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## Corporate Information

### DIRECTORS

#### Executive Directors

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

\* *Chairman of the Executive Committee*

\*\* *Members of the Executive Committee*

#### Independent Non-executive Directors

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

<sup>#</sup> *Chairman of the Audit Committee*

<sup>##</sup> *Members of the Audit Committee*

### COMPANY SECRETARY

Mr. Leung Lin Cheong, Roger

### AUTHORISED REPRESENTATIVES

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

### REGISTERED OFFICE

26th Floor, Harcourt House,  
39 Gloucester Road, Wanchai,  
Hong Kong  
Tel: (852) 2529 5652  
Fax: (852) 2529 5067

### WEB SITE

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

### AUDITORS

Deloitte Touche Tohmatsu

### LEGAL ADVISERS

Woo, Kwan, Lee & Lo (HKSAR)  
Morrison & Foerster (U.S.A.)  
ZhongLun Law Firm (P.R.C.)

### PRINCIPAL BANKERS

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

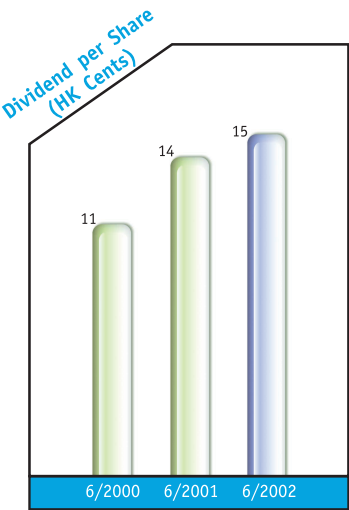
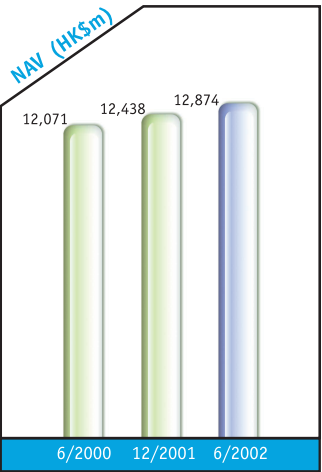
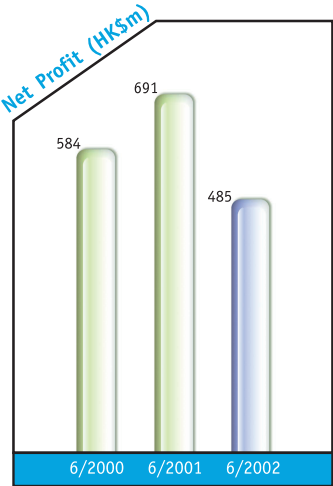
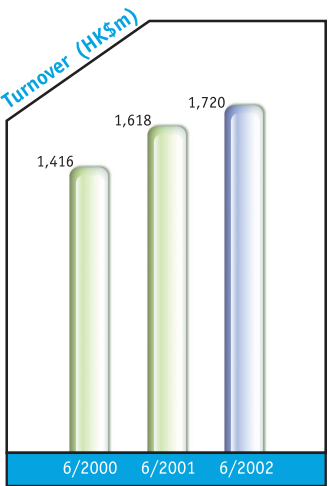
### SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited  
5th Floor, Wing On Centre,  
111 Connaught Road Central,  
Hong Kong  
Tel: (852) 2852 5644



- Net profit for the period amounted to approximately HK\$485 million. Earnings per share amounted to approximately HK54 cents.
- An interim dividend of HK15 cents per share was declared payable, representing an increase of approximately 7% over the same period in 2001.
- Bright Dairy was listed on the Shanghai Stock Exchange subsequent to the period under review. The Group will record an exceptional gain of approximately HK\$220 million in the second half of the year.
- SMIC receives satisfactory sales orders and business operations are in line with expectations.
- The Group has entered into an agreement to acquire up to a 50% interest in EAS International, which owns a nationwide modern logistics network, thereby accelerating the development of the Group's modern logistics business.
- SIIC MedTech completed the acquisition of a 56% controlling stake in Xiamen Chinese Medicine and raised its interest in E-COM to 24.35%, becoming its largest shareholder. These acquisitions further enhance the development of the Group's medical science business, attaining to a high-tech platform.
- The Group is focusing on developing its infrastructure facilities, modern logistics, information technology, medicine and bio-technology businesses.

# Highlights





## Condensed Consolidated Income Statement

For the Six Months Ended 30th June, 2002

	NOTES	Six months ended 30th June, 2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Turnover	3	1,720,301	1,617,651
Cost of sales		(807,372)	(790,198)
Gross profit		912,929	827,453
Investment income		43,488	142,261
Other revenue		27,888	11,953
Distribution costs		(259,356)	(211,134)
Administrative expenses		(169,941)	(185,148)
Profit from operations	4	555,008	585,385
Finance costs		(41,564)	(58,293)
Share of results of jointly controlled entities		87,190	131,654
Share of results of associates		28,090	42,187
Gain on deemed disposal of interest in a jointly controlled entity		—	155,694
Profit from ordinary activities before taxation		628,724	856,627
Taxation	5	(80,583)	(55,559)
Profit before minority interests		548,141	801,068
Minority interests		(62,863)	(110,551)
Net profit for the period		485,278	690,517
Dividends	6	312,688	269,803
Earnings per share	7		
— Basic		53.6 cents	76.8 cents
— Diluted		52.5 cents	75.7 cents

## Condensed Consolidated Balance Sheet

At 30th June, 2002

	NOTES	30th June, 2002 HK\$'000 (unaudited)	31st December, 2001 HK\$'000 (audited)
<b>Non-Current Assets</b>			
Investment property	8	12,000	12,000
Property, plant and equipment	8	1,108,318	1,131,438
Interest in jointly controlled entities	9	2,117,450	1,984,235
Interest in associates	10	2,173,620	1,672,061
Investments in infrastructure and other projects		5,615,786	5,676,703
Investments in securities	11	237,762	252,453
Deposits paid on acquisition of property, plant and equipment		20,094	16,816
		<b>11,285,030</b>	<b>10,745,706</b>
<b>Current Assets</b>			
Inventories		383,690	373,320
Trade and other receivables	12	544,222	587,252
Taxation recoverable		7,926	7,533
Investments in securities	11	390,303	1,718
Pledged bank deposits		30,838	53,571
Bank balances and cash		3,231,494	3,067,104
		<b>4,588,473</b>	<b>4,090,498</b>



## Condensed Consolidated Balance Sheet

At 30th June, 2002

	NOTES	30th June, 2002 HK\$'000 (unaudited)	31st December, 2001 HK\$'000 (audited)
Current Liabilities			
Trade and other payables	13	703,631	570,127
Taxation payable		38,412	30,457
Short-term bank and other borrowings	14	843,596	1,226,692
		<b>1,585,639</b>	1,827,276
Net Current Assets		<b>3,002,834</b>	2,263,222
Total Assets Less Current Liabilities		<b>14,287,864</b>	13,008,928
Capital and Reserves			
Issued capital		92,367	89,806
Accumulated profits		3,925,549	3,763,454
Other reserves		8,855,629	8,585,148
		<b>12,873,545</b>	12,438,408
Minority Interests		<b>530,295</b>	482,309
Non-Current Liabilities			
Unsecured long-term bank and other borrowings	14	800,000	4,187
Deferred taxation		84,024	84,024
		<b>884,024</b>	88,211
		<b>14,287,864</b>	13,008,928

# Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30th June, 2002

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	PRC statutory reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st January, 2001	89,786	9,316,446	159	299	8,075	(1,001,904)	177,480	3,048,901	11,639,242
Exchange difference arising from translation of financial statements of PRC operations and gain not recognised in the income statement	—	—	—	—	130	—	—	—	130
Exercise of share options	305	—	—	—	—	—	—	—	305
Premium arising on issue of shares	—	30,711	—	—	—	—	—	—	30,711
Expenses incurred in connection with the issue of shares	—	(44)	—	—	—	—	—	—	(44)
Shares repurchased and cancelled	(157)	—	—	—	—	—	—	—	(157)
Premium on shares repurchased and cancelled	—	—	—	—	—	—	—	(19,954)	(19,954)
Transfer arising on shares repurchased and cancelled	—	—	157	—	—	—	—	(157)	—
Share of PRC statutory reserves of an associate	—	—	—	—	—	—	(371)	—	(371)
Realised on deemed disposal of interest in a jointly controlled entity	—	—	—	—	—	648	(454)	—	194
Profit for the period	—	—	—	—	—	—	—	690,517	690,517
Transfers, net of minority interests' share	—	—	—	—	—	—	815	(815)	—
Dividends paid (Note 6)	—	—	—	—	—	—	—	(269,803)	(269,803)
At 30th June, 2001	89,934	9,347,113	316	299	8,205	(1,001,256)	177,470	3,448,689	12,070,770
Exchange difference arising from translation of financial statements of PRC operations and loss not recognised in the income statement	—	—	—	—	(292)	—	—	—	(292)
Exercise of share options	29	—	—	—	—	—	—	—	29
Premium arising on issue of shares	—	2,941	—	—	—	—	—	—	2,941
Expenses incurred in connection with the issue of shares	—	(5)	—	—	—	—	—	—	(5)
Shares repurchased and cancelled	(157)	—	—	—	—	—	—	—	(157)
Premium on shares repurchased and cancelled	—	—	—	—	—	—	—	(20,257)	(20,257)
Transfer arising on shares repurchased and cancelled	—	—	157	—	—	—	—	(157)	—
Share of PRC statutory reserves of an associate	—	—	—	—	—	—	(277)	—	(277)
Realised on partial disposal of an associate	—	—	—	—	—	—	(673)	—	(673)
Profit for the period	—	—	—	—	—	—	—	512,017	512,017
Transfers, net of minority interests' share	—	—	—	—	—	—	51,150	(51,150)	—
Dividends paid (Note 6)	—	—	—	—	—	—	—	(125,688)	(125,688)
At 31st December, 2001	89,806	9,350,049	473	299	7,913	(1,001,256)	227,670	3,763,454	12,438,408
Exercise of share options	2,561	—	—	—	—	—	—	—	2,561
Premium arising on issue of shares	—	260,210	—	—	—	—	—	—	260,210
Expenses incurred in connection with the issue of shares	—	(224)	—	—	—	—	—	—	(224)
Profit for the period	—	—	—	—	—	—	—	485,278	485,278
Transfers, net of minority interests' share	—	—	—	—	—	—	10,495	(10,495)	—
Dividends paid (Note 6)	—	—	—	—	—	—	—	(312,688)	(312,688)
At 30th June, 2002	92,367	9,610,035	473	299	7,913	(1,001,256)	238,165	3,925,549	12,873,545





## Condensed Consolidated Cash Flow Statement

For the Six Months Ended 30th June, 2002

	Six months ended 30th June, 2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Net cash from operating activities	475,360	483,671
Net cash used in investing activities	(581,002)	(296,004)
Net cash from (used in) financing activities	270,032	(919,729)
Net increase (decrease) in cash and cash equivalents	164,390	(732,062)
Cash and cash equivalents at 1st January	3,067,104	3,920,709
Cash and cash equivalents at 30th June representing bank balances and cash	3,231,494	3,188,647

## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice ("SSAP") 25 *Interim Financial Reporting* issued by the Hong Kong Society of Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new or revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) *Cash Flow Statements*. Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as investing or financing cash flows. Interest paid and dividends paid are classified as financing cash flows, while interest received and dividends received are classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents and the change in exchange rates used for translation of the cash flows of overseas operations has not had any material effect on the presentation of the comparative amounts shown in the cash flow statement.

### Employee benefits

In the current period, the Group has adopted SSAP 34 *Employee Benefits*, which introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of this SSAP has not had any material effect on the results for the current and prior accounting periods.

## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 3. SEGMENT INFORMATION

#### Business Segments

For the six months ended 30th June, 2002

	Consumer products/ retailing HK\$'000	Infrastructure and modern logistics HK\$'000	Medicine and bio- technology HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	946,095	354,322	419,884	1,720,301
Segment results	111,267	353,698	84,544	549,509
Less: Net corporate administrative expenses				(23,898)
Add: Interest income				29,397
Profit from operations				555,008

For the six months ended 30th June, 2001

	Consumer products/ retailing HK\$'000	Infrastructure and modern logistics HK\$'000	Medicine and bio- technology HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	916,769	361,480	339,402	1,617,651
Segment results	85,173	360,856	67,767	513,796
Less: Net corporate administrative expenses				(20,943)
Add: Interest income				92,532
Profit from operations				585,385



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### Geographical Segments

*For the six months ended 30th June, 2002*

	PRC HK\$'000	South-East Asia HK\$'000	Hong Kong HK\$'000	Other Asian countries HK\$'000	Other areas HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	1,347,417	168,882	65,276	66,348	72,378	1,720,301
Segment results	497,240	16,461	18,980	10,413	6,415	549,509
Less: Net corporate administrative expenses						(23,898)
Add: Interest income						29,397
Profit from operations						555,008

*For the six months ended 30th June, 2001*

	PRC HK\$'000	South-East Asia HK\$'000	Hong Kong HK\$'000	Other Asian countries HK\$'000	Other areas HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	1,253,809	142,778	56,094	84,920	80,050	1,617,651
Segment results	470,644	9,356	18,426	9,842	5,528	513,796
Less: Net corporate administrative expenses						(20,943)
Add: Interest income						92,532
Profit from operations						585,385

## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	49,548	44,853
Dividend income from listed investments	(416)	(2,755)
Gain on disposal of investments in securities	(8,136)	(40,119)
Interest income	(29,397)	(92,532)
Net unrealised gain on investments in securities	(3,712)	(6,014)



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 5. TAXATION

	Six months ended 30th June, 2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Current period taxation of the Company and its subsidiaries:		
Hong Kong Profits Tax	10,862	7,379
PRC income tax	28,314	26,624
	39,176	34,003
Underprovision of PRC income tax in prior years	8,011	—
	47,187	34,003
Share of PRC income tax of jointly controlled entities	25,198	16,441
Share of PRC income tax of associates	8,198	5,115
	80,583	55,559

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

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries and associate are also entitled to reduced tax

## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

rates because they are classified as high technology entities under relevant rules. The PRC income tax charges for the current period are arrived at after taking into account these various tax incentives.

### 6. DIVIDENDS

	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
2001 final dividend of HK34 cents (2000 final dividend: HK30 cents) per share	312,688	269,756
Additional final dividend due to exercise of share options/issue of new shares on subscription	—	47
	312,688	269,803

The directors have determined that an interim dividend of HK15 cents per share (2001 interim dividend: HK14 cents per share, totalling approximately HK\$125,688,000) should be paid to shareholders of the Company whose names appear on the Register of Members on 27th September, 2002.





## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30th June, 2002 is based on the following data:

	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Net profit for the period and earnings for the purpose of basic earnings per share	485,278	690,517
Effect of dilutive potential ordinary shares:		
— adjustment to the share of results of a subsidiary based on potential dilution of its earnings per share	(199)	—
Earnings for the purpose of diluted earnings per share	485,079	690,517

## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

	Six months ended 30th June,	
	2002	2001
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	905,509,890	899,328,972
Effect of dilutive potential ordinary shares — share options	17,687,640	13,290,581
Weighted average number of ordinary shares for the purpose of diluted earnings per share	923,197,530	912,619,553

### 8. MOVEMENTS IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs for construction in progress of approximately HK\$12 million and acquired plant and machinery at a cost of approximately HK\$5 million and furniture, fixtures and equipment at a cost of approximately HK\$10 million for the purpose of expanding the Group's business.

The directors have considered the carrying amount of the Group's investment property carried at revalued amount at 30th June, 2002 and have estimated that the carrying amount did not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 9. INTEREST IN JOINTLY CONTROLLED ENTITIES

During the period ended 30th June, 2002, the Group contributed further capital of approximately HK\$73 million to certain jointly controlled entities. The Group also acquired jointly controlled entities for a total consideration of approximately HK\$27 million, resulting in goodwill arising on acquisition of jointly controlled entities of approximately HK\$20 million.

### 10. INTEREST IN ASSOCIATES

During the year ended 31st December, 2001, the Group acquired an approximately 17% equity interest in Semiconductor Manufacturing International Corporation ("SMIC") for a consideration of approximately HK\$1,448 million. Part of the consideration of approximately HK\$1,089 million was paid in 2001 and during the period ended 30th June, 2002, the Group paid the balance of the consideration of approximately HK\$359 million.

During the period ended 30th June, 2002, the Group also acquired a 25% equity interest in EAS International Transportation Limited ("EAS International") for a consideration of approximately HK\$52 million. EAS International is engaged in the freight forwarding and logistics businesses in the PRC. As at 30th June, 2002, the Group also advanced a loan of approximately HK\$100 million to EAS International to finance its operations. The loan is unsecured, interest-bearing at prevailing market rates and is repayable within two years.

The Group is committed to acquire an additional interest in EAS International at a consideration of approximately HK\$196 million, subject to adjustments. Upon completion of the further acquisition, the Group will become the controlling shareholder of EAS International. The capital commitment has been disclosed in note 15.



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 11. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, the Group acquired certain investments for approximately HK\$403 million and certain investments in the amount of approximately HK\$18 million were disposed of.

### 12. 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\$330,844,000 (31st December, 2001: HK\$258,872,000) and their aged analysis is as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Trade receivables:		
Within 30 days	136,786	119,841
Within 31-60 days	69,736	57,396
Within 61-90 days	43,735	39,471
Within 91-180 days	66,228	34,210
Within 181-360 days	14,216	2,277
Over 360 days	143	5,677
	<b>330,844</b>	<b>258,872</b>



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$114,257,000 (31st December, 2001: HK\$121,243,000) and their aged analysis is as follows:

	30th June, 2002 HK\$'000	31st December, 2001 HK\$'000
Trade payables:		
Within 30 days	82,449	89,438
Within 31-60 days	15,604	15,380
Within 61-90 days	7,372	8,646
Within 91-180 days	5,655	6,294
Within 181-360 days	2,393	387
Over 360 days	784	1,098
	<b>114,257</b>	121,243

### 14. BANK AND OTHER BORROWINGS

During the period ended 30th June, 2002, the Group entered into a syndicated loan agreement relating to a term loan of HK\$800 million and revolving credit facilities of another HK\$800 million. The syndicated loan is unsecured, interest-bearing at commercial rates and is repayable before 30th April, 2007. The Group also obtained other bank loans of approximately HK\$20 million and repaid borrowings of approximately HK\$1,207 million during the period.

## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

### 15. CAPITAL COMMITMENTS

Since 31st December, 2001, the last annual reporting date, the commitment for the investment in SMIC of approximately HK\$359 million was paid up by the Group. As at 30th June, 2002, the Group had commitments to acquire an additional interest in EAS International for a consideration of approximately HK\$196 million.

### 16. OTHER COMMITMENTS

As at 31st December, 2001, there were outstanding interest rate hedging contracts entered into by the Group with certain financial institutions to hedge the floating interest rate risk of the Group's bank loans of US\$150 million. During the period ended 30th June, 2002, the contracts were expired.

### 17. CONTINGENT LIABILITIES

At the balance sheet date, the guarantees given to banks by the Group in respect of banking facilities granted to jointly controlled entities amounted to approximately HK\$93 million (31st December, 2001: HK\$50 million).

### 18. POST BALANCE SHEET EVENTS

The following significant events occurred after the balance sheet date:

- (a) In August 2002, Shanghai Bright Dairy & Food Company Limited ("Shanghai Bright Dairy") obtained the approval from the Shanghai Stock Exchange ("SSE") for the listing of its shares on the SSE A Shares Market. Shanghai Bright Dairy issued 150,000,000 shares of nominal value of RMB1 per share at an issue price of RMB6.5 per share which raised net proceeds of approximately RMB950 million (approximately HK\$888 million). The shares were listed on the SSE on 28th August, 2002. Subsequent to the listing of Shanghai Bright



## Notes to the Condensed Financial Statements

For the Six Months Ended 30th June, 2002

Dairy shares, the Group's interest in Shanghai Bright Dairy was diluted from 40% to 30.78%. The estimated gain on this deemed disposal by the Group is approximately HK\$220 million.

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

- (b) In August 2002, the Group completed the acquisition of approximately 9% interest in Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co. Ltd., a company established in the PRC, for a consideration of approximately HK\$53 million. The acquired company is engaged in the research and development of medicine and biotechnology business.

### 19. RELATED PARTY DISCLOSURES

During the period, the Group advanced an amount of approximately HK\$100 million to EAS International, an associate of the Group. The advance is unsecured, interest-bearing at commercial rate and is repayable within two years.

## Independent Review 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 BOARD OF DIRECTORS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED  
(*incorporated in Hong Kong with limited liability*)

### INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages [●] to [●].

### DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice 25 *Interim Financial Reporting* issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

### REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 *Engagements to Review Interim Financial Reports* issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

Certified Public Accountants  
Hong Kong  
30th August, 2002





## Business Review, Discussion and Analysis

In the first half of 2002, Hong Kong was still mired in a lingering deflationary environment, thus hampering progress to economic recovery, with interest rates remaining depressed. For the six months ended 30th June, 2002, the Group's operation as a whole maintained satisfactory. Being affected by such factors as a reduction in interest income and a slippage of its automotive parts business due to market adjustment, the Group's unaudited net profit amounted to approximately HK\$485,280,000, representing a decrease of approximately 17.8% over the same period last year after excluding the exceptional gain derived from the spin-off listing of Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa"), and down approximately 29.7% over 2001 taking into account of the above exceptional gain. The Board has resolved to pay an interim dividend of HK15 cents per share, representing an increase of about 7% over the corresponding period last year. The application by Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") for listing on the PRC A Share market was approved and Bright Dairy was listed on the Shanghai Stock Exchange on 28th August, 2002. Due to this, the Group will record an exceptional gain of approximately HK\$220,000,000 in the second half of the year.

