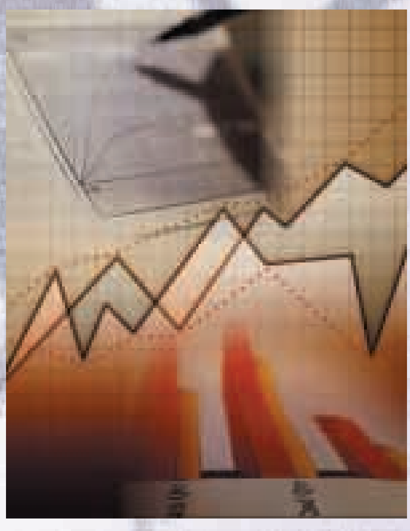
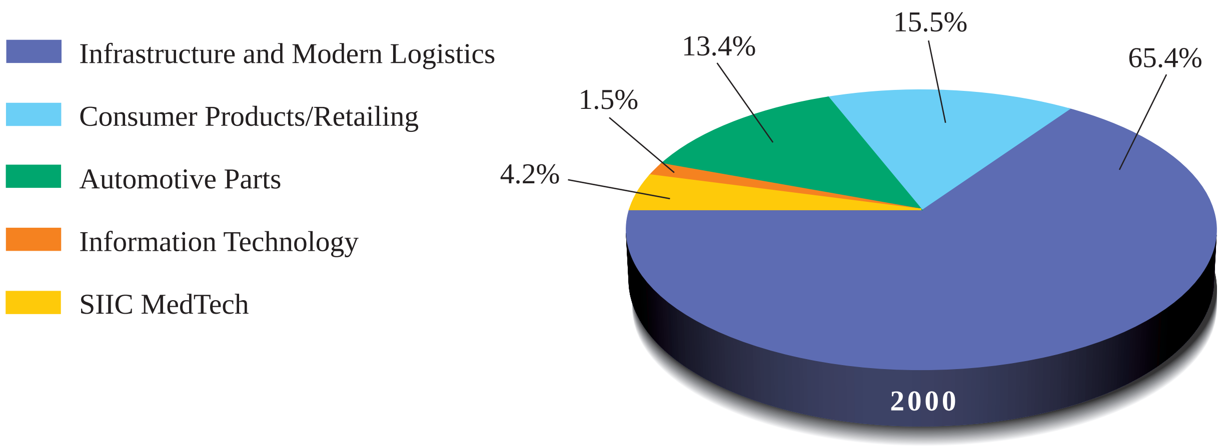
SHANGHAI INDUSTRIAL HOLDINGS LIMITED

