

BOARD OF DIRECTORS' STATEMENT

The Board of Directors (the "Board") of Shanghai International Shanghai Growth Investment Limited (the "Company" or "Shanghai Growth") is pleased to present the ninth annual report of the Company.

REVIEW OF RESULTS

The Company recorded a net loss of USD387,181 for the financial year ended 31st December, 2001, compared with a net loss of USD3,396,614 in 2000. During the year, the Company's dividend income from unlisted and listed investments amounted to USD7,625,637. Such revenue was, however, set off by a USD6,269,480 realised loss on disposal of listed securities during the tumultuous period.

The Company's listed portfolio was able to turn around in the first half of the year, primarily attributable to the rally in China-related shares fuelled by the massive influx of liquidity from the mainland to the Hong Kong market and the huge valuation gap between the H shares and the A shares. In June and July, the People's Republic of China ("PRC") government stated its view on capital outflow from China to invest in the Hong Kong market, and triggered an avalanche in the Chinese A share and B share markets, with spilled over effect in dramatic deterioration in the H share markets as well. The panic selling prompted the Company to reduce the weighting of H share to protect the portfolio value and trimmed the portfolio's equity weighting substantially and increased its cash level proportionately. That reduction in equity shielded the Company from the subsequent sell-off bloodbath when the world market was shocked by the 9.11 incident.

The global economic slump occurred after the Japanese and U.S. economies trended downwards during the year, and exacerbated by the negative impact brought about by the 9.11 incident. Against the backdrop of those negative sentiments, the Company's unlisted investments registered an encouraging return during the year, attributable partly to the robust domestic consumption inside China, which to a certain degree is insulated from the contraction in outside market, and partly to a perceived level playing field by foreign investors upon its accession to the WTO. In addition, active participation in and close monitoring of invested projects by Shanghai International Asset Management (HK) Co., Ltd. (the "Investment Manager") helped to safeguard the interests of those investments. Analyses of respective investments are further elaborated under "Unlisted Investments" of this annual report.

As at 31st December, 2001, the Company's net asset value ("NAV") per share was US\$6.83, a 4.07% drop as compared with the restated NAV per share of US\$7.12 in 2000. The Company's share price at the end of December 2001 was US\$3.225 (2000: US\$3.475), reflecting a 52.78% discount to NAV.

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DIVIDEND

The Board recommends a final dividend of US\$0.40 per share for 2001, representing approximately 12.3% return on the market price at the time of announcing such dividend. The Board wishes to assure shareholders that it attaches high importance to maintaining a stable and reasonable dividend policy. Although the overall 2001 result showed a loss, the dividend is adequately covered by investment income less expenses. In future years, the Board will endeavour to maintain a similar level of dividend barring any unforeseen circumstances.

The Board also recommends a special dividend of US\$0.60 per share, to be distributed simultaneously with the 2001 final dividend. Both dividend distributions will be paid on or before 10th June, 2002, subject to the approval from shareholders at the Annual General Meeting to be held on 24th May, 2002.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17th May, 2002 to 24th May, 2002, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the above dividends, all transfers accompanied by the relevant share certificates must be lodged with the Registrars of the Company, Secretaries Limited, for registration not later than 4:00 p.m. 16th May, 2002.

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS

As reported in the Company's 2000 annual report, a supplemental agreement (the "First Supplemental Agreement") to the Investment Management Agreement was executed in January 2001. The First Supplemental Agreement extended the appointment of the Investment Manager for a 5-year term. It also reduced the NAV threshold for any incentive fee payable to the Investment Manager from USD10.00 to USD7.00 proportionate to the contraction in the Company's fund size arisen from the US\$3.00 special dividend paid in 2000.

In September 2001, the Company entered into another supplemental agreement (the "Second Supplemental Agreement") with the Investment Manager whereby the amount of incentive fee payable by the Company to the Investment Manager, if any, shall be 15% of the amount over and above the net asset value of the respective listed and unlisted securities portfolios as at 31 December of each year exceeding 115% of the net asset value of the respective listed and unlisted securities portfolios as at 31 December of the immediately preceding year. Prior to that, the amount of incentive fee payable equals to 15% of the amount by which that portion of the net asset value exceeds 115% of the portion of the net asset value comprising assets which represent unlisted securities only.

