

Directors' Report

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

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

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

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

FINANCIAL SUMMARY

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

SHARE CAPITAL AND SHARE OPTIONS

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

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

RESERVES

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

INVESTMENT PROPERTY

At 31st December, 2000, the investment property of the Group was revalued by an independent property valuer on an open market value existing use basis at HK\$12 million. The valuation did not give rise to any surplus or deficit. Details are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred costs for construction in progress of approximately HK\$68.5 million and acquired plant and machinery at a cost of approximately HK\$8.8 million, furniture, fixtures and equipment at a cost of approximately HK\$11.4 million and other assets at a cost of approximately HK\$2.4 million for the purpose of expanding the Group's business. These and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

PRINCIPAL SUBSIDIARIES

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

PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

PRINCIPAL ASSOCIATES

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

BORROWINGS AND INTEREST CAPITALISED

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

No interest was capitalised by the Group during the year.

DONATIONS

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Lai Xing (*Chairman*)

Chen Wei Shu (*Vice Chairman*)

Zhuo Fu Min (*Chief Executive Officer*)

Lu Da Yong (*Executive Deputy CEO*)

Li Wei Da (*Deputy CEO*)

Lu Yu Ping (*Deputy CEO*) (appointed on 8th March, 2000)

Yu Li

Cao Fu Kang

Wen Song Quan

Ge Wen Yao

Huang Yan Zheng

Gu Wen Xing (appointed on 20th June, 2000)

Independent non-executive directors:

Lee Quo Wei

Lo Ka Shui

Woo Chia-Wei

Leung Pak To, Francis

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs. Cai Lai Xing, Chen Wei Shu, Zhuo Fu Min, Yu Li, Wen Song Quan and Gu Wen Xing retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company. Other than the service agreements with Messrs. Li Wei Da, Lu Yu Ping, Yu Li and Gu Wen Xing, all the service agreements are for an initial period of three years commencing 1st April, 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

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

Mr. Lu Yu Ping has entered into a service agreement with the Company for an initial period of three years commencing 8th March, 2000, which will continue thereafter unless and until terminated by either party by six months' prior written notice, such notice not to be given at any time before 8th September, 2002.

Mr. Yu Li has entered into a service agreement with the Company for an initial period of three years commencing 3rd April, 1998, which will continue thereafter unless and until terminated by either party by six months' prior written notice.

Mr. Gu Wen Xing has entered into a service agreement with the Company for an initial period of three years commencing 20th June, 2000, which will continue thereafter unless and until terminated by either party by six months prior written notice, such notice not to be given at any time before 20th December, 2002.

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

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2000, save as disclosed herein, none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

| Name of Director | No. of shares of the Company held as personal interest |
|-------------------------|---|
| Cai Lai Xing | 4,000,000 |
| Chen Wei Shu | 2,000,000 |
| Zhuo Fu Min | 1,500,000 |
| Lu Da Yong | 1,500,000 |
| Cao Fu Kang | 1,000,000 |
| Wen Song Quan | 1,000,000 |
| Ge Wen Yao | 1,000,000 |
| Huang Yan Zheng | 1,000,000 |

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

- (b) Pursuant to the share option scheme of SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a subsidiary of the Company ("the SIIC MedTech Scheme"), SIIC MedTech may grant options to executive directors and full time employees of SIIC MedTech or its subsidiaries to subscribe for

shares in SIIC MedTech for a consideration of HK\$1 for each lot of share options granted. Options granted are exercisable commencing on the expiry of three years after the date the options are granted and expiring on such date as determined by the board of directors of SIIC Medical or 10th November, 2009, whichever is the earlier. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of SIIC MedTech from time to time.

Certain directors of the Company have personal interests in share options (“SIIC MedTech Options”) to subscribe for shares in SIIC MedTech (“SIIC MedTech Shares”) which were granted to them in January 2000 at an exercise price of HK\$1.69 per share as follows:

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

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

CONNECTED TRANSACTIONS

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

The independent non-executive directors have reviewed the connected transactions set out in note 40(I)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties; and
- (iv) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited.

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTERESTS

The ultimate holding company of the Company, SIIC has interest in SIIC International Investment Company (“SIICI”) and Shanghai Industrial United Holdings Co., Ltd. (“Shanghai United”).

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd (“SMU Biotech”) and Shanghai SIIC Kehau Biopharmaceutical Co., Ltd. (“SIIC Biopharmaceutical”). SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection which is used for emergency treatment to dissolve blood clog from myocardial infarction. SIIC Biopharmaceutical is principally engaged in research and development of EPO which has a medical application for increasing erythrocyte. Shanghai United is a conglomerate engaging in three principal areas of business being high technology, supermarket chain, and textile manufacturing. Some of Shanghai United’s investments in high technology enterprises are also engaged in medical and pharmaceutical related operations. Shanghai United has interest in Shanghai Medical Equipment Co., Ltd. (“Med Equipment”), a medical device company, SIIC Kehua Biology Company Limited (“Kehua Biology”) and Zhejiang Zuoli Pharmaceutical Company (“Zuoli”). Med Equipment is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. Kehua Biology is engaged in the development, production and distribution of clinical diagnosis reagent and related products. Its main products include hepatitis B testing agent, hepatitis C antibody diagnosis testing agent and HIV antigen. Zuoli is engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group’s five largest customers and the aggregate purchases attributable to the Group’s five largest suppliers were less than 30% of the Group’s sales and purchases respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Other than the repurchase by the Company of certain of its shares on The Stock Exchange of Hong Kong Limited as described in note 25 to the financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

POST BALANCE SHEET EVENTS

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

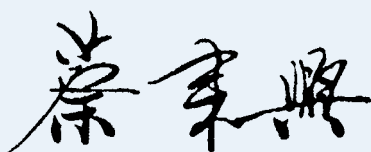
CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2000 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

AUDITORS

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

On behalf of the Board

A handwritten signature in black ink, consisting of three Chinese characters: 蔡來興 (Cai Lai Xing).

CAI LAI XING

Chairman

Hong Kong, 18th April, 2001