

DIRECTORS' REPORT

The Board of Directors (the "Board") of Shanghai International Shanghai Growth Investment Limited (the "Company") is pleased to present their annual report and the audited financial statements for the year ended December 31, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment company whose principal business is to make direct investments in operating companies and other entities established or having significant operations in or business with the People's Republic of China ("PRC") by non-PRC persons. The investment philosophy of the Company has been placed on identifying, screening, analyzing, and conducting due diligence on investment potentials in the Greater Shanghai Region, principally in wholly foreign-owned enterprises, existing or newly established Sino-foreign equity joint ventures or co-operative joint venture enterprises, joint stock companies, or other vehicles authorized for foreign investments under applicable laws of the PRC, with an objective of obtaining long term capital appreciation. Besides Greater Shanghai, the Company can also invest in projects within the Greater China confine.

RESULTS AND DIVIDENDS

Results of the Company for the year ended December 31, 2002 are set out in the income statement on page 40.

The Board proposes the payment of a final dividend of US\$0.20 per share and a special dividend of US\$0.20 per share in cash for 2002.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 13 to the financial statements.

RESERVES

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 42.

DIRECTORS' REPORT *(Cont'd)*

DIRECTORS

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

Executive Directors:

Mr. Lin, Bin

Mr. Wu, Choi Sun William

Dr. Fung, Kin Ming (resigned on January 1, 2002)

Independent Non-Executive Directors:

Mr. Ong, Ka Thai

Mr. Yick, Wing Fat Simon

Other Non-Executive Directors:

Mr. Cai, Nongrui

Mr. Chao, Hsihsiang

Mr. Chiang, Chingyee

Mr. Hu, Jinggang

Mr. Sun, Taotsun

Dr. Wang, Changhong

Mme. Yin, Wong Yeefan

Mr. Zhou, Youdao

Mr. Chiu, Tak Chiang (appointed on January 1, 2002)

(also known as Yau, Tak Chiang)

Mr. Chen, Chichuan (appointed on March 20, 2003)

Dr. Hsu, Chihchang (resigned on March 20, 2003)

All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Subject to the above, the Independent Non-Executive Directors were each appointed for a term of two years.

At the forthcoming annual general meeting of the Company, Mr. Chen, Chichuan, Mr. Cai, Nongrui, Mr. Chiang, Chingyee, Mr. Ong, Ka Thai and Mr. Yick, Wing Fat Simon will retire as directors in accordance with Article 93 and 98(b) of the Company's Articles of Association. Being eligible, all of them offer themselves for re-election. All other remaining directors continue in office.

None of the directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS

Lin, Bin

Executive Director, Mr. Lin, 48, was appointed to the office when he joined the Company in September 2000. Mr. Lin was also appointed Vice President of the Investment Manager in that same year. Mr. Lin did a tour of study at the University of Illinois at Urbana-Champaign and holds an executive Master in Business Administration degree from the China-Europe International Business School. Mr. Lin joined SITICO since 1984 and has held various senior positions including General Manager of SITICO Trading Pudong Inc., Deputy General Manager of Financial Division II and Trust Division of SITICO. Mr. Lin has more than 15 years of experience in trading, securities, trust, and financial services areas in the PRC.

Wu, Choi Sun William

Managing Director of the Investment Manager and Executive Director of the Company, Mr. Wu, 54, was appointed to those offices in February and June 2001 respectively. Prior to joining the Company, Mr. Wu was Executive Director of two listed companies under the Tomson Group which has over US\$600 million direct investments in the PRC. Before returning to Hong Kong, Mr. Wu was Senior Vice President and a member of the board of Webster Johnson & Stowell, a U.S. consulting company specializing in difficult markets. Mr. Wu has profit and loss responsibilities for all seven offices in the Pacific Rim. Mr. Wu holds a Bachelor of Science degree and a Master degree in Business Administration from the University of San Francisco. Apart from a full spectrum of corporate management responsibility in listed companies, Mr. Wu has over 25 years' experience in business development, advisory, corporate finance and equity investment. He is a registered investment advisor with the Hong Kong Securities and Futures Commission.

Ong, Ka Thai

Independent Non-Executive Director and a member of the Audit Committee, Mr. Ong, 48, was appointed in June 1997. Mr. Ong is the Chairman of a number of companies including Ong First Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Capital Ltd. Mr. Ong holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles. He had served as CEO for a number of multinational joint ventures, and is a director of Singamas Container Holdings Ltd., a company listed on The Stock Exchange of Hong Kong Limited. Mr. Ong has over 25 years of experience in manufacturing, corporate and trade finance, regional equity, futures and commodities trading, investment banking and corporate advisory services, as well as direct and private equity investments.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Yick, Wing Fat Simon

Independent Non-Executive Director and Chairman of the Audit Committee, Mr. Yick, 44, has been serving on the board of the Company since July 1999. Mr. Yick holds a Bachelor's degree in Business Administration, majoring in Accounting from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Chartered Association of Certified Accountants in England. Mr. Yick is currently an executive director of a corporate finance house in Hong Kong. Mr. Yick has over 20 years of experience in audit, direct investment, investment banking and corporate advisory services.

