	1,419
— medium-term leases in Hong Kong	136,711	141,318
— medium-term land use rights in the PRC	12,448	12,745
Buildings situated outside Hong Kong	69,563	70,631
	220,093	226,113

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. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK$'000	HK$'000
Unlisted shares, at cost	800,077	761,198
Amounts due from subsidiaries	12,398,987	12,279,936
	13,199,064	13,041,134
Amounts due to subsidiaries	—	77,815

The amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable after one year. Details of the Company's principal subsidiaries at 31st December, 2000 are set out in note 41.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Share of net assets of jointly controlled entities	1,603,120	1,454,551	—	—
Amounts due from jointly controlled entities	179,623	269,603	—	176,856
	1,782,743	1,724,154	—	176,856

The amounts due from jointly controlled entities are unsecured and repayable after one year. Except for an amount of approximately HK$168.2 million (1999: HK$92.8 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, 2000 are set out in note 42.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Share of net assets of associates	277,880	207,905

Details of the Group's principal associates at 31st December, 2000 are set out in note 44.

18. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS

	THE GROUP	
	2000	1999
	HK$'000	HK$'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	(361,740)	(265,518)
	5,693,004	5,789,226
Other unlisted investments, at cost in		
— the PRC	127,887	39,657
— Hong Kong	5	5
Less: Impairment loss	(13,227)	(3,404)
	114,665	36,258
Amounts due from investees, net of provision	10,392	3,534
	5,818,061	5,829,018

The Group's investment in Yanan Road at 31st December, 2000 represents a 50.2% interest in the registered capital 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.

18. 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, 2000 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.

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.

18. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS — continued

The amounts due from investees are unsecured and repayable as follows:

	2000 HK$'000	1999 HK$'000
Portion carries interest at commercial rates		
Within one year	2,377	1,157
Between one to two years	—	2,377
No fixed repayment terms	7,000	—
	9,377	3,534
Non-interest bearing portion without fixed repayment terms	1,015	—
	10,392	3,534

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.

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Other investments				
Equity securities:				
Listed	273,761	280,638	22,197	128
Unlisted	186,216	—	—	—
	459,977	280,638	22,197	128
Comprising:				
Listed				
Hong Kong	245,724	280,638	22,197	128
PRC	28,037	—	—	—
Unlisted				
PRC	46,986	—	—	—
United States of America	131,040	—	—	—
Others	8,190	—	—	—
	459,977	280,638	22,197	128
Market value of listed securities	273,761	280,638	22,197	128
Carrying amount analysed for reporting purposes as:				
Current	248,792	128	22,197	128
Non-current	211,185	280,510	—	—
	459,977	280,638	22,197	128

20. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

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

21. INVENTORIES

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Raw materials	309,031	400,701
Work in progress	15,520	13,339
Finished goods	63,662	66,183
Merchandise held for resale	29,837	32,732
	418,050	512,955

At 31st December, 1999, raw materials of approximately HK$9.4 million and finished goods of approximately HK$8.6 million were carried at net realisable value.

22. 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$184,053,000 (1999: HK$166,673,000) and their aged analysis is as follows:

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Trade receivables:		
Within 30 days	86,505	72,548
Within 31 – 60 days	40,347	34,272
Within 61 – 91 days	29,806	28,783
Within 91 – 180 days	27,395	21,904
Within 181 – 360 days	—	9,166
	184,053	166,673

23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$91,860,000 (1999: HK$82,432,000) and their aged analysis is as follows:

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Trade payables:		
Within 30 days	63,092	57,198
Within 31 – 60 days	11,901	13,172
Within 61 – 90 days	4,465	4,690
Within 91 – 180 days	4,581	2,430
Within 181 – 360 days	4,876	3,327
Over 360 days	2,945	1,615
	91,860	82,432

24. SHORT-TERM BORROWINGS

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Current portion of long-term bank loans (note 29)	585,000	585,000	585,000	585,000
Short-term bank loans	14,673	41,215	—	—
Other short-term loans	16,067	9,346	—	—
	615,740	635,561	585,000	585,000

25. ISSUED CAPITAL

	Number of ordinary shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
— at 1st January, 1999, 31st December, 1999 and 31st December, 2000	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
— at 1st January, 1999	881,320,000	88,132
— exercise of share options	4,760,000	476
— at 31st December, 1999	886,080,000	88,608
— exercise of share options	13,370,000	1,337
— shares repurchased and cancelled	(1,594,000)	(159)
— at 31st December, 2000	897,856,000	89,786

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

Month of repurchase	Number of ordinary shares of HK$0.10 each	Price per share (HK$) Highest	Lowest	Aggregate consideration paid HK$'000
May 2000	1,594,000	12.95	12.75	20,513

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 27.