Over the years, through its strategy for transformation and leveraging on the various potential investment projects and market opportunities created by the buoyant PRC economy and, in particular, that of Shanghai, the Group has incubated successfully a number of new businesses that will make great steps to develop. In the years to come, the Group's profits will undergo significant structural changes, with profit contributions arising from new businesses set to increase gradually. By creating a quality profit composition with high growth, the Group will maintain steady growth and focus on the development of businesses in the areas of infrastructure facilities, information technology, modern logistics, and medicine and bio-technology.

During the period under review, the Group successfully acquired and secured de facto control and management right of EAS International Transportation Limited ("EAS International"), which owns a nationwide modern logistics network. The total investment will amount to RMB265,000,000. EAS International will serve as the principal impetus to drive and develop the Group's modern logistics business, as well as accelerate the integration of the Group's overall logistics business. The Group will also actively seek to attract international partners in order to drive



## Business Review, Discussion and Analysis

and benefit from the rapid growth of China's logistics industry. Medicine and bio-technology is one of the core businesses in which the Group is actively involved in operations and management. During the period, the Group made good progress, through merger and acquisition, in expanding the bases of its businesses in traditional Chinese medicine, high-tech medical equipment, and medicine and bio-technology.

Semiconductor Manufacturing International Corporation ("SMIC"), which commenced operation in September last year, has secured alliances with various partners in the fields of technology and capital investment. SMIC receives satisfactory sales orders and business operations are in line with the company's expectations. The company foresees tremendous market potential in the development of the global semiconductor market and, in particular, an increase in the domestic market demand for chips. Shanghai Information Investment Inc. ("SII") continued the development of its various information technology projects, and enhancing the construction of Shanghai Infoport in such areas as basic IP services, broadband information services, consumer credit information services, network credit and security services, electronic logistics services and software integration services, all of which will create a conducive environment for SII to achieve profit growth in the future.

In April 2002, the Group successfully raised a HK\$1.6-billion revolving/term syndication loan at an interest rate of HIBOR plus 45 basis points in order to cope with the Group's business development strategies and practical needs. Market response to this relatively low-cost financing activity was positive. During the period, the Group actively went through integration and adjustment of the business development of its member companies, further intensifying the Group's overall business transformation. Each investment project progresses systematically and offers satisfactory returns.



## Business Review, Discussion and Analysis

### (1) INFRASTRUCTURE AND MODERN LOGISTICS

#### Infrastructure facilities

The Yanan Elevated Road, the Inner Ring Road and the North-South Elevated Expressway are the main arteries of Shanghai's expressway network. These elevated road projects are currently one of the Group's main sources of cash flow, providing considerable, stable cash returns annually. As the investment costs of these projects have to be amortised every year, the accounting profits will slightly diminish each year. The cash returns will, however, continue to support the Group's overall business development, while also nurturing its new business developments. Net profits derived from the Group's elevated road projects for the first half of 2002 amounted to HK\$354,000,000, accounting for approximately 67% of the Group's net business profit.

During the period, the Shanghai Pudong Waigaoqiao Container Terminal Phase One Project received approval from the relevant PRC government authority. Discussions with various investment partners are currently underway to finalise the detailed proposals in respect of its operation and commencement of construction, as well as the subsequent capital contribution procedures and work schedules. Waigaoqiao's container throughput is rising, with 2.89 million TEU recorded last year, representing RMB21 billion worth of cargo. The first half of 2002 saw an increase of approximately 26.3% in container throughput, with a corresponding 87.8% increase in profit compared with the same period last year. It is anticipated that the Waigaoqiao Project will bring new profitability to the Group's infrastructure business.

#### Modern logistics

The period under review saw fundamental progress in developments that make up the basic masterplan of the Group's modern logistics business. In addition to the newly established Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited ("Shanghai Wai Lian Fa") and the Shanghai Industrial Sinotrans International Logistics Company Limited

## Business Review, Discussion and Analysis

("Shanghai Sinotrans"), in April 2002, the Group entered into an agreement to acquire a stake in the Beijing-based EAS International, and through which it further acquired in July 2002 a controlling interest in Hong Kong's CTII Worldwide Limited (now renamed EAS Worldwide Logistics Limited ("EAS Worldwide")). Together, these companies form a basic management operation platform that encompasses Beijing, Shanghai and Hong Kong, and through which the Group is gradually integrating its overall logistics business and expanding its nationwide reach in this area.

EAS International, a conglomerate with a nationwide modern logistics business network in China, is engaged in the businesses of freight forwarding, courier delivery, warehousing and logistics services. Established in 1985, EAS International was among the first group of PRC freight forwarders to be accredited by the International Air Transport Association ("IATA"). It attained its ISO9001 International Standard Quality System certification in 1999. EAS International currently has an annual air cargo and forwarding turnover of approximately 1.3 million tonnes and a marine cargo volume of approximately 140,000 TEU, representing a total turnover of approximately RMB2,000,000,000. EAS International has regional distribution centres in Beijing, Shanghai, Guangzhou, Shenzhen, Xiamen, Dalian, Wuhan and Chengdu, with close to 100 branches and offices nationwide servicing some 1,100 cities. Overseas, EAS International established 9 branches in Europe and Southeast Asia, providing an international transportation service network that covers more than 200 cities and regions worldwide.

In April 2002, the Group signed the sale and purchase agreement for its interests in EAS International. The first phase of the acquisition was completed in May and June. The Group invested RMB55,000,000 in the first phase of acquisition, representing a 25% interest in EAS International and securing de facto control and management right of the company. The agreement for the second phase of investment of RMB150,000,000 to acquire new shares was signed recently, bringing the Group's interest in EAS International to 50%. Subject to relevant PRC laws and regulations, the Group will eventually acquire an interest in EAS International of more than 60%.



## Business Review, Discussion and Analysis

In order to strengthen EAS International's global customer network, carrying capacity and profitability, the Group actively looked for strategic investors and joint venture partners during the period. In July 2002, through EAS International, the Group entered into a share subscription agreement with EAS Worldwide. A wholly-owned subsidiary of EAS International has secured a 51% interest in EAS Worldwide and became its controlling shareholder. The share subscription was completed in July and the company is already operational. The new acquisition enhances the overall competitiveness of the Group's logistics business. The Group will continue its search for quality international logistics partners and professional investors in a bid to elevate its logistics business platform to an even higher level.

Shanghai Wai Lian Fa commenced operation in October last year. Its key business processes are currently undergoing improvement and integration. In early 2002, it was actively engaged in securing customers and expanding its market share. It has also established a customer services department to enhance the development, retention and management of customers. Initial construction work on the logistics information platform has also been completed and preliminary trials have commenced. With a customer base reaching 80, its overall business has spiralled to over 33,000 tonnes of warehouse delivery, 2.4 million pieces of goods, nearly 35,000 warehouse product items and 41,300 tonnes of storage capacity recorded in the first half of 2002. The freight forwarding and import/export business also underwent a smooth expansion and revenue is gradually increasing.

Shanghai Sinotrans secured formal approval from the relevant PRC authorities in February 2002 and obtained its business license in March 2002. The company is engaged principally in the import/export freight forwarding business and is planning to tap into the base of logistics customers in the Shanghai Chemical Industry Zone. During the period under review, Shanghai Sinotrans set up a basic management system in accordance with the company's operating size and modern logistics requirements. The company started formal operations in July 2002.

