

**SHANGHAI INTERNATIONAL  
SHANGHAI GROWTH INVESTMENT LIMITED**

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

**ANNUAL REPORT 2003**

上  
海

INVESTMENT MANAGER

**SHANGHAI INTERNATIONAL ASSET MANAGEMENT (H.K.) CO., LTD.**

# CONTENT

	<b>PAGE</b>
<b>Corporate Information</b>	2
<b>Board of Directors' Statement</b>	3
<b>Operations Review</b>	
Market Review	6
Listed Investments Review	9
Unlisted Investments Review	13
<b>Directors' Report</b>	24
<b>Auditors' Report</b>	36
<b>Income Statement</b>	38
<b>Balance Sheet</b>	39
<b>Statement of Changes in Equity</b>	40
<b>Cash Flow Statement</b>	41
<b>Notes to the Financial Statements</b>	42
<b>Financial Summary</b>	52

## CORPORATE INFORMATION

### Directors

#### *Executive Directors:*

Mr. Wu, Choi Sun William

Dr. Xue, Wanxiang

Mr. Lin, Bin \*

#### *Independent Non-Executive Directors:*

Mr. Ong, Ka Thai

Mr. Yick, Wing Fat Simon

#### *Other Non-Executive Directors:*

Mr. Cai, Nongrui

Mr. Chao, Hsi-hsiang

Mr. Chen, Chi-chuan

Mr. Chiang, Ching-yee

Mr. Chiu, Tak-chiang

(also known as Yau, Tak-chiang)

Mr. Hu, Jinggang

Mr. Sun, Tao-tsun

Mme. Yin, Wong Yee-fan

Dr. Wang, Changhong

Mr. Zhou, Youdao

Dr. Hsu, Chih-chang <sup>+</sup>

### Company Secretary

Mr. Liang, Kwan Wah Andrew

### Investment Manager

Shanghai International Asset

Management (H.K.) Co., Ltd.

4412-13 Cosco Tower,

Grand Millennium Plaza,

183 Queen's Road Central, Hong Kong

Room 1203-4 Aetna Tower,

107 Zun Yi Road,

Shanghai 200051, China

### Legal Advisers

#### *In Hong Kong:*

Charltons Solicitors & Notary Public

#### *In the Cayman Islands:*

Maples and Calder

### Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

### Custodian

State Street Bank and Trust Company

### Share Registrars and Transfer office

Secretaries Limited

G/F, BEA Harbour View Centre,

56 Gloucester Road, Wanchai,

Hong Kong

### Registered Office

Ugland House, P.O. Box 309

George Town, Grand Cayman,

Cayman Islands

\* Resigned in June 2003 and replaced by Dr. Xue Wanxiang

<sup>+</sup> Resigned in March 2003 and replaced by Mr. Chen Chi-chuan

## BOARD OF DIRECTORS' STATEMENT

The Board of Directors (the "Board") of Shanghai International Shanghai Growth Investment Limited (the "Company") is pleased to present the eleventh annual report for the year ended December 31, 2003.

### REVIEW OF RESULTS

The Company recorded an after-tax profit of US\$3,170,731 for the year ended December 31, 2003, compared with a net profit of US\$1,624,754 in 2002. The improved operating results were primarily attributable to the dividend received from one of the unlisted investments arising from gain on disposal of its property investment. Furthermore, the write back of prior years' provisions for Hong Kong profits tax also contributed to the increase in profits. On the other hand, the Company's continued efforts in maintaining a prudent approach in managing its listed portfolio has resulted in a slightly lower dividend income from listed securities compared with last year. During the year, the Company's dividend income from unlisted and listed investments amounted to US\$3,355,229, with a net realized gain on disposal of investments at US\$117,920.

During the year under review, the Company paid a combined 2002 year-end and special dividend of US\$0.40 per share. Notwithstanding the dividend distribution, the Company's net asset value ("NAV") per share as at December 31, 2003 was US\$6.06, a 3.06% increase compared with the NAV per share of US\$5.88 in 2002 or a 10.58% increase when compared with the ex-dividend NAV per share in 2002. As at the end of December 2003, the Company's share price was US\$3.60 (2002: US\$2.80), reflecting a 40.59% discount to NAV per share and a 42.86% improvement before payment of 2002 dividends.

The Hang Seng Index ("HSI") and the Hang Seng China Enterprise Index ("HSCEI") were up 34.9% and 152.2% respectively in 2003. That change indicated a breakthrough from the three consecutive years of negative return and high volatility arisen from both political and economic uncertainties in Hong Kong, which still pose an overhang in the stock market during the year.

While the Company continued to adopt a conservative approach in managing listed securities throughout the year, it was more optimistic in its investment selections due to macro improvements. By the end of December 2003, the Company's listed portfolio registered a 20% gain for the year.

### CORPORATE GOVERNANCE

#### Board of Directors

The Board recognizes that sound corporate governance practice and greater transparency are germane to solidify investors confidence and asset growth and is therefore fully committed to the best practice of corporate governance.

## BOARD OF DIRECTORS' STATEMENT *(Cont'd)*

The Company is pleased to have a strong Board a majority of which is non-executive directors with diverse backgrounds who nonetheless share a common investment philosophy. Their well of management experience contributes to the direction of the Company. It is expected that the Board will continue with its commitment to guide the Company's business activities and maintain the highest standard of corporate governance in compliance with governing rules and regulations.

### **Change of Director**

Subsequent to the last annual general meeting of the Company, Mr. Lin Bin resigned as an Executive Director of the Company and was replaced by Dr. Xue Wanxiang.

### **Audit Committee**

The Company's Audit Committee has been established since 1999 and currently comprises Mr. Yick Wing Fat, Simon (its Chairman), Mr. Ong Ka Thai and Mr. Chen Chi-chuan, all of whom are non-executive directors of the Company, with two of them being independent. The terms of reference based on "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants in February 2002 was adopted by the Board to deal clearly with the authority and duties of the Audit Committee. It meets at least twice annually with the external auditor to discuss the interim results and annual audit.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report of the Company for the year ended December 31, 2003.

## **DIVIDEND AND DIVIDEND POLICY**

Subject to approval by shareholders at the annual general meeting of the Company to be held on May 11, 2004, the Board recommends a final dividend of US\$0.30 per share and a special final dividend of US\$0.50 per share in cash for 2003, representing a 18.93% return on the market share price at the time of announcing such dividend. If approved, both dividend will be paid concurrently on or before June 2, 2004 to shareholders whose names appear on the Company's Register of Members on May 11, 2004.

## **CLOSING OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from May 4, 2004 to May 11, 2004, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the above-mentioned dividend, 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. on May 3, 2004.

## BOARD OF DIRECTORS' STATEMENT *(Cont'd)*

### OUTLOOK FOR 2004

Though China's 7% GDP target for 2004 is well below 2003's 9.1%, the Board is of the view it is an indication of China's desire to retain sustainable and steady growth. The Company is confident that investment opportunities will continue to arise in China with better selections and asset qualities. Underlying rationale of that confidence stems from the continuing addition of growth source in the China market such as the expansion of capital equipment and capital construction cycle, migration of rural labor to urban areas to provide sufficient labor pool. Also the ongoing reform in many sectors provides a more regulated framework to protect investors' interests.

On the domestic front, Hong Kong begins to emerge slowly from its doldrums of SARS, high unemployment rate, depressed property market and other factors that have plagued the city in the past six years. The much lower than speculated fiscal deficit for 2003, the cyclical recovery and robust growth in consumer demand, property sales and increasing arrival of mainland visitors boost hope for employment and consumer spending.

Putting politically motivated shenanigans aside, the Board is optimistic that benefiting from China's stellar growth in the past and healthy and steady trend in the future, the Company will continue to identify good investment prospects in the market to upgrade the asset quality of its portfolio and enhance shareholders value.

On behalf of the Board,  
**Wu Choi Sun, William**  
*Executive Director*

March 22, 2003

## OPERATIONS REVIEW

### MARKET REVIEW

#### China Economy

Set forth below are the major economic indicators of China:

Growth (year-on-year %)	2002	1H 2003	2003
Gross domestic product ("GDP")	8.0	8.2	9.1
Value added industrial output ("VAIO")	10.2	16.2	12.6
Retail sales	8.8	8.0	9.1
Consumer price index ("CPI")	-0.8	0.6	1.2
Fixed asset investments	16.1	31.1	26.7
Actual foreign direct investments ("FDI")	12.5	34.3	1.4
Exports	22.3	34.0	34.6
Imports	21.2	44.5	39.9
Trade surplus (US\$ billion)	30.4	4.5	25.5
Foreign exchange reserve (US\$ billion)	286.4	346.5	403.3

Source: Published information

Despite the Iraqi war which dampened export in the first quarter, setback caused by Severe Acute Respiratory Syndrome ("SARS") in the second, Central Bank's increase in bank reserve requirements from 6% to 7% in the third, and rising commodity prices during the year, China's GDP for 2003 surged to USD1.41 trillion, or grew by 9.1% on year-on-year basis, representing the highest growth since 1997.