25. 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.

26. SHARE OPTION SCHEMES

(a) Pursuant to the Company's share option scheme adopted on 17th May, 1996 (the "Scheme"), the Company may grant options to executive directors and full time employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Options granted are exercisable not earlier than six months nor later than three and a half years after the date the options are granted. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time.

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

		Number of share options		
Month of grant	Exercise price per share HK$	Outstanding at 1.1.2000	Exercised during the year	Outstanding at 31.12.2000
July 1996	8.808	4,000,000	(4,000,000)	—
August 1996	8.808	7,000,000	(7,000,000)	—
April 1997	30.912	8,400,000	—	8,400,000
May 1997	30.912	3,500,000	—	3,500,000
August 1998	10.432	24,240,000	(2,370,000)	21,870,000
January 2000	9.568	23,300,000	—	23,300,000
		70,440,000	(13,370,000)	57,070,000

26. **SHARE OPTION SCHEMES — continued**

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

A summary of the movements during the year in the share options granted under the SIIC MedTech option scheme is as follows:

		Number of SIIC MedTech share options		
Month of grant	Exercise price per share HK$	Outstanding at 1.1.2000	Granted during the year	Outstanding at 31.12.2000
January 2000	1.69	—	39,200,000	39,200,000

The above SIIC MedTech options are exercisable at any time during the three years commencing on the expiry of three years after the date the options are granted.

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

(c) In July 2000, pursuant to an agreement entered into by the Company, SII International Holding Limited and SAIL Technology Holding Limited ("SAIL Technology"), the Company acquired the entire equity interest of Active Services 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 ending on the expiry of eighteen months from the completion date.

27. ACCUMULATED PROFITS

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January	2,082,180	1,402,869	1,543,720	1,108,344
Profit for the year	1,134,669	1,011,252	1,047,568	727,893
Transfers, net of minority interests' share (note 28)	(49,196)	(39,424)	—	—
Dividends (note 11)	(367,995)	(292,517)	(367,995)	(292,517)
Shares repurchased and cancelled:				
Premium on shares	(20,354)	—	(20,354)	—
Transfer	(159)	—	(159)	—
At 31st December	2,779,145	2,082,180	2,202,780	1,543,720

The accumulated profits of the Group include HK$11.1 million (1999: HK$56.5 million) retained by jointly controlled entities and HK$48.5 million (1999: HK$41.4 million) retained by associates.

The Company's reserve available for distribution to shareholders as at 31st December, 2000 represents the accumulated profits of HK$2,202.8 million (1999: HK$1,543.7 million).

28. OTHER RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Translation reserve HK$'000	Goodwill H$'000	PRC statutory reserves HK$'000	Total HK$'000
THE GROUP							
At 1st January, 1999	9,150,364	—	—	9,593	(170,969)	99,704	9,088,692
Premium arising on issue of shares	45,932	—	—	—	—	—	45,932
Expenses incurred in connection with the issue of shares	(35)	—	—	—	—	—	(35)
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	152	—	—	152
Revaluation surplus, net of minority interests' share	—	—	299	—	—	—	299
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	—	—	—	(43)	—	—	(43)
Share of PRC statutory reserves of an associate	—	—	—	—	—	(3,675)	(3,675)
Share of goodwill arising on acquisition of subsidiaries by a jointly controlled entity	—	—	—	—	(7,212)	—	(7,212)
Share of goodwill arising on acquisition of a subsidiary by an associate, net of minority interests' share	—	—	—	—	(3,613)	—	(3,613)
Realised on disposal of associates	—	—	—	—	(63)	(1,440)	(1,503)
Realised on disposal and partial disposal of interests in subsidiaries	—	—	—	(1,183)	91,944	(4,231)	86,530
Transfers, net of minority interests' share (note 27)	—	—	—	—	—	39,424	39,424
At 31st December, 1999	9,196,261	—	299	8,519	(89,913)	129,782	9,244,948