## Business Review, Discussion and Analysis

### (2) INFORMATION TECHNOLOGY

Since SMIC commenced trial operations in September 2001, orders flow has been satisfactory and the company has reached its production volume to 10,000 wafers per month in June this year. Currently, SMIC attracts professionals from all over the world and has a total workforce of over 2,600. SMIC's production facilities now occupy a total land area of 36 hectares following completion of the construction of the No.2 and No.3 factories. Together with its existing production facilities, SMIC owns over 35,000 sq. metres of clean room areas, making it one of the world's largest and the nation's most advanced silicon foundries. It has also successfully acquired 0.18-micron CMOS process certification, for which it has completed the construction of a standard design platform. The No. 2 and No. 3 factories are expected to begin operation in September 2002 with a production target of 30,000 wafers per month. SMIC is expected to have revenue break-even by the fourth quarter of this year.

During the period, SMIC entered into sales contracts and formed alliances with various technology business partners, including Toshiba, Fujitsu of Japan and Chartered Semiconductor of Singapore. This year SMIC also established a long-term partnership in advanced semiconductor process technologies with Europe's leading research and development centre for microelectronics, IMEC, enabling SMIC to join most of IMEC's Industrial Affiliat Programs (IIAPs) for these technologies. This collaboration is an important part of SMIC's initiatives to participate in research and development activities at the global level, thereby positioning it for long-term technology leadership.

SII's net profit during the period was approximately RMB21,290,000, up about 43% compared with the same period last year. During the first half of 2002, SII was committed to developing its core businesses, making steady progress in its principal activities.

In the first half of 2002, Shanghai Cable Network Co., Ltd. virtually completed the upgrade of its two-way cable television network for 40,000 subscribers. The upgrade for a total of 1,600,000 subscribers will be



## Business Review, Discussion and Analysis

completed by the end of 2002, covering most districts within the city's urban area. Currently, over 40,000 commercial subscribers have access to the company's "Cableplus" broadband data service. Construction of the Shanghai integrated information pipeline infrastructure by Shanghai Information Pipeline Co., Ltd. ("SIP") made good progress over the period. With the construction of the Shanghai Government's system service network, SIP has a total of over 600 km. pipelines, thus creating an integrated information pipeline network that covers all of Shanghai's major business districts. SIP also provides leased line and fiber services to China Netcom, China Unicom, China Mobile, Shanghai Cable, and other telecommunications and network operators. Sales contracts entered into during the first half of 2002 amounted to RMB80,000,000. Currently, Shanghai Credit Information Services Co., Ltd. ("CIS") has the personal credit information of about 2,800,000 individuals stored in its consumer credit information databank and received more than 2,400 queries a day in June 2002. As at the end of June, CIS had received over 164,000 queries for credit reports and the number of credit reports issued rose by about 126.9% compared to the same period last year. In March 2002, the Shanghai Enterprise Credit Information System, the most comprehensive and integrated database in the city comprising enterprises reaching 550,000, was formally rolled out.

In the first half of 2002, Lucent Technologies, the major partner of Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications") underwent a business adjustment and sold its interests in Shanghai Optical Communications' subsidiary, Lucent Technologies Shanghai Fibre Optics Co., Ltd. During the period, Shanghai Optical Communications also sold some of its assets in its subsidiary, Lucent Technologies of Shanghai, Ltd. Proceeds from the transfer of assets will be recorded in the second half of 2002. Due to business adjustment, Shanghai Optical Communications recorded a net profit of only approximately RMB4,990,000 during the period under review.

## Business Review, Discussion and Analysis

During the period, Shanghai Communication Technologies Centre ("SCTC") had recorded a net loss of approximately RMB1,260,000, which represented an improved performance, with losses narrowed by approximately RMB2,640,000, compared to the same period last year. In 2002, SCTC is dedicated to fostering the compatibility between its products and national mainstream products. Existing compatible products cover virtually all applications of MPEG-2. During the period, featured projects included the Xinwen light rail project, in collaboration with Shanghai Bell Co., Ltd., to implement the video frequency control business along Shanghai's Xinwen line, as well as the 2002 national digital TV key project, tendered jointly with SCTC's partner.

As a result of its share of SMIC's loss due to depreciation and interest expenses, the information technology business recorded a loss for the period of approximately HK\$28,500,000.

### (3) MEDICINE AND BIO-TECHNOLOGY

Complementing the Group's overall development strategy, the Group's medicine and bio-technology business segment comprises its Hong Kong-listed subsidiary, SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), together with its three bio-technology development and pharmaceutical companies in Shanghai and the United States.

SIIC MedTech realised respectable growth in both turnover and net profit in the first half of 2002. Turnover amounted to approximately HK\$420,000,000, representing an increase of about 23.7% over the same period in 2001. Operating profit amounted to approximately HK\$88,220,000, up approximately 22.7% over the same period last year. Net profit of SIIC MedTech for the period was approximately HK\$45,520,000. Excluding the exceptional gain derived from the listing of Shanghai Jahwa, SIIC MedTech recorded an approximate 5.3% growth in net profit compared to the corresponding period last year. The Group's share of SIIC MedTech's net profit was approximately HK\$29,300,000, constituting approximately 5% of the Group's net business profit. In the first half of 2002, SIIC MedTech completed the acquisition of a 56%





## Business Review, Discussion and Analysis

controlling stake in Xiamen Chinese Medicine Co., Ltd. ("Xiamen Chinese Medicine") and raised its interests in E-COM Technology Co., Ltd. ("E-COM"), a digital medical imaging system, to 24.35% to become its largest shareholder.

Sales of Chia Tai Qingchunbao's pharmaceutical and healthcare products grew by some 6.9% and 64.6% respectively compared with the corresponding period last year. During the period, the company was active in developing competitive pharmaceutical injection products with good market prospects, including the "Dan Shen Injection", the "Huang Qi Injection" and the "Herba Houttuyniae Injection". Sales of principal products, such as the "Shen Mai Injection", the "Dan Shen Injection", the "Huang Qi Injection" and the "Herba Houttuyniae Injection", increased by approximately 6.9%, 16.5%, 26.6% and 34.4% respectively over the same period last year. Meanwhile, sales of "Qingchunbao Anti-ageing Tablets" grew by approximately 70.4%.

SIIC MedTech also achieved breakthroughs in the acquisition of traditional Chinese medicine businesses. During the period, the company concluded an agreement with Xiamen Chinese Medicine to acquire a 56% stake in the latter. Xiamen Chinese Medicine was established over 30 years ago and primarily produces traditional Chinese medicine-based drugs and healthcare products. Currently, 40 of such Chinese medicines-based drugs are produced. Key products include "Xinhuang Tablet", "Haizhu Chuanxiding Tablet", "Liuwei Dihuang Pill" and "Shenshu Granules", all of which are sold under the the "Dinglu 鼎爐" trademark.

With respect to its medicine retailing business, Hangzhou Huqingyutang Chinese Medicine Store Co., Ltd. is progressing steadily, with its branding advantages and sales network helping the sales of SIIC MedTech's products.

In areas of medical care and nursing, Guangdong Biolight Medical Technology Co. Ltd. made headway in its negotiations with GE Medical Systems Trading and Development (Shanghai) Ltd. in appointing the latter as its agent to distribute a selection of its products. A formal agreement

## Business Review, Discussion and Analysis

was signed recently. The company will take advantage of the new relationship to solidify its sales and distribution network and expand its market share.