Cai, Nongrui

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Cai, 54, was appointed to the Company in December 1997. Mr. Cai joined SITICO and has held various senior capacities including Deputy General Manager of General Office; Deputy General Manager of Accounting and Planning Division; General Manager of Accounting Division; General Manager of Finance Division I; Senior Vice President cum Vice Chief Economist; Chief Economist. Mr. Cai is the chief financial officer of the Yangshan Deepwater Port project to transform Shanghai's waterfront and container handling facilities.

Chao, Hsihsiang

Non-Executive Director, Mr. Chao, 74, was appointed in January 1994. Mr. Chao is the Chairman of Ruentex Development Co., Ltd. ("Ruentex Development"), a company listed on the Taiwan Stock Exchange. Mr. Chao has more than twenty years of valuable experience in construction and business development.

Chiang, Chingyee

Non-Executive Director, Mr. Chiang, 70, was appointed in January 1994. Mr. Chiang graduated with a degree in Scientific Technology and has been in the can manufacturing and metal forming business for over forty years. He is President of China Can Printing & Metal MFG., Co., Ltd. and Chairman of Great China Metal Ind., Co., Ltd. since 1973.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Hu, Jinggang

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Hu, 51, was appointed in March 1999. Mr. Hu is a graduate of the Faculty of International Finance of the Shanghai East China Normal University. Mr. Hu had held various positions in the Shanghai Municipality since 1977. From 1987, he served as assistant director, deputy director, and director of the International Relations Department of China Council for the Promotion of International Trade, Shanghai Sub-council. He has been senior vice president of SITICO since December 1998.

Sun, Taotsun

Non-Executive Director, Mr. Sun, 53, was appointed in January 1994. Mr. Sun holds a Bachelors degree from Tamkang University of Taiwan. He is Chairman of Pacific Electric Cable & Wire Co. Ltd., the largest and leading wire and cable manufacturer in Taiwan. Since 1986, he has held office in a range of diversified and multinational companies.

Wang, Changhong

Non-Executive Director, Dr. Wang, 44, was appointed in March 1999. He joined Nomura International (Hong Kong) Limited in 1994 and is the director of corporate finance. Dr. Wang graduated with a Bachelor of Arts degree from Nanjing University in the PRC and holds a Doctor of Philosophy degree and a Doctor of Jurisprudence degree from the University of Pennsylvania.

Yin, Wong Yeefan

Non-Executive Director, Mrs. Yin, 55, was appointed in January 1994. Mrs. Yin holds a Bachelors degree in Economics from the Fu Jen Catholic University, Taiwan. Mrs. Yin is the Chairman of Ruentex Industries Limited ("Ruentex Industries") and a director of Ruentex Development, both companies are listed on the Taiwan Stock Exchange.

DIRECTORS' REPORT *(Cont'd)*

BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

Zhou, Youdao

Non-Executive Director and chairman of the Investment Manager, Mr. Zhou, 64, was appointed Director in December 1998. Mr. Zhou was deputy bureau chief of Shanghai Finance Bureau's First Division since May 1969. In August 1984 he was deputy head of the Financial and Monetary Department of The Finance and Trade Office of Shanghai Municipal Government and became the deputy chairman of Shanghai Finance Bureau. In December 1985, he was Deputy Bureau Director of Shanghai Finance Bureau which he later became chairman. He was appointed Chairman and President of SITICO since April 1998. Mr. Zhou is also the chairman of Shanghai International Group Corporation Limited, a holding company incorporated to hold all assets of SITICO.

Chiu, Tak Chiang (also known as Yau, Tak Chiang)

Non-Executive Director of the Company and director of the Investment Manager, Mr. Chiu, 49, was appointed in January 2002. Mr. Chiu is Managing Director of SinoPac Capital Limited, a wholly-owned subsidiary of SinoPac Holdings, a listed banking group in Taiwan. Mr. Chiu worked at Citibank, Masterlink Securities Co., Ltd. and Investlink Co. Ltd. of Taiwan and has over 22 years of experience in investment banking, corporate finance, advisory and operation of market instruments. Mr. Chiu holds a Masters degree in International Management from the American Graduate School of International Management.

Chen, Chichuan

Non-Executive Director, Mr. Chen, 45, was appointed in March 2003. Mr. Chen is a director of both China Development Industrial Bank Inc. and its parent company, a listed banking group in Taiwan. Mr. Chen joined the Ruentex Group in Taiwan since 1987 and is currently the Vice President of Hei Hong Investment Co., Ltd., with responsibilities for all equity investments activities in Asia. Mr. Chen holds a Masters degree in Business Administration from the National Taiwan University.