28. OTHER RESERVES — continued

	Share premium HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Translation reserve HK$'000	Goodwill H$'000	PRC statutory reserves HK$'000	Total HK$'000
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 27)	—	—	—	—	—	49,196	49,196
At 31st December, 2000	9,316,446	159	299	8,075	(1,001,904)	177,480	8,500,555

28. OTHER RESERVES — continued

	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Total HK$'000
THE COMPANY				
At 1st January, 1999	9,150,364	—	1,137,728	10,288,092
Premium arising on issue of shares	45,932	—	—	45,932
Expenses incurred in connection with the issue of shares	(35)	—	—	(35)
At 31st December, 1999	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

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.

29. LONG-TERM BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans	1,755,000	2,340,000	1,755,000	2,340,000
Less: Bank loans due within one year included under current liabilities (note 24)	(585,000)	(585,000)	(585,000)	(585,000)
Amount due after one year	1,170,000	1,755,000	1,170,000	1,755,000
The loans are repayable as follows:				
Within one year	585,000	585,000	585,000	585,000
Between one to two years	1,170,000	585,000	1,170,000	585,000
Between two to five years	—	1,170,000	—	1,170,000
	1,755,000	2,340,000	1,755,000	2,340,000

30. DEFERRED TAXATION

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Balance brought forward	71,050	73,091
Movement for the year (note 9)	3,750	(2,041)
Balance carried forward	74,800	71,050

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.

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

	2000 HK$'000	1999 HK$'000
Profit from ordinary activities before taxation	1,314,567	1,129,811
Dividend income from listed investments	(14,143)	(11,612)
Income from unlisted investments, other than infrastructure projects	(2,913)	(3,698)
Interest income	(273,533)	(222,033)
Interest on borrowings	135,560	178,590
Rental income	(2,387)	(1,620)
Share of results of jointly controlled entities	(225,649)	(145,618)
Share of results of associates	(42,475)	(40,638)
Amortisation of brand names	—	1,320
Depreciation and amortisation of property, plant and equipment	98,588	110,986
Net unrealised loss on investments in securities	9,846	93,437
Gain on disposal of investments in securities	(51,568)	(14,306)
Gain on disposal of property, plant and equipment	(5,780)	(9,183)
Loss (gain) on disposal and partial disposal of interests in subsidiaries	2,474	(105,025)
Gain on disposal and partial disposal of interests in associates	—	(740)
Gain on disposal and partial disposal of interests in jointly controlled entities	(19,822)	—
Impairment loss on unlisted investments, other than infrastructure projects	9,823	1,083
Impairment loss on interest in a jointly controlled entity	2,100	—
Decrease in inventories	94,889	60,924
Decrease (increase) in trade and other receivables	6,525	(33,421)
Increase in trade and other payables	122,574	85,343
Net cash inflow from operating activities	1,158,676	1,073,600

32. PURCHASE OF A SUBSIDIARY

	2000 HK$'000	1999 HK$'000
Net assets acquired:		
Interest in a jointly controlled entity	164,411	—
	164,411	—
Goodwill arising on acquisition of the subsidiary	390,000	—
Goodwill arising on the subsidiary's acquisition of a jointly controlled entity	381,589	—
	771,589	—
	936,000	—
Satisfied by:		
Cash consideration paid	936,000	—
Net outflow of cash and cash equivalents in connection with the purchase of a subsidiary:		
Cash paid	(936,000)	—

The subsidiary acquired during the year did not have any significant impact on the Group's cash flows or operating results for the year.