During the first half of 2002, SIIC MedTech increased its interests in E-COM Technology, whose digital imaging system has been adopted by a number of renowned hospitals, to 24.35%, becoming its largest shareholder. Operating results during the period were encouraging, with the total contracted sum going up by approximately 189% over the 2001 turnover.

In addition, the relevant agreements were signed recently for SIIC MedTech to acquire a 21.31% stake in MicroPort Medical (Shanghai) Co. Ltd. ("MicroPort") by way of capital injection and the issuance of new shares. MicroPort is engaged principally in the research, production, sale and service of high-tech medical instruments for micro wounds in China. This project will further consolidate SIIC MedTech's strategy of integrating the medical and pharmaceutical business and will lay a solid foundation for accelerated profit growth in future.

In the personal care sector, Shanghai Jahwa achieved approximately 7.4% increase in turnover over the corresponding period last year. Sales of its "Liushen" and "Herborist" series of products increased by some 13% and 50% respectively over the same period last year. "Herborist" was launched successfully in Xian, Qingdao, Nanjing and Shenzhen and there are currently seven franchised stores. In Hong Kong, marketing channels of "Herborist" were restructured and its products are now sold through the Watson's chain of drugstores.

Owing to an increase in research and development costs, and unsatisfactory sales of G-CSF products over the period, Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech") recorded a net loss of approximately RMB15,790,000 in the first half of 2002. During the period, Sunway Biotech completed Phase 2 clinical trials of H101, a Class One new medicine. Findings of the trials further demonstrated the safety and effectiveness of H101. Preparation work for Phase 3 clinical trials, which are expected to commence in September 2002, is underway. H103 is a



## Business Review, Discussion and Analysis

project in which information about the antibodies for all cancers is provided to the body's immune system, triggering the self-identification and destruction of cancer cells by the immune system. Pre-clinical studies for H103 have been launched in the U.S. and Mainland China simultaneously.

Product sales by Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical") improved in the first half of 2002 compared with the same period last year, somewhat alleviating the negative effect of the State's regulations concerning the sale price of drugs. Sunve Pharmaceutical returned to profitability and recorded a net profit of approximately RMB4,750,000 during the period under review. During the same period, "Permixon" obtained State approval as a repackaged imported drug and sales were launched in Shanghai. New products such as "Levofloxacin Lactate" and "Wei Shaxin", which were developed in-house, received the Shanghai Municipal Quality New Product Second Class Award. SM2-NA and SDM passed the United States FDA's quality certification and entered the U.S. market, helping to expand the company's international market share for raw pharmaceuticals.

In the first half of 2002, Mergen Limited ("Mergen") finalised its contracts with leading bio-technology company CuraGen to provide it with microarrays supply, custom array design, production and array hybridization services. During the period, it was granted patents for two of its technologies. In March 2002, Mergen introduced a new array, containing 12,000 unique human genes, which emerged as its bestseller. New Rat ExpressChip™ (with 4,736 genes) and Mouse ExpressChip™ (with 8,552 genes) were also launched in May and July respectively. Mergen's first "bacterial array" will be presented in the near future.

Subsequent to the period under review, the Group subscribed RMB52,690,000 for about 9% of the equity interests in Shanghai Fudan-Zhangjiang Bio-pharmaceutical Co., Ltd. to enhance synergy in the Group's bio-medical research arena.

## Business Review, Discussion and Analysis

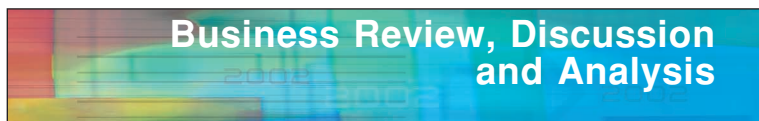
### 4. CONSUMER PRODUCTS/RETAILING

Net profit arising from the Group's consumer products/retailing business for the period was approximately HK\$130,600,000, an increase of about 15% over the same period last year and accounting for approximately 25% of the Group's net business profit.

#### Tobacco and Printing

Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco") produced significant results during the period. Net profit was approximately HK\$46,780,000, up 18.3% over the same period last year. Not only did it fulfil all economic and appraisal targets, but also the company successfully solidified its Singapore market and expanded into the new Taiwan market. Overall exports and domestic sales in the Hong Kong market were stable, with satisfactory growth in home-produced cigarettes, such as "Double Happiness". Sales of duty-free cigarettes rose about 103% over the same period last year, while sales of cigarettes under distribution in the Hong Kong market also recorded growth, with "Chunghwa", "Peony" and "Liushuiyin Lights" delivering respective increases of approximately 12.2%, 8.8% and 15.6%. The OEM cigarette "DJ Mix" will enter more new markets, in addition to South Korea and Japan.

The Wing Fat Printing Company, Limited ("Wing Fat Printing") realised stable growth in the first half of 2002, with turnover rising by approximately 29.1% over the same period last year. Net profit was approximately HK\$43,000,000, representing an increase of about 16% over the corresponding period in 2001. During the period under review, Wing Fat Printing developed new tobacco packs for use by Nanyang Tobacco. Growth was also seen in tobacco pack orders from European Tobacco Inc. Subsidiaries of Wing Fat Printing in China reached their sales targets and continued to contribute to the profits of Wing Fat Printing.



### **Dairy**

During the period under review, Bright Dairy applied to the China Securities Regulatory Commission for listing on the PRC A Share market and received approval from the Issuance Examination Commission (發行審核委員會). Bright Dairy was listed on 28th August, 2002 and has issued 150 million new RMB-denominated shares, raising net proceeds of approximately RMB950,000,000. As a result, the Group will record an exceptional gain of approximately HK\$220,000,000 in the second half of the year. Subsequent to the listing of Bright Dairy, the Group's shareholding has dropped from 40% to approximately 30.8%.

Bright Dairy sustained satisfactory results for the period and realised sales revenues of approximately RMB2,300,000,000. Net profit for the period was approximately RMB95,500,000. While its major markets are located in Shanghai and Eastern China, the company will expand further into Northern and Southern China in an attempt to develop and broaden its domestic market. With the newly established Guangzhou Bright Dairy Product Co., Ltd. and the Beijing Bright Health Dairy Co., Ltd. both starting trial production in the second half of 2002, Bright Dairy's market share is set to expand and its dairy products evolve into a leading domestic brand. During the period, sales of Bright Dairy's bottled milk rose some 322% over the same period last year and Bright Dairy's technology centre developed 14 new products, among them include "Mai Feng" Fresh Milk and Breakfast Milk and "LOOK" Yoghurt drink. The company's thermostatic products are already distributed nationwide.

### **Retailing**

Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") realised a net profit of approximately RMB18,200,000 in the first half of 2002, an increase of approximately 23% over the same period last year. The company recorded satisfactory sales at its mega sale events held in early 2002 and hosted various product promotions and sales activities in the first half of the year, all of which created good marketing opportunities for the company to achieve sound economic returns.

## Business Review, Discussion and Analysis

### (5) AUTOMOTIVE PARTS

The Group's automotive parts business recorded a net profit of approximately HK\$42,300,000 for the first half of 2002, a drop of about 52% compared to the same period in 2001, and accounted for approximately 8% of the Group's net business profit.