VAIO reached USD647.5 billion, translating into a 12.6% year-on-year growth, highest since 1998. The accelerating growth of VAIO could be attributable to the robust growth in both domestic and export demands, together with strong fixed asset investments. Output of automobiles, micro computers and power generating equipment had grew at a remarkable pace, with year-on-year growth rates of 84.99%, 119.79% and 74.49%, respectively during the year.

China had thoroughly shaken off deflation and resumed growth in 2003. In sync with the government's policy to foster a healthy growth of consumer spending, retail sales in China in 2003 grew at a healthy and mild rate of 9.1%. Although CPI was picking up since October, CPI for the whole year kept at 1.2% despite the nation's robust economic development in the past years, reflective of Beijing's close monitoring of the growth rate by employing monetary and fiscal tightening if inflation developed and appeared to run out of control. A good example is the increase in reserve requirement for banks as mentioned above.

## OPERATIONS REVIEW *(Cont'd)*

### MARKET REVIEW *(Cont'd)*

#### China Economy *(Cont'd)*

FDI was up slightly at 1.4% to US\$53.5 billion in 2003, largely attributable to the outbreak of SARS and subsequent international travel restrictions which delayed the start of many transactions for the year. According to the Ministry of Commerce, China's actual FDI registered a consecutive five-month slide in November 2003, but this trend is not likely to extend to 2004. Contractual FDI, an indicator of future trend, reached US\$115.1 billion in 2003, or 39.0% higher than that in 2002. Though the U.S. replaced China in having attracted the most FDI in 2003, given China's vast labor force of 750 million which is more than the total in all the OECD countries, China is still capable of providing an ideal outsourcing hub for many products which in turn would cast a downward pressure on the cost of manufactured goods and offers incentives for FDI. Apart from external demand, the growing domestic demands will lead to more investments and production of goods to meet those demands. With increasing consumer demands, rapid urbanization process, ongoing reform of regulatory framework, continuous need for raw materials in the capital equipment replacement and capital construction cycles, leadership pragmatism to steer the nation towards achieving the objective of building a "xiao kang" (small scale affluence) society, China is still adding sources of growth to its economy and will therefore, if anything, likely to speed up in 2004 rather than slowing down.

Trade surplus narrowed to US\$25.5 billion for the year from US\$30.4 billion in 2002 due to stronger import growth, although both export and import figures soared more than 30% year-on-year. Exports soared 34.6% in the year from 22.3% in 2002, attributable to the strong global demand recovery and weakening U.S. dollar in the foreign exchange market. Import growth during the same period also recorded an impressive figure at 39.9%, ahead of 21.2% in 2002. Trade data for December was particularly strong, with exports jumping 50.7% year-on-year, which was the fastest pace since March 1995.

#### Hong Kong Economy

Hong Kong's GDP for 2003 was HK\$1,367.6 billion, or grew by 3.3% on a year-on-year basis. The Special Administrative Region's economy in general was at its abyss during the outbreak of SARS in the second and third quarters, but then rebounded remarkably thereafter. The full year's GDP growth was mainly attributable to the containment of SARS, signing of Closer Economic Partnership Arrangement ("CEPA") with China which allows, among other things, hundreds of goods and services to have lower or zero tariff if they fulfill the criteria of manufacturing origin in Hong Kong. China's relaxation on visa requirements and processing time for mainlanders to visit Hong Kong under the 'individual visit' scheme in the post-SARS period has a positive impact on the retail sector and consumer sentiments as well.



## OPERATIONS REVIEW *(Cont'd)*

### MARKET REVIEW *(Cont'd)*

#### Hong Kong Economy *(Cont'd)*

Impact of SARS on Hong Kong's economy severely affected the retail and tourism-related sectors in particular during the period. GDP recorded a 0.5% year-on-year decline in real term in the second quarter, or 3.7% year-on-year fall on a seasonally adjusted basis. The subsequent containment of SARS and the launch of the individual visit above-mentioned in late July 2003 had since resulted in conspicuous rebound in tourism-related businesses, retails, restaurants, etc. Sharp resurgence in visitor arrivals from China was catalytic to the recovery of retail spending and consumer sentiments.

For 2003 as a whole, the unemployment rate averaged 7.9%. Unemployment rate reached a record high of 8.7% for the three months ended July 2003. The Government's launch of a series of promotion to visit Hong Kong showed initial recovery in economic activities in late 2003 with unemployment rate declining to 7.3% in the fourth quarter on a seasonally adjusted basis. Job openings in general became extensive in many sectors and in particular the tourism-related ones. Improved employment conditions, willingness of local consumer spending, private consumption expenditure increase were on the rise for the first time in two years.

The signing of CEPA between China and Hong Kong further provided impetus to improved fundamentals to the local economy. CEPA in general covers three broad areas, namely trade in goods, trade in services, and trade and investment facilitation. In accordance with that arrangement, some 273 export items from Hong Kong to China are qualified for zero tariff should they meet the 'made in Hong Kong' criteria for source origin. The arrangement opens new opportunities for more goods and services to access entry into China which in the past were set at relatively high entry barriers. It also strengthens Hong Kong's gateway status to develop business with China from or via Hong Kong.

Hong Kong's budget deficit for 2003 ended much lower than earlier estimates with the help of investment returns of the Exchange Funds. The Government has and plans to continue to reduce operating expenditure, and estimates 2004 real growth rate to rise to 6%. Mortgage borrowers are given two more years from 5 to 7 for their interest payments. The scheme for mainlanders to get job visas in Hong Kong introduced last July is an important move to open up the bottleneck in Hong Kong in her strive to undergo structural reform towards a more skilled and knowledge-based economy.

## OPERATIONS REVIEW (Cont'd)

## LISTED INVESTMENTS REVIEW

## Listed Securities Portfolio

As at December 31, 2003

Name of Stock	Nature of Business	Number of Shares held	% held of total issued shares	Cost US\$	Market value US\$	% of net asset value	Dividend received	Original currency
Anhui Conch Cement	Production & sales of cement	200,000	0.0462%	226,238	257,629	0.48%	—	—
APT Satellite	Operation of satellite telecommunication services	2,877,000	0.6962%	1,246,363	880,174	1.63%	—	—
Chalco	Production & distribution of aluminium	400,000	0.0145%	252,115	304,002	0.56%	—	—
Cheung Kong	Investment holding & project management	90,000	0.0039%	945,830	715,887	1.33%	18,493	HKD144,000
China Unicom	Telecommunication services	500,000	0.0040%	582,944	466,953	0.87%	6,041	RMB50,000
CMC Magnetics	DVDR	500,000	0.0156%	381,140	387,049	0.72%	—	—
Ene Technology Inc. *	Cardbus and IC products	558,000	2.0411%	580,915	656,954	1.22%	—	—
Hutchison Whampoa	Diversified corporation	128,000	0.0023%	1,261,206	943,953	1.75%	28,451	HKD221,440
Sinopec Corp	Production & distribution of petrochemical in China	600,000	0.0036%	234,899	268,578	0.50%	—	—
TSMC	Production & sale of semiconductor chips	226,800	0.0011%	381,426	423,894	0.79%	—	—
TOTAL				6,093,076	5,305,073	9.84%		
OTHER LISTED SECURITIES				1,338,278	1,417,839	2.62%		
TOTAL LISTED INVESTMENTS				<u>7,431,354</u>	<u>6,722,912</u>	<u>12.46%</u>		

\* Included 481,500 shares in relation to investment made in 2002 as unlisted securities and were reclassified as listed securities at the time when Ene Technology Inc. becomes listed during 2003.

## OPERATIONS REVIEW *(Cont'd)*

### LISTED INVESTMENTS REVIEW *(Cont'd)*

The Hang Seng Index (“HSI”) and the Hang Seng China Enterprise Index (“HSCEI”) were up 34.9% and 152.2% respectively in 2003. That change indicated a breakthrough from the three consecutive years of negative return and high volatility arisen from both political and economic uncertainties in Hong Kong which posed an overhang in the stock market during the year.

In the first quarter, investor sentiments fell at the U.S. led coalition military action against Iraq and the surge in unemployment rate back home. The global equity market in general remained sluggish during that period. SARS outbreak exacerbated investment sentiments even lower in late March with HSI down 7.4% in the quarter, heading to the lowest level since October 1998. Despite those unfavorable factors, HSCEI increased 9.9% during the quarter due to the surge in energy demand and commodity prices, which added value to the performance of related sectors like basic materials, oil and gas, and petrochemical.

During the second quarter, the U.S. stock market showed a turnaround situation with Fed funds rate dropped to a 45-year low, together with the US\$350 billion tax cuts package designed to stimulate the economy. In Hong Kong, SARS continued to dent the local economy. Tourism-related sectors continued to be adversely affected with virtual halt of tourist arrivals. Passenger load of the two local airlines reduced by almost 70% and hotel occupancy rate ran a historical low of 15% in April and most of May. Higher unemployment rate and poor consumer sentiments added weight to the feeble economy, particularly in the retail sector. HSI hit the four-year low at 8,331.87 in late April.