33. DISPOSAL AND PARTIAL DISPOSAL OF INTERESTS IN SUBSIDIARIES

	2000 HK$'000	1999 HK$'000
Net assets disposed of:		
Property, plant and equipment	19	371,203
Brand names	—	36,636
Interest in associates	—	2,126
Other unlisted investments	—	5,353
Inventories	16	190,264
Trade and other receivables	452	295,799
Bank balances and cash	312	78,625
Trade and other payables	(437)	(403,110)
Taxation payable	—	(1,236)
Short-term bank and other borrowings	—	(214,653)
Minority interests	—	(189,447)
Long-term loans	—	(31,280)
Net assets	362	140,280
Attributable goodwill previously written off against reserves	2,112	91,944
Translation reserve realised on disposal	—	(1,183)
PRC statutory reserves realised on disposal	—	(4,231)
Share of a subsidiary's net assets reclassified on becoming a Group's jointly controlled entity	—	(86,908)
(Loss) gain on disposal and partial disposal of interests in subsidiaries	(2,474)	105,025
	—	244,927

33. DISPOSAL AND PARTIAL DISPOSAL OF INTERESTS IN SUBSIDIARIES — continued

	2000 HK$'000	1999 HK$'000
Satisfied by:		
Cash consideration received	—	244,927
Analysis of net inflow of cash and cash equivalents in connection with the disposal and partial disposal of interests in subsidiaries:		
Cash consideration received	—	244,927
Bank balances and cash disposed of	(312)	(78,625)
Net (outflow) inflow of cash and cash equivalents in connection with the disposal and partial disposal of interests in subsidiaries	(312)	166,302

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.

The subsidiaries disposed of during the year ended 31st December, 1999 contributed HK$95,904,000 to the Group's net operating cash flows, paid HK$6,228,000 in respect of the net returns on investments and servicing of finance, paid HK$1,264,000 in respect of taxation, utilised HK$17,878,000 for investing activities and paid HK$39,533,000 in respect of financing activities.

34. 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$'000	Loan from ultimate holding company HK$'000
At 1st January, 1999	9,238,496	318,630	2,677,381	193,500
Issue of shares for cash	46,408	—	—	—
Expenses incurred in connection with the issue of shares	(35)	—	—	—
Capital contributions in cash by minority shareholders of subsidiaries	—	206,350	—	—
Eliminated on disposal and partial disposal of interests in subsidiaries	—	(189,447)	(245,933)	—
Share of profits by minority shareholders of subsidiaries	—	75,300	—	—
Minority interests' share of investment property revaluation reserve of a subsidiary	—	608	—	—
Minority interests' share of goodwill arising on acquisition of a subsidiary by an associate	—	(286)	—	—
Dividends paid to minority shareholders of subsidiaries	—	(41,748)	—	—
Borrowings raised	—	—	243,457	—
Repayments during the year	—	—	(284,344)	(193,500)
At 31st December, 1999	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	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	—	(48,764)	—	—
Borrowings raised	—	—	25,319	—
Repayments during the year	—	—	(630,140)	—
At 31st December, 2000	9,406,391	396,855	1,785,740	—

35. OPERATING LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	5,247	2,427	4,132	67
In the second to fifth year inclusive	1,139	7,116	151	5,237
After five years	43,321	47,173	—	—
	49,707	56,716	4,283	5,304

Included in the above are operating lease commitments of approximately HK$49 million (1999: HK$53.6 million) and HK$4.3 million (1999: HK$5.3 million) payable by the Group and the Company respectively to connected parties.

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

36. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investments in PRC subsidiaries and jointly controlled entities	45,480	186,373
— acquisition of property, plant and equipment	160,340	43,761
	205,820	230,134
Capital expenditure authorised but not contracted for in respect of		
— investments in the PRC	186,916	—
— acquisition of property, plant and equipment	—	1,024
	186,916	1,024

36. 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		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of				
— investments in PRC subsidiaries and jointly controlled entities	9,202	1,011	3,042	—
— acquisition of property, plant and equipment	128,173	59,643	—	—
	137,375	60,654	3,042	—
Capital expenditure authorised but not contracted for in respect of				
— investments in PRC jointly controlled entities	—	8,411	—	—
— acquisition of property, plant and equipment	22,959	60,369	—	—
	22,959	68,780	—	—

37. 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$225 million (1999: US$300 million).

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantees given to banks in respect of banking facilities extended to				
— subsidiaries	—	—	220,120	335,673
— a jointly controlled entity	—	4,673	—	4,673
— a third party	—	4,673	—	—
	—	9,346	220,120	340,346

Details of contingent liabilities given by the Group and the Company to connected persons are set out in note 40 (I)(c).