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The Board considered that the execution of the Second Supplementary Agreement provided a fair and reasonable incentive for the Investment Manager to perform in both the listed and unlisted securities portfolios and is therefore in the best interests of the Company.

Please refer to page 31 to 32 of the Directors' report for details of the terms of the investment management and administration agreement and the deemed connected transactions.

CHANGES TO THE BOARD COMPOSITION

During the year, Mr. Wu, Choi Sun William was appointed executive director of the Company. Dr. Fung, Kin Ming resigned as executive director of the Company and was replaced by Mr. Chiu, Tak Chiang (also known as Yau, Tak Chiang). The Board wishes to express its appreciation to Dr. Fung for his valuable contributions to the Company during his tenure served.

INVESTMENT WITHDRAWN

GSMC International Limited ("GSMCI")

In 2001, the Company exercised its right to demand refund from GSMCI of its US\$500,000 invested amount for its inability to raise the minimum funding within the time frame stipulated in its share subscription agreement. Actual refund has not been obtained and the Company is in negotiation with GSMCI on the performance guarantee of its proposed payment schedule.

NEW INVESTMENT

Of close to a hundred new investment opportunities presented during the year, the Company selected to invest in Harbin Brewery Group Limited ("HBGL") and Semiconductor Manufacturing International Corporation ("SMIC").

HBGL is an investment holding company registered in the Cayman Islands. Its underlying assets comprise of beneficial interests in eight breweries in the PRC with an aggregate production capacity exceeding 1 million metric tons per annum and ranks 5th largest in China's beer industry. HBGL has already submitted application for an Initial Public Offering ("IPO") and listing of its shares on the main board of the Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company has subscribed HK\$14 million for HBGL's convertible bond with an annual yield of 5%.

SMIC is a holding company incorporated in the Cayman Islands with 100% interest in Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"). The principal business activity of SMIC Shanghai is in the manufacturing of semiconductor chips, which includes wafer fab, process technology, integrated circuit ("IC") design service, etc. Its product range includes various types of Random Access Memory ("RAM") and high-voltage IC semiconductors. SMIC is envisaged to lead the semiconductor industry boom in China by having a head start among its peers. The Company has committed to invest US\$6 million in SMIC.

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OUTLOOK FOR 2002

Recent testimony by Mr. Alan Greenspan, Chairman of the Federal Reserve, gave blessing to the insinuation on recent indicators that the U.S.'s economy is on the road to recovery, albeit cautious optimism was emphasized. Uncertainties that loomed over the macro economy since the 9.11 incident appeared to have gradually dissipated in the beginning of 2002.

Conscious that the recovery can be a slow process and is susceptible to adverse effect from material change in the prevailing climate, the Company will maintain a reduced equity weighting in its listed portfolio, with a protracted focus in blue chip companies with sound management and good fundamentals.

On the unlisted investment side, the Company is encouraged by statement made by Chinese Premier Zhu Rong Ji in the recent People's Congress that China's economy is on track to achieve the 7% growth target. With that part of the market relatively insulated from the global recovery process, the Company will continue its efforts by active participation and close monitoring of its listed investments. Care and caution will be exercised to identify, screen and select new investments with clearer and shorter exit horizon.

The Board has been encouraged by the more than doubling of investment income in 2001. The majority of this income was derived from one highly successful investment. However, the Board considers that contributions from the Company's unlisted investment portfolio may be reasonably anticipated as it becomes steadily maturing. Increasing financial and management resources are being devoted to unlisted investments, where attractive opportunities were identified in 2001, while listed investments are being de-emphasised. The Board believes that investors will welcome the Company's greater commitment to its unlisted investment portfolio as an appropriate response to the growing prosperity of the PRC market. This factor, combined with a stable dividend policy, should help to create an improved investment climate for the Company's shares and narrow the gap between share price and net asset value.