In May and June, better outlook in the U.S. stock market and expectation that SARS could be contained saw the local stock market began its climb with HSI rallying 10.9% during the quarter. HSCEI continued to show its spectacular performance of 24.7% increase during the quarter.

In the third quarter, momentum of the local market’s rebound continued with regain in investment sentiments driven by the better-than-expected recovery of Hong Kong’s economic activities, the signing of CEPA as well as the containment of SARS. The retail sector experienced a turnaround, particularly after the launch of the ‘individual visit’ scheme for mainland visitors to Hong Kong in late July. Property sector showed a revival in the number of transactions registered. HSI was up 17.3% in the third quarter, reaching a 15-month high in late September. Retail and property counters, consequently, took the lead. Raw materials, base metals and petrochemical stocks moved higher and pushed HSCEI up another 18.2% in the quarter.

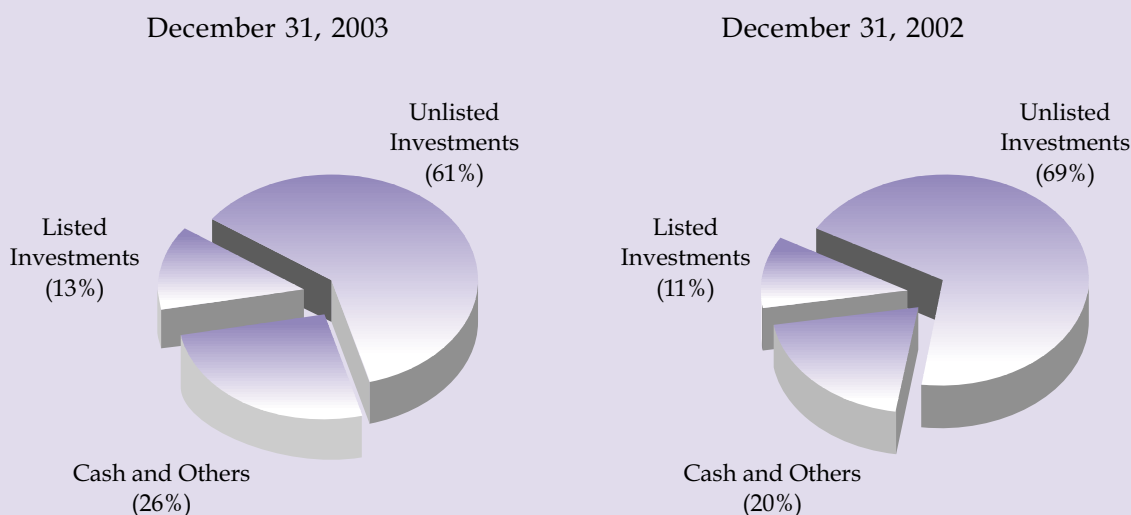
## OPERATIONS REVIEW *(Cont'd)*

### LISTED INVESTMENTS REVIEW *(Cont'd)*

Optimistic that the low interest rate cycle would prevail, the global equity market continued to rise in the fourth quarter. The U.S. market reached a 19-month high by December on expectation of better economic outlook in 2004. The local market was more pronounced with unemployment rate fell to 7.3% in the fourth quarter from the year high of 8.7%. Massive influx of tourists from the mainland pushed up the retail sales figure to a 6.7% growth in December - largest increase since January 2003. For the whole year, retail sales still declined by 2.3% to HK\$172.9 billion. HSI rose another 12% in the quarter, reaching a 28-month high in late December. HSCEI rocketed 55.9% in the quarter, due to China's stellar economic growth and rise in commodity prices. As a result, resources, basic materials and petrochemical stocks were leading sectors for the quarter.

While the Company continued to adopt a prudent approach in managing listed securities throughout the year, it was more optimistic and encouraged in its investment selections due to improvements in the macro. By the end of December 2003, the Company's listed portfolio registered a 20% gain for the year.

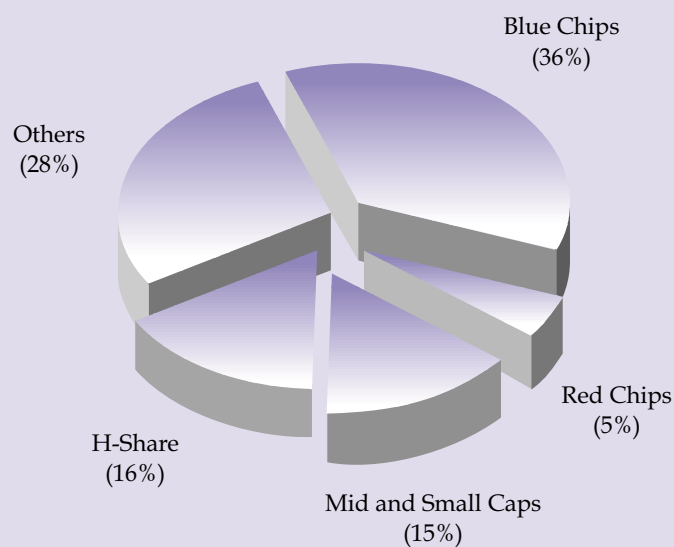
#### Investment Allocation



## OPERATIONS REVIEW *(Cont'd)*

### LISTED INVESTMENTS REVIEW *(Cont'd)*

#### Listed Securities Portfolio Allocation



#### Investment Performance

	Total Relative Performance		
	1 year	2 years	3 years
The Company's Listed Securities Portfolio	20%	5%	-22%
Hang Seng Index	35%	10%	-17%
Hang Seng Midcap Index	50%	39%	19%
Hang Seng China Enterprise Index	152%	186%	209%
Hang Seng China Affiliated Corp Index	41%	7%	-13%
Shanghai B-Share Index	-7%	-39%	18%
Shenzhen B-Share Index	46%	3%	98%
Peregrine Greater China Index	64%	56%	36%

## OPERATIONS REVIEW (Cont'd)

## UNLISTED INVESTMENTS REVIEW

## Unlisted Investments

As at December 31, 2003

Committed Investments	Nature of business	% of equity interest	Amount committed US\$	Amount invested at cost US\$	Carrying value of investment at 31.12.2003	% of net asset value	Dividend income US\$	Accumulated dividend income US\$
					US\$			
Shanghai Lian Ji Synthetic Fibre Co., Ltd. ("Lian Ji")	Chemical Fibres	11.1	6,121,600	6,121,600	6,121,600	11.35	—	1,994,331
Suzhou Taihai Automobile Ferry Wharf Co., Ltd. ("Taihai Ferry")	Automobile Ferries	31	1,119,972	1,119,972	1,119,972	2.08	560,994	1,848,892
Concord Greater China Limited ("CGC")	Hyper Markets	10.85	8,700,000	8,700,000	11,400,000	21.14	—	6,075,000
Shanghai Well Bright Food Co., Ltd. ("Well Bright")	Frozen Prepared Food	27.83	3,960,000	3,960,000	3,960,000	7.34	256,699	403,248
Everflow Capital Limited	Property Investment	19	2,185,000	2,185,000	2,185,000	4.05	2,413,000	2,413,000
Zhejiang Huguang Heat & Power Co., Ltd. ("Zhejiang Huguang")	Power Supply	25	2,980,000	2,980,000	451,515	0.83	—	2,058,910
Semiconductor Manufacturing International Corporation ("SMIC")	Semiconductors Chips	0.4	6,024,251	6,024,251	6,024,251	11.17	—	—
Sino-Wood Partners, Limited	Timber Plantation	N/A *	1,800,000	1,800,000	1,800,000	3.34	—	—
Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin")	Pharmaceuticals	20	1,924,000	1,924,000	—	—	—	—
Shanghai Hua Yin Warehouse Co., Ltd.	Warehousing	34.9	1,047,000	1,047,000	—	—	—	—
Shanghai Xinpu Transportation Co., Ltd.	Ground Transportation	34.9	698,000	698,000	—	—	—	—
			<u>36,559,823</u>	<u>36,559,823</u>	<u>33,062,338</u>	<u>61.30</u>	<u>3,230,693</u>	<u>14,793,381</u>

\* No percentage of equity interest can be presented as the investment is a debt security.

Note:

- (1) The Company disposed its investment in Harbin Brewery Group Limited in the year 2003.
- (2) The Company has classified the investment in Ene Technology Inc. as Investment in Listed Securities at the time it was listed in the year 2003. Details are set out on page 9.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

During the year under review, the Company's unlisted investments portfolio comprised of 11 investments, with a total fair value of US\$33,062,338 as at the end of December 2003.

Despite the adverse impact of SARS in the first half of 2003, China's economic growth remained robust with an overall GDP growth of 9.1% for the year, a record high since 1997.

The Company continued to adopt a stringent and thorough investment policy to enhance the asset quality of its portfolio. Sino-Wood Partners Limited, a convertible note investment with a return of 4% annual coupon rate, was the only investment made during the year 2003.