DIRECTORS' REPORT *(Cont'd)*

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS

The Company's investment portfolio is managed by Shanghai International Asset Management (Hong Kong) Company, Limited (the "Investment Manager") pursuant to terms and conditions of an investment management and administration agreement (the "Investment Management Agreement") between the Company and the Investment Manager dated November 12, 1993, as supplemented by supplemental agreements dated January 22 and September 12, 2001 respectively .

The Investment Management Agreement is terminable by either the Company or the Investment Manager giving not less than two months' notice in writing ("Notice of Termination") to the other party after a period of five years from January 1, 2001 and is terminable at any time in accordance with certain terms in the agreement. In accordance with terms of the agreement, if neither the Company nor the Investment Manager serves any Notice of Termination on or prior to expiry of the five-year period, the term of the Investment Management Agreement shall be automatically renewed for another minimum term of five years immediately thereafter.

In accordance with the terms of the agreements, the Investment Manager is entitled to receive an aggregate investment management and administration fee and an incentive fee. The investment management and administration fee is calculated and payable in U.S. dollars quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deduction of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The incentive fee, which is subject to a minimum net asset value per share of the Company of US\$7, is related to the investment portfolio, including both listed and unlisted investments, and is calculated and payable on an annual basis for each year ending 31st December at 15% of the amount by which that portion of the net asset value of each of the assets which represent listed securities (the "Listed Investment Portfolio") and assets which represent unlisted securities or interests (the "Unlisted Investment Portfolio") as at 31st December of each year exceeds 115% of that portion of the net asset value of the respective Listed Investment Portfolio and Unlisted Investment Portfolio as at 31st December of the immediately preceding year.

The Company has been granted a waiver from the Listing Division of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from strict compliance with the connected transaction requirements in respect of the provision of investment management and administration services (the "Transactions") by the Investment Manager to the Company pursuant to the aforesaid Investment Management Agreement.

DIRECTORS' REPORT *(Cont'd)*

INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT AND CONNECTED TRANSACTIONS *(Cont'd)*

Total investment management and administration fees paid to the Investment Manager for the year ended December 31, 2002 amounted to US\$1,120,953. No incentive fee has been paid to the Investment Manager for the year.

The independent non-executive directors have reviewed the Transactions and confirmed that (i) the Transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and in accordance with the terms and conditions of the Investment Management Agreement and the supplemental agreements thereto, and (ii) the total consideration of the Transactions does not exceed the cap as stipulated by the Stock Exchange in the waiver, namely the higher of either HK\$10,000,000 or 3% of the audited consolidated net tangible asset of the Company as disclosed in the Company's latest published accounts.

DIRECTORS' INTEREST IN SHARES

As at December 31, 2002, the interests of the Company's directors in the shares of the Company were stated as follows:

Name of director	Personal interest	Other interest
Mr. Chao Hsihsiang	—	35,690 <i>(Note (a),(b))</i>
Mr. Chiang Chingyee	51,000	4,227 <i>(Note (c))</i>

Notes:

- (a) Mr. Chao Hsihsiang has a 33% interest in Tong Yuan International Ltd. which in turn holds a 1.12% interest in the Company.
- (b) Mr. Chao Hsihsiang has a 1.18% interest in Ruentex Development which in turn holds a 2.56% interest in the Company.
- (c) Mr. Chiang Chingyee has 4.27% beneficial interest in Great China Metal Ind. Co., Ltd. which in turn holds a 1.11% interest in the Company.

DIRECTORS' REPORT *(Cont'd)*

DIRECTORS' INTEREST IN CONTRACTS

Other than the Investment Management and Administrative Agreements described above, no contracts of significance to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year.

At no time during the year was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2002, those persons or corporations having an interest of 10% or more in the issued share capital of the Company required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance were as follows:

Name	Number of shares	%
Ariel Fund Limited ("Ariel")	1,170,842 <i>(Note a)</i>	13.15
Mr. J. Ezra Merkin	1,964,500 <i>(Note b)</i>	22.06

Notes:

- (a) The shares are registered in the names of Horsford Nominees Limited and Ariel.
- (b) Mr. J. Ezra Merkin was deemed, for the purpose of the Securities (Disclosure of Interests) Ordinance, to be interested in 1,170,842 shares and 793,658 shares owned by Ariel and Gabriel Capital, L.P. ("Gabriel") respectively by virtue of his ownership in the issued share capital of Ariel and Gabriel.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at December 31, 2002.

DIRECTORS' REPORT *(Cont'd)*

INVESTMENTS

Details of the top ten holdings of listed investments and unlisted investments as at December 31, 2002 are set out on pages 11 and 15 respectively.

PENSION SCHEME AND COSTS

As the Company is managed by the Investment Manager, the Company has no employees and does not have any liability or cost in connection with employees' pension schemes or retirement benefits.

MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Company's income is derived from the Company's investments and bank deposits and the disclosure of information regarding customers would not be meaningful. The Company has no major suppliers requiring disclosure.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended December 31, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

DIRECTORS' REPORT *(Cont'd)*

AUDITORS

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

On behalf of the Board

WU, CHOI SUN WILLIAM

Executive Director

Hong Kong, March 20, 2003