Sales of Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") rose compared to the same period last year, nonetheless, profit target was not being met due to substantial price cuts in domestically manufactured sedans. Total profit recorded for the period was approximately RMB66,850,000, a decline of some 61% over the same period last year. The first half of 2002 also saw the commencement of plant renovation/construction work, project feasibility studies and equipment installation for the company's joint-venture projects.

Shanghai Wanzhong Automotive Components Co., Ltd. ("Shanghai Wanzhong") began production last year and generated a net profit of approximately RMB1,840,000 during the period under review. Sales revenue amounted to approximately RMB16,020,000, with 45 sets of imported equipment installed. Shanghai Wanzhong has tightened up the implementation of its heavy truck technology renovation project to consolidate its market share and, during the second half of 2002, will engage in the active development of new products to raise economic returns.

The net profit of Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation") during the period was approximately RMB37,930,000, up about 56% over the same period last year. During the first half of 2002, the company focused on developing high value-added and high-tech products. SIIC Transportation is the nation's only supplier of door modulars for cars. Door modulars for three models of the Shanghai Brose (SVW/B5, PQ24 and BORA A4) and the super version for the Shanghai Delphi's SGM/GL8 accounted for some 34.9% of its overall sales. To expand its sales network, SIIC Transportation standardised its nationwide marketing and distribution strategies, enrolling 146 dealers in the first half of 2002; 133 of them made sales.



## Business Review, Discussion and Analysis

### PROSPECTS

In the first half of 2002, Shanghai's economy continued its sustained growth. With the city's outstanding investment environment and development potential, the Group has been actively participating in key development projects being planned by the Shanghai Municipal Government, further expanding its business areas.

Currently, the Group's clearly defined objectives are to focus on developing its infrastructure facilities, modern logistics, information technology, medicine and bio-technology businesses, and to make more investment thereon. This enhances to accelerate its business transformation. Based on this foundation, the Group will integrate its internal resources and streamline business reorganisation through integrating and contracting non-core businesses including by way of spin-offs for listing and internal reorganisation or transfer, all of which will help to create clear development objectives.

Meanwhile, the Group will continue to strive strenuously for a better financial structure, adopt stringent controls on operating costs and risks, and work to create sound business and economic returns. The Group will also continue to allocate resources efficiently and regulate corporate management in order to raise its standards of corporate governance and transparency in a bid to establish a competitive business platform, which will subsequently enhance integrated profitability and secure better returns for shareholders.

On behalf of the Board, I would like to take this opportunity to express my gratitude to our shareholders for their continuing support. My appreciation goes also to all our staff for their tremendous efforts and contributions.

**Cai Lai Xing**  
*Chairman*

Hong Kong, 30 August 2002



## Financial Review

### I. TURNOVER

An analysis of turnover by principal activities for the six months ended 30th June 2002 is as follows:

	30th June 2002 HK\$'000	30th June 2001 HK\$'000
Consumer products/retailing	946,095	916,769
Medicine and Bio-technology	419,884	339,402
Infrastructure and modern logistics	354,322	361,480
	<b>1,720,301</b>	1,617,651

During the period, turnover of medicine and bio-technology business grew by approximately 24% over the corresponding period last year, due primarily to the significant growth in the sales of Hangzhou Qingchunbao during the period in the amount of approximately HK\$80,000,000, which is largely as a result of the strenuous efforts made by Hangzhou Qingchunbao in enhancing its marketing activities through a series of promotional activities in the first half of 2002, which drove up sales in healthcare products. Sales of "Qingchunbao Anti-Aging Tablets" went up by approximately 70% over the same period last year.

Turnover of consumer products/retailing business rose by approximately 3% over the corresponding period last year primarily because Nanyang Tobacco successfully solidified its Singapore market and expanded into the new Taiwan market, and coupled with its steady exports and domestic sales which led to the overall increase in sales. Wing Fat Printing has developed a number of new tobacco packs for use by Nanyang Tobacco. Tobacco pack orders from European Tobacco Inc. also increased.





## II. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

### 1. Gross profit ratio

Gross profit ratio (excluding income from infrastructure projects) for the period went up from approximately 37.1% for the same period last year to approximately 40.9%.

### 2. Investment income

Investment income for the period fell significantly from approximately HK\$142,260,000 for the corresponding period last year to approximately HK\$43,490,000, a decrease of approximately HK\$98,770,000. This was primarily due to the significant decrease in interest income from bank deposits of approximately HK\$63,140,000 during the period resulted from the significant reduction in bank deposit rates in the U.S. and Hong Kong since the latter half of 2001. In addition, gains from disposal of listed securities also fell by approximately HK\$31,980,000.

### 3. Finance costs

Finance costs for the period decreased by approximately HK\$16,730,000 over the same period last year primarily because the Group has repaid last year a long-term bank loan of approximately HK\$585,000,000 that became due last year.

### 4. Deemed Profit on disposal of interests in a jointly controlled entity

Deemed Profit on disposal of interests in a jointly controlled entity recorded in the corresponding period last year was derived from the listing of Shanghai Jawah, a jointly controlled entity of the Group's subsidiary, SIIC MedTech, of which SIIC MedTech held a 40% interest, on the A Share market of the Shanghai Stock Exchange in

## Financial Review

March 2001 which generated an exceptional gain of approximately HK\$155,690,000 for SIIC MedTech, of which approximately HK\$100,000,000 was attributed to the Group. There was no deemed profit on disposal of interests in jointly controlled entities by the Group recorded during the period.

### 5. Share of profits of jointly controlled entities

Share of profits of jointly controlled entities for the period was reduced by approximately HK\$44,460,000 from the figures for the same period last year of approximately HK\$131,650,000 to approximately HK\$87,190,000. The decrease in the share of profits was primarily attributed to the decrease in profit of Shanghai Huizhong and the unfavourable business performance of Shanghai Optical Communications compared to the corresponding period last year.

### 6. Share of profits of associates

Share of profits of associates for the period was reduced by approximately HK\$14,100,000 from the figures for the corresponding period last year of approximately HK\$42,190,000 to approximately HK\$28,090,000. The decrease in share of profits was primarily due to the losses of SMIC attributed to the Group the first time during the period.

## III. DIVIDEND

During the period, the Group paid a final dividend for 2001 of HK34 cents (2000: HK30 cents) per share. The Board has resolved to pay an interim dividend for 2002 of HK15 cents (2001 : HK14 cents) per share.



## Financial Review

### IV ASSETS

As at 30th June 2002, the Group had total assets of approximately HK\$15,873,500,000 (2001: approximately HK\$14,836,200,000).

### V LOANS AND CAPITAL

1. As at 30th June 2002, the Group's short-term loan was reduced by HK\$383,100,000 to approximately HK\$843,590,000, primarily as a result of the Group's repayment of a long-term syndication loan of approximately HK\$1,170,000,000 that became due during the year. During the period, a new five-year term and revolving loan of HK\$1,600,000,000 was raised, of which the revolving portion of HK\$800,000,000 was classified as short-term loan.
2. Long-term loan rose by HK\$800,000,000, being the long term portion of the new five-year loan of HK\$1,600,000,000.
3. As the Group has repaid during the period the last instalment its five-year syndication loan of US\$300,000,000 that was raised in 1997, the Group has no US\$ loan. Its outstanding loan are in denominations of HK\$ and RMB, of which the five-year term loan of HK\$800,000,000 is repayable in full by 2007. As at 30th June 2002, approximately 97% of the loans were HK\$ loans.
4. Liquid fund held was approximately HK\$3,262,330,000, of which the proportions of US\$, HK\$ and RMB were approximately 45%, 21% and 34% respectively.

