

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 42 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 51 of the annual report.

An interim dividend of HK14 cents per share was paid during the year. The directors recommend a final dividend of HK34 cents per share to the shareholders on the register of members on 31st May, 2002.

SHARE CAPITAL

Changes in the share capital of the Company during the year are set out in note 26 to the financial statements.

INVESTMENT PROPERTY

At 31st December, 2001, 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\$107.9 million and acquired plant and machinery at a cost of approximately HK\$47.2 million, furniture, fixtures and equipment at a cost of approximately HK\$65.2 million and other assets at a cost of approximately HK\$14.1 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.



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 (*Vice Chairman*)

Lu Ming Fang (*Chief Executive Officer*) (appointed on 5th January, 2002)

Li Wei Da (*Deputy CEO*)

Lu Yu Ping (*Deputy CEO*)

Qian Shi Zheng (*Deputy CEO*) (appointed on 5th January, 2002)

Zhou Jie (*Deputy CEO*) (appointed on 5th January, 2002)

Yu Li (resigned on 11th March, 2002)

Lu Da Yong

Cao Fu Kang

Wen Song Quan

Ge Wen Yao

Huang Yan Zheng

Gu Wen Xing

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. Lu Ming Fang, Qian Shi Zheng, Zhou Jie, Ge Wen Yao, Huang Yan Zheng, Lee Quo Wei, Lo Ka Shui, Woo Chia-Wei and Leung Pak To, Francis retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. Cai Lai Xing, Cao Fu Kang, Ge Wen Yao and Huang Yan Zheng has entered into a service agreement with the Company 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. Yu resigned as director of the Company on 11th March, 2002 and therefore his service agreement was terminated simultaneously.

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.

The original service agreements of Messrs. Lu Da Yong and Wen Song Quan were terminated on 23rd September, 2001 and 1st August, 2001 respectively and new service agreements were entered into and became effective on the same day, which are for an initial period of three years and 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 23rd March, 2004 and 1st February, 2004 respectively.

The original service agreements of Messrs. Chen Wei Shu and Zhuo Fu Min were terminated on 5th January, 2002 and new service agreements were entered into and became effective on the same day, which are for an initial period of three years and 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 5th July, 2004.

Each of Messrs. Lu Ming Fang, Qian Shi Zheng and Zhou Jie has entered into a service agreement with the Company for an initial period of three years commencing 5th January, 2002 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 5th July, 2004.

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, 2001, 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").

<u>Name of Director</u>	<u>Number of shares of the Company held as personal interest</u>
Cai Lai Xing	4,000,000
Chen Wei Shu	2,000,000
Zhuo Fu Min	1,500,000
Lu Ming Fang	1,000,000
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	850,000

SHARE OPTIONS

- (a) The Company's share option scheme (the "SIHL Scheme") was adopted on 17th May, 1996 for the primary purpose of providing incentives to executive directors and eligible employees of the Company or its subsidiaries, and will expire on 17th May, 2006. Under the SIHL Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options 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. Under the SIHL Scheme, the exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the Company's shares and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

In accordance with Chapter 17 (Share Schemes) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), as amended, with effective from 1st September, 2001, the listed issuers could grant further share options under their existing schemes at exercise prices of at least the higher of the closing price of the shares on the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31st December, 2001, the number of shares in respect of which options had been granted and remained outstanding under the SIHL Scheme was 57,580,000, representing 6.4% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders or in other cases, a prior approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the total number of shares in respect of which options may be granted under the SIHL Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIHL Scheme.

The fair value of the options granted in the current year measured as at 16th March, 2001 and 21st July, 2001 being the dates of grant, totalled approximately HK\$23,393,000 and HK\$23,973,000 respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 34.04% based on historical volatility;
2. annual dividends of 32.28% of earnings based on historical dividends; and
3. the Hong Kong Exchange Fund Notes rate of 3.41% and based on the estimated expected life of 2 years.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted in the year.

Consideration received for share options granted during the year was HK\$16.

The closing prices of the Company's shares immediately before 16th March, 2001 and 21st July, 2001, being the dates of grant of options during the year, were HK\$12.95 and HK\$13.00 respectively.

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised ranged from HK\$13.14 to HK\$15.11.

- (b) In July, 2000, pursuant to an agreement entered into by the Company, SII International Holding Limited and SAIL Technology Holding Limited ("SAIL Technology"), independent third parties to the Group, the Company acquired the entire equity interest of Active Services Group Limited ("Active Services"), a company incorporated in the British Virgin Islands. The sole asset of Active Services is an investment in a jointly controlled entity which is engaged in the development of communication infrastructure and cable networks and the provision of information technology and internet-related services. The consideration for the acquisition of Active Services was satisfied by the payment of US\$120,000,000 in cash and the granting by the Company to SAIL Technology an option to subscribe for a maximum of 50,000,000 shares or a minimum of 1,000,000 shares of HK\$0.10 each in the Company at an exercise price of HK\$15.90, subject to adjustment. The option period commenced from six months after the completion date on 29th September, 2000 and ended on 28th March, 2002. No option was exercised by SAIL Technology up to the expiry date.