For divestment and/or exit strategies, the Company continued to gain solid progress in various investment projects:

- The HK\$14 million convertible note investment in Harbin Brewery Group Limited ("HBGL") were fully converted into ordinary shares upon HBGL obtaining listing status on the Stock Exchange of Hong Kong Limited. The entire shareholding was subsequently disposed in January 2003 with an investment return of nearly 40%.
- Upon completion of capital reduction by Taihai Ferry and the Company's 3% share sale along the process, the Company's equity stake in Taihai Ferry was reduced to 31%. Return on capital refund and share sale proceeds of RMB13,352,922 or approximately US\$1,613,178 were received in 2003.
- Pursuant to ruling against the Company on the arbitration against Well Bright, the Company negotiated with the other shareholder of Well Bright and successfully reached consensus to distribute dividends from Well Bright's accumulated profits for two consecutive years. The Company received its profit entitlement of US\$415,248 and US\$12,000 for compensation of equity dilution.
- Everflow Capital entered into a conditional sale and purchase agreement with a third party purchaser to dispose its 100% stake in Samson Assets, which sole underlying asset was the Aetna Tower in Shanghai. The Company received a profit distribution of US\$2,413,000 from the proceeds.
- SMIC successfully obtained its dual listings in Hong Kong and the United States in the first quarter of 2004.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

- Ene Technology Inc. began trading on the OTC market in Taiwan on April 22, 2003.
- GSMC International Limited continued to honor its obligation by repaying half of the Company's invested capital with accrued interest.

Almost all new investments made in recent years are progressing well and their subsequent development have enhanced the asset quality of the Company's investment portfolio.

#### 1. Shanghai Lian Ji Synthetic Fiber Co., Ltd. ("Lian Ji")

Situated in the Pudong area of Shanghai Municipality, Lian Ji manufactures chemical fiber for the textile and chemical industries since 1994. In July 1995, the Company invested US\$6,275,000 in exchange for a 15% equity interest in Lian Ji. Subsequent to the Company's share sale to the other two shareholders in 2002 and enlargement in share capital by all shareholders agreeing to distribute the undistributed portion of accumulated profits in Lian Ji and applied the entire amount to invest in the Phase Three capacity expansion. As a result, the Company's investment in Lian Ji was adjusted to US\$6,121,600, representing 11.1% of the enlarged share capital.

During 2003, the synthetic fiber market was extremely volatile due to the war in Iraq, the SARS outbreak and the sudden surge in cotton price. As a result, Lian Ji reported an audited operating loss of US\$2,393,733 for 2003, compared with a profit of US\$1,776,588 in the preceding year. However, with contribution of revenue derived from outsourced production of the synthetic fiber by Suzhou Dupont, unaudited revenue for the year increased by 37.53% to US\$140,072,124. Lian Ji began to export in 2003, with Malaysia being its first overseas market of 2,613.5 tons of short fiber, generating a revenue of RMB22,996,900 or approximately US\$2,780,762.

Lian Ji's third phase expansion to increase production capacity of synthetic fiber commenced its trial production in November 2003, it hope to achieve competitiveness in the market through the enlarged production capacity.



## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### 2. Suzhou Taihai Automobile Ferry Wharf Co., Ltd. ("Taihai Ferry")

Taihai Ferry was established in May 1995 to construct and operate a pier and ancillary transportation services between Taicang City and Haimen City in Jiangsu Province for a period of 25 years. The Company invested US\$2,661,440 in exchange for a 34% equity interest in Taihai Ferry.

In 2003, Taihai Ferry applied for capital reduction along with certain share transfer among its shareholders, including the Company's disposal of 3% of its interest, with relevant authorities. Both transactions obtained final approval from the State Administration of Foreign Exchange in August 2003 to remit the entire proceed in hard currency. The Company received a premium of RMB556,921.80 or approximately US\$67,342 in respect of its 3% share transfer. In aggregate, the Company received US\$1,544,122.08 arisen from both transactions in August 2003.

As a result of the above-mentioned exercise, the Company's investment in the registered capital of Taihai Ferry has been proportionately reduced to RMB9,300,000 (approximately US\$1,119,972), representing 31% of the registered capital.

Despite higher fuel prices, Taihai Ferry reported a 16.39% increase in turnover to RMB45,993,520 or approximately US\$5,561,490 comparing with the previous year. However, net profit dropped by 8.09% to RMB13,604,045 US\$1,644,987 primarily attributable to end of the tax holiday for being a sino-foreign joint venture, with a rise on applicable income tax rate from 12% to 27%.

The Company received RMB4,643,345 (approximately US\$560,994) in June 2003 for its 2002 dividend entitlement in Taihai Ferry.

#### 3. Concord Greater China ("CGC")

In September 1998, the Company entered into a contract with Concord Champion Ltd. ("CCL") to invest US\$8,700,000 for 22.48% of its equity interest. CCL is an investment holding company incorporated in the British Virgin Islands whose principal business is to invest in and develop hypermarkets in the PRC. In December 2000, CCL was restructured with the incorporation of a holding company called Concord Greater China ("CGC") to become its parent company. The Company's equity interest in CCL was correspondingly transferred to shares in CGC. After a series of capital injection in CGC by other shareholders of which the Company did not participate, the Company's equity interest in CGC at the end of 2003 was diluted to 10.85%.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### 3. **Concord Greater China ("CGC")** *(Cont'd)*

RT-Mart Shanghai Limited ("RTMS") and Jinan People's RT-Mart Limited ("RTMJ") are the two project holding companies under CGC, each with a number of hypermarkets in China, both rapidly developing their business in China.

In 2003, RTMS recorded a net profit of US\$12,279,849, more than double than that of last year. Turnover also increased by 38.24% to US\$588,943,754. RTMS continued its expansion strategy with 5 new stores opened in 2003, bringing the total number of stores under management to 22.

RTMJ recorded a turnover and net profit of US\$154,051,484 and US\$1,299,658, up 26.72% and 75.82% respectively as compared with last year. At the end of 2003, there are 9 stores under management by RTMJ. Thus a total of 31 stores are currently under management by both RTMS and RTMJ. However, after consolidating operating losses incurred by its joint venture partner, CGC recorded a consolidated net profit of US\$5,238,707 for the year 2003.

#### 4. **Shanghai Well Bright Foods Co., Ltd. ("Well Bright")**

Well Bright produces and distributes frozen prepared food in China and its customer base included Kentucky Fried Chicken and Pizza Hut. In March 1996, the Company invested US\$3,960,000 for a 30% equity interest in Well Bright. The remaining 70% equity was beneficially owned by Amazing Results Corporation ("Amazing Results").

Following the unsuccessful second attempt by the Arbitration Tribunal to mediate the differences between the Company and Amazing Results in March of 2003, the Arbitration Tribunal began its arbitration process. It adjudicated against the Company's favor. Given the outcome, the Company continued its quest to find a solution to reconcile its differences over the management of Well Bright with Amazing Results. On July 11, the shareholders came to an agreement to distribute profits made in the past two years. The Company received its entitlement of RMB3,440,940 or approximately US\$403,248 in September 2003.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### 4. Shanghai Well Bright Foods Co., Ltd. ("Well Bright") *(Cont'd)*

Amazing Results chose to plough back its share of dividend to re-invest in Well Bright. Consequently, the paid up capital of Well Bright was increased to US\$12,941,795, and the Company's 30% equity interest was proportionately diluted to 27.83%. The Company also secured a compensation of US\$12,000 as a result of its equity dilution.

In view of receipt of the aforesaid dividend, the Company has decided to fully write back the provision of US\$820,000 made in prior years.

#### 5. Everflow Capital Limited. ("Everflow Capital")

Everflow Capital is an investment holding company incorporated in the British Virgin Islands. Samson Assets Limited is its wholly owned subsidiary, which sole underlying asset is the investment in the construction of Aetna Tower, a quality commercial building in Shanghai. The Company's investment in Everflow Capital was US\$2,185,000, representing a 19% equity stake.

In 2003, Everflow Capital entered into a conditional sale and purchase agreement ("S&P") with a third party purchaser to dispose its 100% interest in Samson Assets Limited for a consideration of US\$23,775,000. The S&P is conditional upon, inter alia, approval by the creditor and release of certain guarantee to complete the transaction. Part of the consideration was paid and was received by Everflow Capital. That portion of the consideration was distributed as dividend to shareholders of Everflow Capital. The Company received its US\$2,413,000 in October 2003. Upon completion of the S&P, shareholders have agreed to dissolve Everflow Capital and the Company will exit from this investment entirely thereafter.

#### 6. Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang")

Zhejiang Huguang supplies thermal power and electricity to industrial users in Shaoxing City, Zhejiang Province. In June 1994, the Company invested US\$2,980,000 for a 25% equity stake in the company. According to the contract, the Company is entitled to a fixed annual return of US\$596,000 inclusive of principal and guaranteed return amortized over 11 years.

