



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