39. RETIREMENT BENEFITS SCHEMES

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

The employees employed 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.

40. 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 parties	Nature of transactions	THE GROUP 2000 HK$'000	THE GROUP 1999 HK$'000
Transactions			
Ultimate holding company:			
Shanghai Industrial Investment (Holdings) Company Limited	Interest paid (note i)	—	5,818
	Rentals paid on land and buildings (note ii)	8,245	7,070
Fellow subsidiaries:			
South Pacific International Limited	Sale of cigarettes (note iii)	—	29,006
Nanyang Brothers Properties Limited	Rentals paid on land and buildings (note ii)	—	5,216
Nanyang Enterprises Properties Limited	Rentals paid on land and buildings (note ii)	19,800	21,600
SIIC Estate Company Limited	Rentals paid on land and buildings (note ii)	969	375
上海實業發展有限公司 (Shanghai SIIC Development Ltd.)	Rentals paid on land and buildings (note ii)	18,979	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)	1,589	1,059

40. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — continued

(I) Connected persons — continued

Connected parties	Nature of transactions	THE GROUP 2000 HK$'000	THE GROUP 1999 HK$'000
Joint venture partners of the Company's PRC subsidiaries:			
上海家化（集團）有限公司 (Shanghai Jahwa (Holdings) Co., Ltd.) ("SJC") (formerly known as 上海家化聯合公司 (Shanghai Jahwa Company))	Trademark fees (note iv)	—	7,837
中國（杭州）青春集團公司 (China (Hangzhou) Qingchunbao Group Co.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (note iii)	28,913	15,154
	Purchase of raw materials (note iii)	1,429	1,007
Balances			
Joint venture partner of the Company's PRC subsidiary:			
China Qingchunbao and its subsidiaries	Balance at 31st December		
	— trade receivables	2,543	3,483
	— short-term loan (note v)	—	9,346
	— trade payable	173	143
Directors	Balance at 31st December		
	— accrued emoluments	4,204	2,667

40. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — continued

(I) Connected persons — continued

Notes:

(i) The interest was charged at 8% per annum on the outstanding loan balance pursuant to the loan agreement entered into in 1996. The loan was fully repaid in 1999.

(ii) 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 or estimated by the directors at the time when the tenancy agreements were entered into.

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

(iv) The trademark fees were charged commencing 1st January, 1998 in accordance with the joint venture agreement entered into in 1995 for the usage of 17 groups of trademarks. The trademark fees were established on the basis of a certain percentage applied on the net sales of products using the 17 groups of trademarks.

SJC ceased to be a connected party to the Group.

(v) The loan is unsecured, interest-bearing and repayable on demand.

(vi) These transactions were carried out in accordance with the terms of the agreement entered into between the relevant parties.

(b) Details of operating lease commitments with connected parties are set out in note 35.

(c) As at 31st December, 2000, the Company had given guarantees amounting to approximately HK$35 million (1999: HK$38 million) to various banks in respect of credit facilities granted to The Wing Fat Printing Company, Limited ("Wing Fat") which is 93.1% indirectly owned by the Group. Also, the Group had provided advances to Wing Fat for financing its operations. As at 31st December, 2000, the Group had advanced approximately HK$159 million (1999: HK$159 million) to Wing Fat. The advances are unsecured, interest-free and have no fixed repayment terms. The guarantees given and advances made by the Group were the only financial assistance given by Wing Fat's shareholders to Wing Fat.

Moreover, as at 31st December, 2000, the Company had given a guarantee amounting to HK$5 million (1999: HK$5 million) to a bank in respect of credit facilities granted to SIIC MedTech which is 63.9% indirectly owned by the Group. As at 31st December, 1999, the Company had also given a guarantee amounted to HK$4.7 million to a bank in favor of Shanghai Orient Shopping Centre Ltd. ("Shanghai Orient Shopping Centre") which is a 51% indirectly held subsidiary of the Company. The guarantee was released during the year ended 31st December, 2000.

The guarantees given by the Group were the only financial assistances given by the shareholders of SIIC MedTech to SIIC MedTech.

40. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — continued

(I) Connected persons — continued

In addition, as at 31st December, 1999, China Qingchunbao had given guarantees totalling HK$33.7 million to certain banks in respect of credit facilities extended to one of the Group's PRC subsidiaries. The guarantees were released during the year ended 31st December, 2000.

(II) Related parties, other than connected persons

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 transactions	THE GROUP 2000 HK$'000	THE GROUP 1999 HK$'000
Transactions			
Jointly controlled entities:			
Sonconpak Limited	Purchase of packing materials (note 40(I)(a)(iii))	1,712	2,860
Dragon Wealth Assets Limited	Service income (note 40(I)(a)(vi))	1,914	—
	Promotional expense paid (note 40(I)(a)(vi))	7,453	—
Dragon Wealth Investments Limited	Purchase of finished goods (note 40(I)(a)(iii))	2,944	—
	Material cost received (note 40(I)(a)(iii))	1,520	—
Associates:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Purchase of property, plant and equipment (note 40(I)(a)(iii))	—	6,119

40. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES — continued

(II) Related parties, other than connected persons — continued

Related parties	Nature of transactions	THE GROUP 2000 HK$'000	THE GROUP 1999 HK$'000
Balances			
Jointly controlled entities:			
Sonconpak Limited	Balance at 31st December — trade payable	—	526
Shanghai Jahwa	Balance at 31st December — long-term receivable	—	62,654
Dragon Wealth Assets Limited	Balance at 31st December — long-term receivable	3,120	—
上海三維制藥有限公司 (Shanghai Sunve Pharmaceutical Co., Ltd.)	Balance at 31st December — long-term receivable	—	114,199
Mergen Holdings Ltd.	Balance at 31st December — long-term receivable	176,113	92,750
Associates:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Balance at 31st December — trade receivable	18,004	30,343
濟南泉永印務有限公司 (Jinan Quanyong Printing Co., Ltd.)	Balance at 31st December — short-term loan (note 40 (I)(a)(v))	3,738	—

41. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the Company/ subsidiaries	Percentage of issued/ registered capital attributable to the Group	Principal activities
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	Cayman Islands/ Hong Kong	Ordinary shares — HK$62,000,000	63.9%	63.9%	Investment holding
正大青春寶葯業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.)	PRC	RMB128,500,000	60%	35.1%	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	—	—	

41. PRINCIPAL SUBSIDIARIES — continued

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 Company/ subsidiaries	Percentage of issued/ registered capital attributable to the Group	Principal activities
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	93.1%	93.1%	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.

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.

42. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31st December, 2000 and which are all established in the PRC are as follows:

Name of jointly controlled entity	Percentage of registered capital held by the subsidiaries	Percentage of registered capital attributable to the Group	Principal activities
Mergen Ltd.	50%	50%	Research and development of biotechnology products
上海光明乳業股份有限公司 (Shanghai Bright Dairy and Food Co., Ltd.)	40%	40%	Manufacture, distribution and sale of dairy and related products
上海匯眾汽車制造有限公司 (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
上海家化聯合股份有限公司 (Shanghai Jahwa United Co., Ltd.) (formerly known as 上海家化有限公司 (Shanghai Jahwa Co., Ltd.)) ("Shanghai Jahwa")	40%	25.6%	Manufacture, distribution and sale of personal care and cosmetics products

42. PRINCIPAL JOINTLY CONTROLLED ENTITIES — continued

Name of jointly controlled entity	Percentage of registered capital held by the subsidiaries	Percentage of registered capital attributable to the Group	Principal activities
上海三維制藥有限公司 (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 Sunve 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

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 43.

43. 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, 2000:

Results for the year:

For the year ended 31st December

	Shanghai Huizhong	
	2000	1999
	HK$'000	HK$'000
Turnover	3,122,674	3,078,728
Profit from ordinary activities before taxation	305,872	302,066
Profit from ordinary activities before taxation attributable to the Group	152,936	151,033

Financial position:

At 31st December

	2000	1999
	HK$'000	HK$'000
Non-current assets	1,476,572	1,515,070
Current assets	1,641,733	1,339,481
Current liabilities	(1,135,719)	(965,419)
Net assets	1,982,586	1,889,132
Net assets attributable to the Group	991,293	944,566

44. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December, 2000 and which are all established in the PRC are as follows:

Name of associates	Percentage of registered capital held by the subsidiaries	Percentage of registered capital attributable to the Group	Principal activities
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 SIIC 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.