Given the continuing strong demand for electricity in China, Zhejiang Huguang reported an unaudited net profit of RMB1,679,356 or approximately US\$203,066 for the year 2003, a full recovery from a loss of RMB2,212,700 or approximately US\$267,557 the yearbefore. Turnover increased by 10.08% to RMB116,371,594 or approximately USD14,071,535.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### 6. Zhejiang Huguang Heat and Power Co., Ltd. ("Zhejiang Huguang") *(Cont'd)*

Subsequent to the Company's investment in Zhejiang Huguang, guarantee return made by any Chinese partner to its foreign counterparts in all sino-foreign joint ventures were decreed illegal by China in 1998, on ground such arrangement tantamount to a debt instrument and is not a genuine equity partnership in its true sense. That gauntlet created an instant impasse on the existing arrangement between shareholders of Zhejiang Huguang.

Notwithstanding the twist of event, the Company continued to negotiate for its annual guarantee entitled up to its being informed of the new regulation. In July 2003, it received from Zhejiang Huguang the payment of of RMB4,900,000 or approximately US\$592,203 for its 2000 dividend. The sum awaits approval from the State Administration of Foreign Exchange to allow its repatriation in hard currency.

In continuing effort to resolve the stalemate, the Company is in close discussion with its joint venture partner in Zhejiang Huguang. Mindful of the Chinese company to gradually unload shareholdings in enterprises to private investments, present management of Zhejiang Huguang contemplates to pursue a management buy-out. Such exercise requires, among other factors, consent from the other shareholders. The Company is in discussion with the management to assist in its quest for the capital restructuring process with the objective to resolve outstanding issues of past due dividends and subsequent exit from the investment if possible. Since the process entails encompassing considerations by all parties concerned, it is not clear if such endeavor would accomplish the Company's objective or not.

#### 7. Semiconductor Manufacturing International Corporation ("SMIC")

SMIC is a holding company incorporated in the Cayman Islands. It is a single purpose company by having 100% investment in Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"). The principal business of SMIC Shanghai is in the manufacturing of semiconductor chips, which includes wafer fab, process technology, IC design service, etc. The Company has an aggregate investment of US\$6,024,251 in the first preference shares issued by SMIC.

SMIC continued its rapid development both technologically and scale expansion in 2003. Currently, domestic demand far outstrips supply and China is heavily reliant on imports of semiconductor chips. While this dependence will narrow over time, SMIC is well positioned to emerge as one of the leading chip manufacturers in the Chinese domestic market. In 2003, wafer production accounted for 95% of its total revenue, with communication and computing sectors being the major revenue contributors.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### 7. Semiconductor Manufacturing International Corporation ("SMIC") *(Cont'd)*

SMIC's fund raising activities continued in 2003. On September 13, SMIC successfully finished its US\$630 million private placement. The capital raised will be used for the expansion of the three fabs in Shanghai as well as the development of the new 12-inch wafer fab facility in Beijing. On October 24, Motorola (China) also entered into a long-term strategic arrangement with SMIC by transferring its MOS-17 wafer fabrication facility in Tianjin in exchange for an equity in SMIC. In addition, both parties agreed to cooperate in developing patent and advanced CMOS process technologies.

SMIC has obtained clearance for dual listing in Hong Kong and the United States on March 18, 2004, by offering 3 billion new shares and 1.54 billion old shares, with IPO price for each American depositary share ("ADS") at US\$17.50, each ADS is equivalent to 50 ordinary shares.

Subsequent to the balance sheet date, the Company converted its investment in preference shares to ordinary shares upon the listing of SMIC on March 18, 2004. As part of the agreements between SMIC and its pre-IPO investors, the Company elected to dispose part of its converted ordinary shares along with others in the global offering, the remaining shares on hand are subject to ongoing investor obligations and lock-up of 3 years with bi-annual opening for original shareholders to dispose, if so elect, a certain percentage of their outstanding positions.

#### 8. Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin")

Hua Xin was founded in 1993 by a member of the Chinese Academy of Science. The company specializes in the production and development of various anti-cancer drugs. In December 1995, the Company invested US\$2,405,000 in exchange for a 25% equity in the venture. In February 2000, the Company sold 5% of its interest in Hua Xin to Shanghai De Chang Company Limited for US\$266,053 and retains a 20% equity interest in the company.

Lacking block buster products and inadequate distribution networks, Hua Xin reported an unaudited loss of RMB7,183,569 or approximately US\$868,630 for 2003, despite a 72.65% increase in revenue to RMB 17,666,772 or approximately US\$2,136,248.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### 8. Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin") *(Cont'd)*

There are three new products waiting to be launched in 2004. The first one is needle injection type Interferon, which has been granted GMP by the Chinese government. However, severe market competition still hampered its sales. Another two new products, capsule type Interferon and GM-CSF, have both reached the final stage of vetting and approval process for production.

Given the past operating losses and a relatively high debt-equity ratio, whether or not Hua Xin can continue as a viable ongoing concern leaves much room for speculation. Full provision on value of this investment has been recommended at the end of the year.

#### New Investment

##### Sino-Wood Partners, Limited ("Sino-Wood")

In February 2003, the Company entered into an agreement with Sino-Wood, a wholly owned plantation subsidiary of Sino-Forest, to subscribe for US\$1,800,000 worth of its convertible notes ("Notes") maturing in 18-months with a semi-annual coupon rate of 4% per annum. Pursuant to the subscription agreement, should Sino-Wood obtain listing approval on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), Notes held by the Company will be converted into ordinary shares of Sino-Wood according to a prescribed formula. The Company is given to understand that Sino-Wood is in preparation to apply for listing on the main board of the Stock Exchange.

For the third quarter of 2003, Sino-Forest, the Toronto listed parent company of Sino-Wood, reported an audited net profit of US\$12.1 million, up 56%, compared to last period. Revenue also increased by 37% to US\$79.1 million. The significant increase in net profit was due to continuing strong performance in the plantation business. In particular, sale of standing timber increased from 1,700 hectares in the third quarter of 2002 to 5,789 hectares in the third quarter of 2003.

The Company duly received from Sino-Wood the semi-annual coupon interest payment of US\$28,405 and US\$36,295.89 on August 1, 2003 and February 2, 2004 respectively.



## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### Exited Investments

##### Ene Technology Inc. ("ETI")

ETI specializes in the design and production of Cardbus & Cardbay IC products, which are widely used in portable electronic devices such as PDAs and notebook computers. ETI's main clients include first tier notebook manufacturers in Taiwan. Prior to its listing, the Company subscribed for 400,000 shares in ETI since September 2002, representing an investment of US\$498,227. The number of holdings by the Company was subsequently increased to 481,500 after two distributions of script dividends by ETI in 2002 and 2003.

ETI began trading on the OTC market in Taiwan on April 22, 2003. Due to the stringent requirement to obtain certification of these IC products from clients, there are currently only five companies in the world who are fully certified to have the requisite technology. In that regard, ETI has a two to three years' lead time in technology ahead of its peers in Taiwan.

Due to strong sales in notebook and PC, ETI recorded a 104% increase for the first nine months of 2003 in its audited turnover to NT\$427,000,000 or approximately US\$12,558,824. Earnings per share for the first nine months jumped 2.45 times to NT\$2.23 or approximately US\$0.07 as compared to the last corresponding period. As at December 31, ETI's share price was NT\$40 or approximately US\$1.18.

Due to the listing of ETI's shares in 2003, the Company's investment in ETI was classified as listed securities investment.

##### GSMC International Limited ("GSMCI")

The Company invested US\$500,000 in GSMCI in December 2000. Due to GSMCI's inability to raise the prescribed minimum amount of capital within a stipulated time frame after signing of the agreement, the Company exercised its contractual option by lodging a formal request to GSMCI for the refund of US\$500,000 plus accrued interest beginning from the initial date of investment.

As at the end 2003, the Company has recovered half of its invested capital plus interest payment of US\$91,313.

The Company will continue its effort to recover the remaining balance of investment principal plus accrued interest at a rate of 8% per annum on outstanding principal within the soonest practicable time.

## OPERATIONS REVIEW *(Cont'd)*

### UNLISTED INVESTMENTS REVIEW *(Cont'd)*

#### Exited Investments *(Cont'd)*

##### Harbin Brewery Group Limited ("HBGL")

The Company subscribed for a HK\$14,000,000 (approximately US\$1,800,000) convertible bond ("CB") issued by HBGL on October 29, 2001. The Company had flexibility either to convert the CB into ordinary shares at IPO price when HBGL went on IPO or to redeem in full plus the coupon rate. On June 27, 2002 HBGL became listed on the main board of the Hong Kong Stock Exchange.

On January 7, 2003, the Company converted the entire CB into HBGL's ordinary shares six months after its listing. The Company then disposed its entire stake in the market and achieved approximately 40% return on investment in 14 months.



## 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, 2003.

### PRINCIPAL ACTIVITIES

The Company is an investment company which 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, 2003 are set out in the income statement on page 38.