## Financial Review

5. The Group remains a net cash position in respect of its indebtedness. Sound debt-equity structure of the Group lends key supports to the Group's business development. However, in line with the pace of business development and actual funding requirements, the Group has capitalised on the current low interest rates to improve its financial structure during the period by way of raising a new HK\$1.6-billion loan at more favourable interest rates.
6. Shareholders' fund of the Group rose by approximately HK\$435,140,000 to approximately HK\$12,873,540,000.
7. Gearing ratio of the Group increased from approximately 8.7% from last year end to approximately 10.9%.

## VI POLICY ON FINANCIAL RISK MANAGEMENT

### Exchange rate risk

During the period, the Group did not enter into any forward exchange rate contract that is to minimise business and investment risks due to the unfavourable fluctuations in foreign currency exchange rates.

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

## VII CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities during the period.



The Board of Directors of the Company has resolved to pay an interim dividend of HK15 cents (2001: HK14 cents) per share for the six months ended 30th June, 2002. The dividend will be paid on 8th October, 2002 (Tuesday) to shareholders whose names appear on the Register of Members of the Company on 27th September, 2002 (Friday).

#### **CLOSE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 25th September, 2002 (Wednesday) to 27th September, 2002 (Friday), both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by 4:00 p.m. on 24th September, 2002 (Tuesday).

## Other Information

### DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2002, 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").

<b>Name of Director</b>	<b>Number of shares of the Company held as personal interest</b>
Cai Lai Xing	4,000,000
Chen Wei Shu	2,000,000
Lu Ming Fang	1,000,000
Lu Da Yong	1,500,000

### SHARE OPTIONS

The Company has, in accordance with Chapter 17 of the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), terminated the Company's initial share option scheme as adopted on 17th May, 1996 and adopted a new share option scheme, as approved by the shareholders of the Company at the extraordinary general meeting held on 31st May, 2002. During the period, the Company has not granted any share options under the SIHL Scheme and the new share option scheme.



According to the new share option scheme of the Company, the Board of Directors of the Company may grant options to any director and employee of and any executive or employee of any business consultant, professional and other advisers in each member of the Group (including a company in which (a) the Company is directly or indirectly interested in less than 20% of the issued share capital or equity interest of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (b) in the opinion of the Board, the Company is able to exercise significant influence to such company), to subscribe for shares in the Company for a consideration of HK\$1.00 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant. The Board may at its absolute discretion determine the period during which an Option may be exercised, such period to expire not later than 10 years from the date of grant of the Option. The Board may also provide restrictions on the exercise of an Option during the period an Option may be exercised. The exercise price is determined by the Board of Directors of the Company, and shall be at least the highest of: the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and the nominal value of the share.

## Other Information

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

		Number of shares subject to share options			
	Month of grant	Exercise price per share HK\$	Outstanding at 1st January, 2002	Exercised during the period	Outstanding at 30th June, 2002
<b>Directors</b>					
Chen Wei Shu	January 1999	9.568	1,500,000	—	1,500,000
Zhuo Fu Min (resigned as director of the Company on 30th June, 2002)	January 1999	9.568	1,400,000	—	1,400,000
Lu Ming Fang	August 1998	10.432	500,000	—	500,000
	January 1999	9.568	1,200,000	—	1,200,000
	July 2001	10.432	1,500,000	—	1,500,000
Li Wei Da	January 1999	9.568	1,200,000	—	1,200,000
Lu Yu Ping	March 2001	10.496	1,550,000	—	1,550,000
Zhou Jie	August 1998	10.432	1,500,000	—	1,500,000
Lu Da Yong	January 1999	9.568	1,200,000	—	1,200,000
	August 1998	10.432	2,000,000	(2,000,000)	—
	January 1999	9.168	1,000,000	(1,000,000)	—
Yu Li (resigned as director of the Company on 11th March, 2002)					
Cao Fu Kang	January 1999	9.568	1,000,000	—	1,000,000
Wen Song Quan	January 1999	9.568	1,000,000	—	1,000,000
Gu Wen Xing	March 2001	10.496	500,000	—	500,000
Total for directors			18,250,000	(3,000,000)	15,250,000
<b>Employees</b>					
	August 1998	10.432	15,650,000	(14,833,000)	817,000
	January 1999	9.568	11,600,000	(4,200,000)	7,400,000
	March 2001	10.496	5,580,000	(1,080,000)	4,500,000
	July 2001	10.432	6,500,000	(2,500,000)	4,000,000
Total for employees			39,330,000	(22,613,000)	16,717,000
Total for SIHL Scheme			57,580,000	(25,613,000)	31,967,000

Options granted under the Company's share option scheme are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.





The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised during the period was HK\$15.90.

The Company's subsidiary, SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") has terminated its initial share option scheme as adopted on 11th November, 1999 and adopted a new share option scheme, as approved by the shareholders of the Company at the extraordinary general meeting held on 6th May, 2002. The shareholders of the Company has also approved the termination of SIIC MedTech's initial share option scheme and adoption of SIIC MedTech's new share option scheme on the extra-ordinary general meeting held on 31st May, 2002, in accordance with Chapter 23 of GEM Listing Rules of the Stock Exchange.

According to the new share option scheme of SIIC MedTech, the Board of Directors of SIIC MedTech may grant options to any participants, to subscribe for shares in SIIC MedTech for a consideration of HK\$1.00 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant. The Board may at its absolute discretion determine the period during which an Option may be exercised, such period to expire not later than 10 years from the date of grant of the Option. The Board may also provide restrictions on the exercise of an Option during the period an Option may be exercised. The exercise price is determined by the Board of Directors of SIIC MedTech, and shall be at least the highest of: the closing price of SIIC MedTech's shares on the date of grant, the average closing price of SIIC MedTech's shares for the five business days immediately preceding the date of grant; and the nominal value of the share.

In January 2002, SIIC MedTech offered the first batch of 39,200,000 share options to its staff and executive directors under the initial share options scheme, 600,000 of which were lapsed. These share options may be exercised from 21st January 2003 to 20th January 2006 at a price of HK\$1.69. Save as disclosed above, SIIC MedTech has not granted any share option under the initial share options scheme and the new share options scheme for the six months

## Other Information

ended 30th June 2002. During the period, SIIC MedTech has not granted any share options under its initial share option scheme and its new share option scheme.

As at 30th June, 2002, certain directors and employees of SIIC MedTech have interests in share options to subscribe for shares in SIIC MedTech as follows:

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

Outstanding at  
1st January, 2002  
and 30th June, 2002

#### Directors:

##### *Name of director*

Feng Gen Sheng	6,000,000
Li Wei Da	6,000,000
Chen Shu Zi	4,000,000
Ge Wen Yao	2,500,000
Wu Jian Zhuang	2,500,000

The above share options which were granted in January 2000 can be exercised during the period from 21st January, 2003 to 20th January, 2006, at an exercise price of HK\$1.69 per share.

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



## Other Information

### SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following persons are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	548,076,000
Shanghai Industrial Investment Treasury Company Limited ("STC")	548,066,000
Shanghai Investment Holdings Limited ("SIH")	548,066,000

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

Save as disclosed above, the Company has not been notified of any other interests as at 30th June, 2002 representing 10% or more of the issued share capital of the Company.

### PURCHASE, SALE AND REDEMPTION OF SHARES

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

## Other Information

### REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements.

### CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.