45. SEGMENT INFORMATION

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

	Turnover		Operating profit	
	2000	1999	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000
Activity				
Consumer Products/Retailing	1,694,550	1,460,517	130,036	61,940
Infrastructure and Modern Logistics	732,537	744,202	731,938	743,421
SIIC MedTech	533,434	1,095,871	112,660	148,411
	2,960,521	3,300,590	974,634	953,772
Less: Net central administrative expenses			(66,164)	(53,660)
Add: Interest income — net			137,973	43,443
Operating profit			1,046,443	943,555
Geographical region				
Mainland People's Republic of China	2,229,556	2,721,479	912,031	824,504
Other Asian countries	460,858	312,228	34,173	1,925
Hong Kong	124,372	123,324	16,940	122,781
Other areas	145,735	143,559	11,490	4,562
	2,960,521	3,300,590	974,634	953,772
Less: Net central administrative expenses			(66,164)	(53,660)
Add: Interest income — net			137,973	43,443
Operating profit			1,046,443	943,555

46. POST BALANCE SHEET EVENTS

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

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

(b) In March 2001, Mighty Technology Limited, a newly incorporated wholly owned subsidiary of the Company, has entered into a share purchase agreement with Semiconductor Manufacturing International Corporation ("SMIC"), a company incorporated in the Cayman Islands, for the purchase of approximately 11% interest in SMIC at a consideration of approximately US$110 million (approximately HK$858 million). As at the report date, 62.5% of the consideration was paid.

SMIC is an investment holding company and its subsidiary is a wholly-foreign-owned enterprise established in the PRC and will be engaged in the manufacturing and marketing of advanced technology semiconductors.

Financial Summary

	Year ended 31st December,				
	1996	1997	1998	1999	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	2,200,631	3,556,846	3,557,772	3,300,590	2,960,521
Profit from operations	490,741	768,473	1,267,751	1,016,380	1,164,655
Finance costs	(62,802)	(145,672)	(188,288)	(178,590)	(135,560)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities	—	725	—	105,765	17,348
Share of (losses) profits of jointly controlled entities	(423)	197,031	156,472	145,618	225,649
Share of profits of associates	234	28,740	35,811	40,638	42,475
Profit from ordinary activities before taxation	427,750	849,297	1,271,746	1,129,811	1,314,567
Taxation	(46,489)	(82,301)	(67,991)	(43,259)	(80,300)
Profit before minority interests	381,261	766,996	1,203,755	1,086,552	1,234,267
Minority interests	(20,846)	(18,631)	(49,957)	(75,300)	(99,598)
Profit for the year	360,415	748,365	1,153,798	1,011,252	1,134,669
Earnings per share	HK$0.75	HK$0.94	HK$1.37	HK$1.14	HK$1.27

	As at 31st December,				
	1996	1997	1998	1999	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	6,001,024	13,117,064	14,907,441	14,980,454	14,494,442
Total liabilities	(1,709,813)	(3,709,708)	(4,009,118)	(3,195,311)	(2,728,101)
Minority interests	(326,065)	(247,274)	(318,630)	(369,407)	(396,855)
Shareholders' funds	3,965,146	9,160,082	10,579,693	11,415,736	11,369,486
Shareholders' equity per share	HK$5.69	HK$10.94	HK$12.00	HK$12.88	HK$12.66

Note: The results for the year ended 31st December, 1996 have been prepared on a pro forma combined basis as if the group structure at the time when the shares of the Company were listed on the Stock Exchange had been in existence throughout that year.

Notice of Annual General Meeting

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 29th May, 2001 (Tuesday) 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, 2000.

2. To declare final dividend for the year ended 31st December, 2000.

3. (a) To re-elect retiring 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 per cent. 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 per cent. 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 per cent. 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 per cent. 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, 18th April, 2001

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. 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.

3. The register of members of the Company will be closed from 25th May, 2001 (Friday) to 29th May, 2001 (Tuesday), 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 24th May, 2001 (Thursday).