The Board proposes the payment of a final dividend of US\$0.30 per share and a special final dividend of US\$0.50 per share in cash for 2003.

### 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 statement of changes in equity on page 40.

## 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. Wu, Choi Sun William	
Dr. Xue Wanxiang	(appointed on June 1, 2003)
Mr. Lin, Bin	(resigned on June 1, 2003)

*Independent Non-Executive Directors:*

Mr. Ong, Ka Thai  
Mr. Yick, Wing Fat, Simon

*Other Non-Executive Directors:*

Mr. Cai, Nongrui  
Mr. Chao, Hsi-hsiang  
Mr. Chiang, Ching-yee  
Mr. Chiu, Tak-chiang  
(also known as Yau, Tak-chiang)  
Mr. Hu, Jिंगgang  
Mr. Sun, Tao-tsun  
Dr. Wang, Changhong  
Mme. Yin, Wong Yee-fan  
Mr. Zhou, Youdao  
Mr. Chen, Chi-chuan (appointed on March 20, 2003)  
Dr. Hsu, Chih-chang (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.

## DIRECTORS' REPORT *(Cont'd)*

### DIRECTORS *(Cont'd)*

At the forthcoming annual general meeting of the Company, Dr. Xue Wanxiang, Mr. Chiu, Tak-chiang, Mr. Hu, Jinggang, Mr. Sun, Tao-tsun and Mme. Yin, Wong Yee-fan will retire as directors in accordance with Article 93 and 98(b) of the Company's Articles of Association. Being eligible, all of them, except for Mr. Sun Tao-tsun, 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.

### BIOGRAPHICAL DETAILS OF DIRECTORS

#### **Wu, Choi Sun William**

Managing Director of the Investment Manager and Executive Director of the Company, Mr. Wu, 55, 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 the 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 responsible officer of the Investment Manager, registered with the Hong Kong Securities and Futures Commission.

#### **Xue, Wanxiang**

Executive Director, Dr. Xue, 38, was appointed to the office when he joined the Company in June 2003. Dr. Xue was also appointed Vice President of the Investment Manager in that same year. Dr. Xue holds a doctorate degree in Economics from Shanghai Fudan University, China since 1995. He got the Master Degree of Economics and Bachelor of Science from East China Normal University, China. Before joining the Company, Dr. Xue was the Deputy General Manager of Shanghai Securities Co., Ltd. since 2001; the head of two departments in Fujian Industrial Bank Co., Ltd., Shanghai Branch since 1998; an official of the Peoples Bank of China, Shanghai Branch since 1995. Dr. Xue has approximately 10 years experience in the senior management of the banking and securities industries.

## DIRECTORS' REPORT *(Cont'd)*

### BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

#### **Ong, Ka Thai**

Independent Non-Executive Director and a member of the Audit Committee, Mr. Ong, 49, 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.

#### **Yick, Wing Fat Simon**

Independent Non-Executive Director and Chairman of the Audit Committee, Mr. Yick, 45, 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 has over 20 years of experience in audit, direct investments, investment banking and corporate advisory services.

#### **Cai, Nongrui**

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Cai, 55, 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; and now the Chief Economist. Currently, Mr. Cai is also the financial controller of Shanghai Tongsheng Investment (Group) Co., Ltd., an investor of the Yangshan Deepwater Port project in Shanghai.

#### **Chao, Hsi-hsiang**

Non-Executive Director, Mr. Chao, 75, 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-six years of valuable experience in construction and business development.

## DIRECTORS' REPORT *(Cont'd)*

### BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

#### **Chiu, Tak-chiang (also known as Yau, Tak-chiang)**

Non-Executive Director of the Company and director of the Investment Manager, Mr. Chiu, 50, 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 23 years of experience in investment banking, corporate finance, advisory and operation of market instruments. Mr. Chiu holds a Master degree in International Management from the American Graduate School of International Management.

#### **Chiang, Ching-yee**

Non-Executive Director, Mr. Chiang, 71, 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.

#### **Hu, Jinggang**

Non-Executive Director of the Company and a director of the Investment Manager, Mr. Hu, 52, 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, Tao-tsun**

Non-Executive Director, Mr. Sun, 54, was appointed in January 1994. Mr. Sun holds a Bachelor degree from Tamkang University of Taiwan. He is Vice 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. Mr. Sun will retire as director at the forthcoming annual general meeting of Company and does not offer himself for re-election.

## DIRECTORS' REPORT *(Cont'd)*

### BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

#### **Wang, Changhong**

Non-Executive Director, Dr. Wang, 45, 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, U.S.A.

#### **Yin, Wong Yee-fan**

Non-Executive Director, Mrs. Yin, 56, was appointed in January 1994. Mrs. Yin holds a Bachelor degree in Economics from the Fu Jen Catholic University, Taiwan. Mrs. Yin is the Chairman of Ruentex Industries Limited and a director of Ruentex Development, both companies are listed on the Taiwan stock exchange.

#### **Zhou, Youdao**

Non-Executive Director and chairman of the Investment Manager, Mr. Zhou, 65, 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. Currently, Mr. Zhou is the chairman of Shanghai International Group Corporation Limited, a controlling shareholder of SITICO, and chairman of SITICO.

#### **Chen, Chi-chuan**

Non-Executive Director, Mr. Chen, 46, 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 Master 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, September 12, 2001 and November 3, 2003 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 management and administration fee and an incentive fee. The 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 deductions 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\$6.20, 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 December 31 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 interest (the "Unlisted Investment Portfolio") as at December 31 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 December 31 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, 2003 amounted to US\$1,043,854. 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.

Mr. Wu, Choi Sun William, Dr. Xue Wanxiang, Mr. Lin, Bin, Mr. Cai, Nongrui, Mr. Chiu, Tak-chiang, Mr. Hu, Jinggang, Mr. Zhou, Youdao, Mr. Chen, Chi-chuan and Dr. Hsu, Chih-chang are also directors of the Investment Manager.

### LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT

The Company continued to maintain a stable and liquid position in 2003. As at December 31, 2003, the Company's cash and bank balances were US\$13,777,598 (2002: US\$10,579,493) without any bank borrowing. The increase in cash balances, after deduction of dividend payout to shareholders, was attributable from cash dividend received and capital refund from one of the Company's unlisted investments.

The Company did not have any capital commitment on its unlisted investments at the end of December 2003 and 2002 respectively.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As a majority of the Company's assets are denominated in United States dollars, the reference currency in which the Company's accounting records are maintained, no material exposure to exchange rate fluctuations is expected. Accordingly there were no hedging instruments transacted to cover such exposure.



## DIRECTORS' REPORT *(Cont'd)*

### EMPLOYEES

The Company does not have any employee as its investment portfolio and administration of operation are under management by the Investment Manager.

### DIRECTORS' INTERESTS OR SHORT POSITIONS IN THE SHARES

As at December 31, 2003, the interests or short positions of the Company's directors in the shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO") were stated as follows:

Name of director	Type of interest	Number of shares
Mr. Chao Hsi-hsiang	Other	42,815 <i>(Note (a),(b))</i>
Mr. Chiang Ching-ye	Beneficial & other	55,524 <i>(Note (c))</i>

Notes:

- (a) Mr. Chao Hsi-hsiang has a 33% interest in Tong Yuan International Ltd. which in turn holds a 1.12% interest in the Company.
- (b) Mr. Chao Hsi-hsiang has a 1.18% interest in Ruentex Development Co., Ltd. which in turn holds a 9.34% interest in the Company.
- (c) In addition to a direct beneficial interest of 51,000 shares in the Company (representing 0.57% of the issued share capital of the Company), Mr. Chiang Ching-ye has a 4.57% interest in Great China Metal Ind. Co., Ltd. which in turn holds a 1.11% interest in the Company.

Save as disclosed above, none of the directors had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2003.

### 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' REPORT *(Cont'd)*

### ARRANGEMENT TO PURCHASE 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, 2003, the register of substantial shareholder maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests or short positions in the issued share capital of the Company.