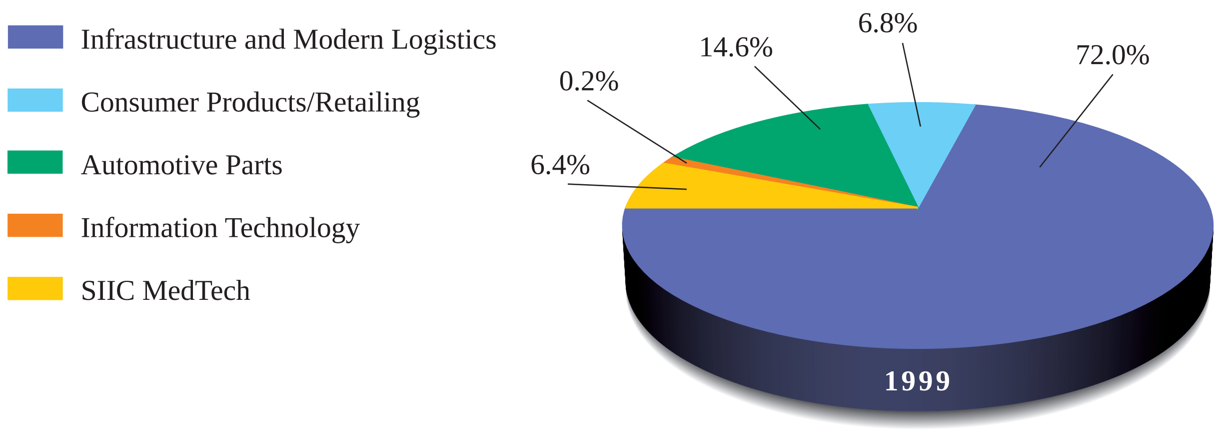
BUSINESS REVIEW

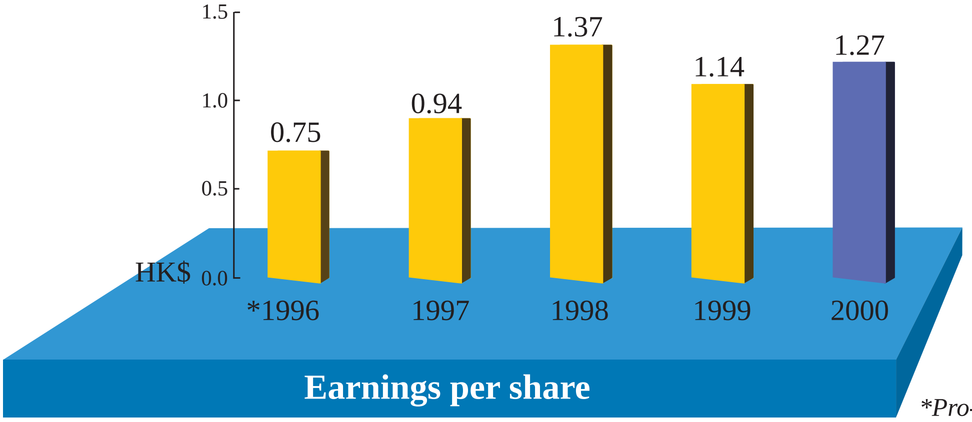


Business Review

Net Profit By Business







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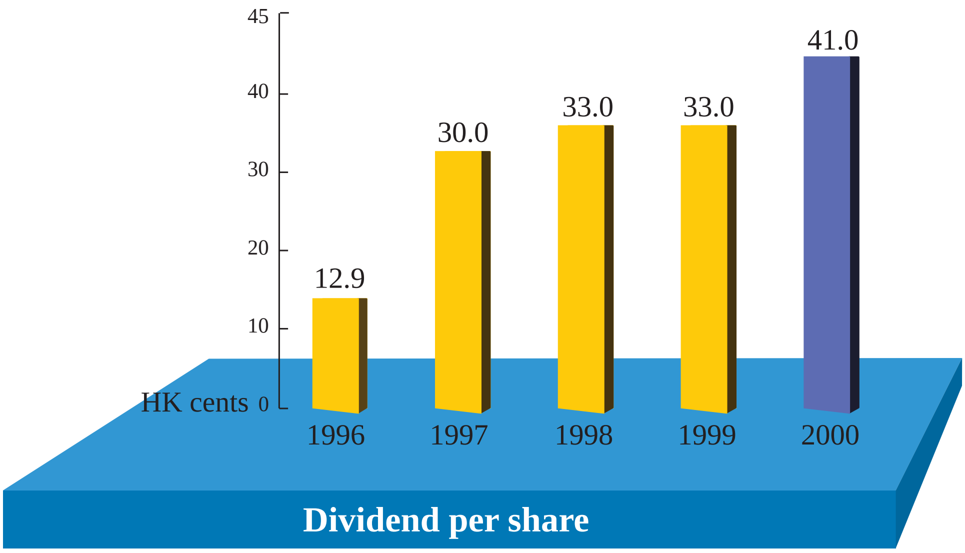

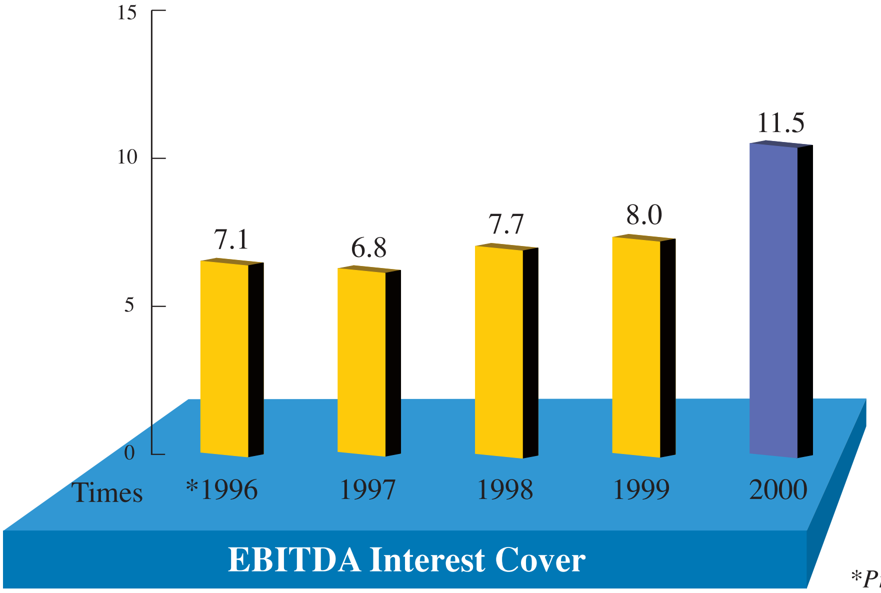

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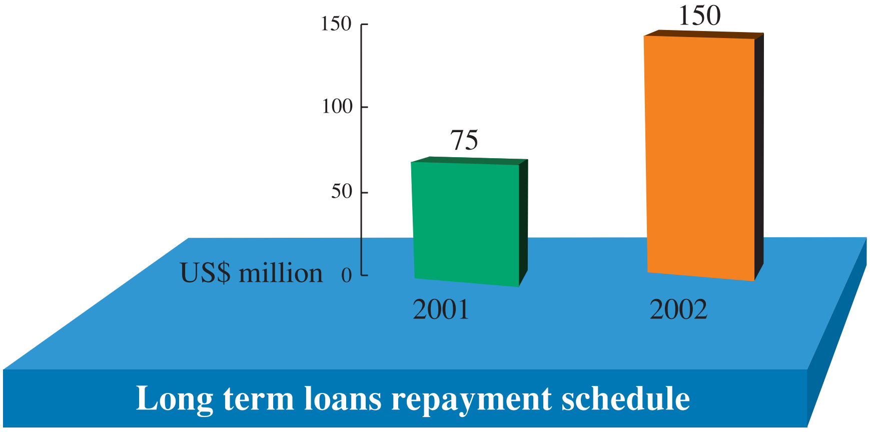
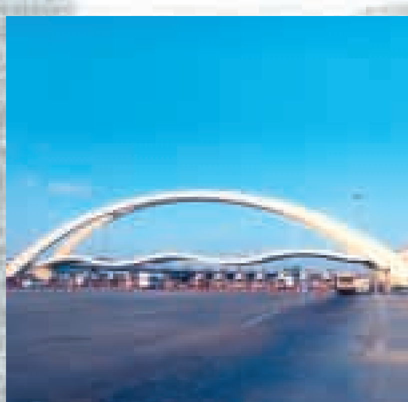


SHANGHAI INDUSTRIAL HOLDINGS LIMITED

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.