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

	Month of grant	Exercise price per share HK\$	Number of shares subject to share options				Outstanding at 31st December, 2001
			Outstanding at 1st January, 2001	Granted during the year	Exercised during the year	Lapsed during the year	
Category 1: Directors (note (a))							
Chen Wei Shu	January 1999	9.568	1,500,000	—	—	—	1,500,000
Zhuo Fu Min	January 1999	9.568	1,400,000	—	—	—	1,400,000
Lu Ming Fang	August 1998	10.432	1,500,000	—	(1,000,000)	—	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	April 1997	30.912	2,000,000	—	—	(2,000,000)	—
	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
	January 1999	9.568	1,200,000	—	—	—	1,200,000
Lu Da Yong	January 1999	9.568	1,200,000	—	—	—	1,200,000
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
Gu Wen Xing	March 2001	10.496	—	500,000	—	—	500,000
Yu Li	August 1998	10.432	2,000,000	—	—	—	2,000,000
	January 1999	9.568	1,000,000	—	—	—	1,000,000
Total for directors			17,700,000	3,550,000	(1,000,000)	(2,000,000)	18,250,000
Category 2: Employees (note (a))							
	April 1997	30.912	6,400,000	—	—	(6,400,000)	—
	May 1997	30.912	3,500,000	—	—	(3,500,000)	—
	August 1998	10.432	16,870,000	—	(1,220,000)	—	15,650,000
	January 1999	9.568	12,600,000	—	(1,000,000)	—	11,600,000
	March 2001	10.496	—	5,700,000	(120,000)	—	5,580,000
	July 2001	10.432	—	6,500,000	—	—	6,500,000
Total for employees			39,370,000	12,200,000	(2,340,000)	(9,900,000)	39,330,000
Total for SIHL Scheme			57,070,000	15,750,000	(3,340,000)	(11,900,000)	57,580,000
Category 3: Others (note (b))							
	September 2000	15.90	50,000,000	—	—	—	50,000,000
Total for all categories			107,070,000	15,750,000	(3,340,000)	(11,900,000)	107,580,000

Options granted under the SIHL 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.

- (c) The share option scheme of SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a subsidiary of the Company (the "SIIC MedTech Scheme"), was adopted on 3rd December, 1999 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 10th November, 2009. Under the SIIC MedTech Scheme, the Board of Directors of SIIC MedTech may grant options to eligible employees, including directors of SIIC MedTech and its subsidiaries, to subscribe for shares in SIIC MedTech for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 28 days from the date of grant.

Options are exercisable on the expiry of three years after the date of grant. The exercise price is determined by the directors of SIIC MedTech, and will not be less than the higher of the closing price of SIIC MedTech's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

At 31st December, 2001, the number of shares in respect of which options had been granted under the SIIC MedTech Scheme was 38,700,000, representing 6.2% of the shares of SIIC MedTech in issue at that date. The total number of shares in respect of which options may be granted under the SIIC MedTech Scheme is not permitted to exceed 10% of the shares of SIIC MedTech in issue at any point in time, without prior approval from SIIC MedTech's shareholders.

No employee of SIIC MedTech shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIIC MedTech Scheme.

Pursuant to the SIIC MedTech Scheme, certain directors and employees of SIIC MedTech have 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:

Number of SIIC MedTech Shares subject to SIIC MedTech Options

	Outstanding at 1st January, 2001	Lapsed during the year	Outstanding at 31st December, 2001
Directors:			
Name of director			
Zhuo Fu Min	8,000,000	—	8,000,000
Feng Gen Sheng	6,000,000	—	6,000,000
Li Wei Da	6,000,000	—	6,000,000
Chen Shu Zi	4,000,000	—	4,000,000
Ge Wen Yao	2,500,000	—	2,500,000
Wu Jian Zhuang	2,500,000	—	2,500,000
	29,000,000	—	29,000,000
Employees:	10,200,000	500,000	9,700,000
	39,200,000	500,000	38,700,000

The SIIC MedTech Options can be exercised during the period from 21st January, 2003 to 20th January, 2006.

Save as disclosed above, at no time during the year 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, 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:

<u>Name of shareholder</u>	<u>Number of ordinary shares beneficially held</u>
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 turn 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 31st December, 2001 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 41(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 Listing Rules.

The independent non-executive directors have reviewed the connected transactions set out in note 41(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 not less favourable than terms available to third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, 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 as described in note 26 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.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$1.2 million.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 40 to the financial statements.

POST BALANCE SHEET EVENT

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 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

CAI LAI XING

Chairman

Hong Kong, 15th April, 2002