Long positions in the ordinary shares of US\$0.10 each of the Company:-

Name	Number of shares	Approximate percentage	Note
Mr. Jacob Ezra Merkin	1,956,500	21.97	(1)
Gabriel Capital Corporation ("GCC")	1,407,259	15.80	(1)
Gabriel Capital, L.P. ("Gabriel")	557,241	6.26	(1)
Ariel Fund Limited ("Ariel")	799,190	8.97	(1)
Mr. Hsu Sheng Yu	1,075,040	12.07	(2)
Chung Chia Company Limited ("Chung Chia")	598,743	6.72	(2)
Kwang Shun Company Limited ("Kwang Shun")	476,297	5.35	(2)
Ms. Hsu Tsui Hua	598,743	6.72	(3)
Ms. Chang Hsiu Yen	476,297	5.35	(4)
Shanghai International Group Corporation Ltd.	503,000	5.65	(5)
Shanghai International Trust Investment Corporation ("SITICO")	503,000	5.65	(5)
Temasek Holdings (Private) Ltd.	500,000	5.61	(6)
Hong Lim Fund Investments Pte Ltd.	500,000	5.61	(6)
Sinopac Global Investment Ltd. ("Sinopac Global")	603,752	6.78	(7)
Ruentex Industries Ltd.	860,752	9.67	(7), (8)
Ruentex Development Co., Ltd.	831,752	9.34	(7), (9)

## DIRECTORS' REPORT *(Cont'd)*

### SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

*Note:*

- (1) Mr. Jacob Erza Merkin is the General Partner of Gabriel, he was deemed to be interested in 1,956,500 shares by virtue of his 100% control over GCC and Gabriel. Besides, GCC was also deemed to be interested in the Company through its management of Ariel and other funds.
- (2) Mr. Hsu Sheng Yu has an indirect interest in the Company through his 50% beneficial interest in each of Chung Chia and Kwang Shun.
- (3) Ms. Hsu Tsui Hua has an indirect interest in the Company through her 50% beneficial interest in Chung Chia.
- (4) Ms. Chang Hsiu Yen has an indirect interest in the Company through her 50% beneficial interest in Kwang Shun.
- (5) Shanghai International Group Corporation Ltd has an indirect interest in the Company through its approximately 66.33% equity interest in SITICO.
- (6) Hong Lim Fund Investments Pte Ltd. is a wholly owned subsidiary of Temasek Holdings (Private) Ltd.
- (7) Ruentex Construction Int'l (BVI) Ltd. ("Ruentex Construction") and Full Shine Int'l Holdings Ltd. ("Full Shine") each has a 49.06% equity interest in Sinopac Global.
- (8) Apart from a direct holding of 257,000 shares in the Company, Ruentex Industries Limited has acquired an indirect interest in the Company through its 100% ownership in Full Shine.
- (9) Apart from a direct holding of 228,000 shares in the Company, Ruentex Development Co., Ltd has acquired an indirect interest in the Company through its 100% ownership in Ruentex Construction.

Other than disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital as at December 31, 2003.

### INVESTMENTS

Details of the top ten holdings of listed investments and the unlisted investments as at December 31, 2003 are set out on pages 9 and 13 respectively.

## DIRECTORS' REPORT *(Cont'd)*

### 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, 2003 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.

### 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 22, 2004

## AUDITORS' REPORT

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

TO THE SHAREHOLDERS OF  
SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 38 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## AUDITORS' REPORT *(Cont'd)*

### OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 2003 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

Hong Kong, March 22, 2004

## INCOME STATEMENT

For the year ended December 31, 2003

	<i>Notes</i>	<b>2003</b> <i>US\$</i>	2002 <i>US\$</i>
Investment income	4	3,512,782	2,862,956
Loss on sale of investments in listed securities		(413,326)	(180,818)
Gain on sale of investments in unlisted securities		573,818	648,222
Impairment loss recognised in respect of unlisted investments		(1,112,509)	(270,909)
Reversal of impairment loss previously recognised in respect of an unlisted investment		820,000	—
Loss on disposal of property held for resale		(42,572)	—
Other operating income		44,141	148,907
		<u>3,382,334</u>	<u>3,208,358</u>
Operating expenses			
Investment Manager's fee		1,043,854	1,120,953
Administrative expenses			
Directors' remuneration	5	25,704	25,645
Other administrative expenses	6	342,045	437,006
		<u>1,411,603</u>	<u>1,583,604</u>
Profit before taxation		1,970,731	1,624,754
Taxation	7	1,200,000	—
Net profit for the year		<u>3,170,731</u>	<u>1,624,754</u>
Dividends	8	<u>7,124,000</u>	<u>3,562,000</u>
Earnings per share - Basic	9	<u>35.6 cents</u>	<u>18.2 cents</u>

## BALANCE SHEET

At December 31, 2003

	<i>Notes</i>	<b>2003</b> <i>US\$</i>	2002 <i>US\$</i>
<b>NON-CURRENT ASSETS</b>			
Investments in unlisted securities	10	33,062,338	35,896,014
Investments in listed securities	11	6,722,912	5,847,404
		<u>39,785,250</u>	<u>41,743,418</u>
<b>CURRENT ASSETS</b>			
Properties held for resale	12	567,000	1,034,000
Dividend, interest and other receivables and prepayments		630,960	1,413,417
Bank balances		13,777,598	10,579,493
		<u>14,975,558</u>	<u>13,026,910</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accrued charges		547,809	913,537
Amount due to Investment Manager	16	276,941	277,948
Taxation payable		—	1,200,000
		<u>824,750</u>	<u>2,391,485</u>
<b>NET CURRENT ASSETS</b>		<u>14,150,808</u>	<u>10,635,425</u>
		<u>53,936,058</u>	<u>52,378,843</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	890,500	890,500
Reserves		53,045,558	51,488,343
		<u>53,936,058</u>	<u>52,378,843</u>
<b>NET ASSET VALUE PER SHARE</b>	14	<u>6.06</u>	<u>5.88</u>

The financial statements on pages 38 to 51 were approved and authorised for issue by the Board of Directors on March 22, 2004 and are signed on its behalf by:

**Zhou, Youdao**  
*Director*

**Wu, Choi Sun William**  
*Director*



## STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2003

	Share capital US\$	Share premium US\$	Capital reserve US\$	Accumulated profits US\$	Total US\$
At January 1, 2002	890,500	63,715,935	(11,162,518)	7,362,272	60,806,189
Net unrealised losses on revaluation of investments in listed securities	—	—	(1,653,631)	—	(1,653,631)
Unrealised gains on revaluation of unlisted investments	—	—	506,531	—	506,531
Net losses not recognised in the income statement	—	—	(1,147,100)	—	(1,147,100)
Net profit for the year	—	—	—	1,624,754	1,624,754
Transfers to capital reserve:					
- Gain on investments in securities, net	—	—	467,404	(467,404)	—
- Impairment loss recognised in respect of unlisted investments	—	—	(270,909)	270,909	—
Dividends paid	—	(5,343,000)	—	(3,562,000)	(8,905,000)
At December 31, 2002	890,500	58,372,935	(12,113,123)	5,228,531	52,378,843
Net unrealised gains on revaluation of investments in listed securities	—	—	2,455,015	—	2,455,015
Reversal of unrealised gains on revaluation of unlisted investments upon disposal	—	—	(506,531)	—	(506,531)
Net gains not recognised in the income statement	—	—	1,948,484	—	1,948,484
Net profit for the year	—	—	—	3,170,731	3,170,731
Transfers to capital reserve:					
- Loss on disposal of property held for resale	—	—	(42,572)	42,572	—
- Impairment loss recognised in respect of unlisted investments	—	—	(1,112,509)	1,112,509	—
- Reversal of impairment loss previously recognised in respect of an unlisted investment	—	—	820,000	(820,000)	—
- Gain on investments in securities, net	—	—	160,492	(160,492)	—
Dividends paid	—	(1,781,000)	—	(1,781,000)	(3,562,000)
At December 31, 2003	890,500	56,591,935	(10,339,228)	6,792,851	53,936,058

## CASH FLOW STATEMENT

For the year ended December 31, 2003

	2003 US\$	2002 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit before taxation	1,970,731	1,624,754
Adjustments for:		
Impairment loss recognised in respect of unlisted investments	1,112,509	270,909
Reversal of impairment loss previously recognised in respect of an unlisted investment	(820,000)	—
Loss on sale of investments in listed securities	413,326	180,818
Gain on sale of investments in unlisted securities	(573,818)	(648,222)
Loss on disposal of property held for resale	42,572	—
Operating cash flows before movements in working capital	2,145,320	1,428,259
Decrease in dividend, interest and other receivables and prepayments	782,457	90,527
Decrease in creditors and accrued charges	(365,728)	(95,443)
Decrease in amount due to Investment Manager	(1,007)	(54,719)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>2,561,042</b>	<b>1,368,624</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of listed securities	3,947,170	4,289,665
Proceeds from disposal of unlisted investments	3,910,227	3,523,221
Proceeds from disposal of properties held for resale	424,428	—
Purchase of listed securities	(2,282,762)	(5,421,380)
Purchase of unlisted investments	(1,800,000)	(3,099,827)
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>4,199,063</b>	<b>(708,321)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(3,562,000)	(8,905,000)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,198,105</b>	<b>(8,244,697)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>10,579,493</b>	<b>18,824,190</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>13,777,598</b>	<b>10,579,493</b>
Representing bank balances	13,777,598	10,579,493

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2003

### 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and the Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company.

The financial statements are presented in United States dollars because a significant portion of the Company's investments are made in United States dollars.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Company has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants, the term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"(s)) and interpretations approved by the Hong Kong Society of Accountants:

SSAP 12 (Revised)	Income taxes
-------------------	--------------

The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for revaluation of investments in securities, and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### Revenue recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investment in securities is recognised when the Company's rights to receive payment have been established.

Rental income is recognised on a straight line basis over the term of the relevant lease.

Gains or losses arising on the sale of investment in securities are recognised upon the execution of a legally binding and irrevocable contract of sale.

## NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

#### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Company intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at the balance sheet date. Unlisted securities which fair value cannot be reasonably estimated are stated at cost, net of any impairment loss.

Where securities are held for trading purposes, both realised and unrealised gains and losses are recognised in the income statement for the period in which they arise. For other securities, unrealised gains or losses are dealt with in the capital reserve until the security is sold or determined to be impaired, at which time the cumulative gain or loss will be included in the income statement for the period.

As required by the Company's Articles of Association, gains and losses on realisation of investment in securities shall not be available for distribution as dividend. Therefore, those gains and losses on investments in securities recognised in the income statement are transferred to the capital reserve in the period in which they arise.

#### **Properties held for resale**

Properties held for resale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in marketing and selling.

As required by the Company's Articles of Association, capital gains or losses on realisation of the Company's assets shall not be available for distribution as dividend. Therefore, gains and losses on the properties are first recognised in the income statement and then transferred to the capital reserve in the period in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

#### **Foreign currency transactions**

Transactions in currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

#### **Taxation**

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended December 31, 2003

## 4. INVESTMENT INCOME

	2003 US\$	2002 US\$
Investment income for the year comprises:		
Dividend income		
- Listed securities	124,536	200,896
- Unlisted investments	3,230,693	2,170,019
Interest income	157,553	492,041
	<u>3,512,782</u>	<u>2,862,956</u>

No segment information is presented as the Company has only one business activity and operates in one geographical location.

## 5. DIRECTORS' REMUNERATION

Except for the Directors' fee payable to the Independent Non-Executive Directors totalling US\$25,704 (2002: US\$25,645) which is within the band of US\$nil to US\$128,000, none of the Directors has received any remuneration.

## 6. OTHER ADMINISTRATIVE EXPENSES

	2003 US\$	2002 US\$
Other administrative expenses include the following:		
Auditors' remuneration	41,280	47,570
Custodian fee	29,288	72,450
Investment advisory fee	80,000	80,000
	<u>80,000</u>	<u>80,000</u>

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended December 31, 2003

## 7. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company has no assessable profits for both years. The tax credit for the year represents the overprovision of Hong Kong Profits Tax in the prior years.

The tax credit for the year can be reconciled to profit before taxation as follows:

	2003 US\$	2002 US\$
Profit before taxation	<u>1,970,731</u>	<u>1,624,754</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2002: 16%)	344,878	259,961
Tax effect of expenses that are not deductible for tax purposes	218,293	105,619
Tax effect of tax losses not recognised	133,362	206,451
Tax effect of income that is not assessable for tax purposes	(696,533)	(572,031)
Overprovision in the prior years	<u>1,200,000</u>	—
Tax credit for the year	<u>1,200,000</u>	<u>—</u>

At December 31, 2003, the Company has unused tax losses of approximately HK\$10,805,000 (2002: HK\$10,043,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profits streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended December 31, 2003

## 8. DIVIDENDS

	2003 US\$	2002 US\$
Final dividend proposed - US\$0.30 (2002: US\$0.20) per share	2,671,500	1,781,000
Special final dividend proposed - US\$0.50 (2002: US\$0.20) per share payable from the share premium account	4,452,500	1,781,000
	<u>7,124,000</u>	<u>3,562,000</u>

The Company paid the final dividend and special final dividend for 2002 of US\$1,781,000 and US\$1,781,000 respectively on June 10, 2003.

## 9. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the net profit for the year of US\$3,170,731 (2002: US\$1,624,754) and on the 8,905,000 (2002: 8,905,000) ordinary shares in issue during the year.

No diluted earnings per share has been presented as the Company has no dilutive potential ordinary shares outstanding during both years.



## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended December 31, 2003

## 10. INVESTMENTS IN UNLISTED SECURITIES

	2003 US\$	2002 US\$
Unlisted investments in the People's Republic of China (the "PRC")	33,062,338	35,397,787
Unlisted investments in Taiwan	—	498,227
	<u>33,062,338</u>	<u>35,896,014</u>

In the opinion of the directors, as the Company is an investment fund company which acts as a passive investor to the investee companies, it does not exert any significant influence over the financial and operating policy decisions of those investee companies. Therefore, investments in those companies are stated as investments in securities in the financial statements.

Details of unlisted securities are set out on page 13.

## 11. INVESTMENTS IN LISTED SECURITIES

	2003 US\$	2002 US\$
Listed securities, at fair value:		
Shares listed on Hong Kong stock exchange	4,848,305	5,315,739
Shares listed on Taiwan stock exchanges	1,874,607	531,665
	<u>6,722,912</u>	<u>5,847,404</u>
Market value at December 31		

Details of listed securities are set out on page 9.

**NOTES TO THE FINANCIAL STATEMENTS** (Cont'd)

For the year ended December 31, 2003

**12. PROPERTIES HELD FOR RESALE**

The properties are located in the PRC and held under long leases. The properties are stated at net realisable value at the balance sheet date. It is the intention of the Directors to hold the properties for resale. The Company did not receive any rental income from the properties held for resale for the year ended December 31, 2003. During the year ended December 31, 2002, rental income from leasing the properties under operating leases amounted to US\$84,823.

**13. SHARE CAPITAL**

	Number of ordinary shares of US\$0.1 each	Share capital US\$
Authorised:		
At December 31, 2002 and December 31, 2003	<u>18,000,000</u>	<u>1,800,000</u>
Issued and fully paid:		
At December 31, 2002 and December 31, 2003	<u>8,905,000</u>	<u>890,500</u>

**14. NET ASSET VALUE PER SHARE**

The calculation of net asset value per share is based on the net asset value of the Company as at December 31, 2003 of US\$53,936,058 (2002: US\$52,378,843) and on the 8,905,000 (2002: 8,905,000) ordinary shares in issue as at December 31, 2003.

## NOTES TO THE FINANCIAL STATEMENTS *(Cont'd)*

For the year ended December 31, 2003

### 15. SUBORDINATION

As at balance sheet date, the Company together with other shareholders of an investee company, have entered into a subordination agreement in favour of a bank in respect of a term loan facility granted to the subsidiary of this investee company to the extent of US\$35,000,000 (2002: US\$35,000,000). During the year, the subsidiary of this investee company was disposed of and the Company together with other shareholders of the investee company are in the process to release the subordination at the balance sheet date. At December 31, 2003, the Company has not made any advances to the subsidiary of this investee company.

### 16. RELATED PARTY TRANSACTIONS

During the year, the Company had the following transactions with related parties:

	2003 US\$	2002 US\$
Investment management and administration fees paid and payable to Shanghai International Asset Management (Hong Kong) Company Limited (the "Investment Manager")	<u>1,043,854</u>	<u>1,120,953</u>
Amount due to Investment Manager	<u>276,941</u>	<u>277,948</u>

In accordance with the terms of the investment management agreements and the three supplemental agreements, the management and administration fees are calculated and payable quarterly in advance at 0.5% of the net asset value (calculated before deductions 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.

Amount due to Investment Manager is unsecured, interest free and repayable on demand.

Certain unlisted investments held by the Company are jointly invested with Ruentex Group of companies and SinoPac Capital Limited.

Certain directors of the Company are also directors of the Investment Manager and SinoPac Capital Limited.

Certain directors of the Company are also directors and/or shareholders of Ruentex Group of companies.

**NOTES TO THE FINANCIAL STATEMENTS** *(Cont'd)*

For the year ended December 31, 2003

**17. POST BALANCE SHEET EVENT**

In March 2004, the Company's investment in the unlisted shares of Semiconductor Manufacturing International Corporation ("SMIC") amounting to approximately US\$6,024,000 were reclassified as the Company's investments in listed securities upon shares of SMIC became listed on the New York stock exchange and the Hong Kong stock exchange on March 17, 2004 and March 18, 2004, respectively. (Please refer to pages 19 and 20 for details.)

## FINANCIAL SUMMARY

	Year ended December 31,				
	1999 <i>US\$'000</i>	2000 <i>US\$'000</i>	2001 <i>US\$'000</i>	2002 <i>US\$'000</i>	2003 <i>US\$'000</i>
<b>RESULTS</b>					
Income	9,229	3,166	7,754	3,660	4,951
Expenses	5,146	6,563	8,141	2,035	2,980
Profit (loss) before taxation	4,083	(3,397)	(387)	1,625	1,971
Taxation	(1,200)	—	—	—	1,200
Profit (loss) for the year	<u>2,883</u>	<u>(3,397)</u>	<u>(387)</u>	<u>1,625</u>	<u>3,171</u>
Earnings (loss) per share	<u>30.8¢</u>	<u>(37.8)¢</u>	<u>(4.3)¢</u>	<u>18.2¢</u>	<u>35.6¢</u>
<b>At December 31,</b>					
	1999 <i>US\$'000</i>	2000 <i>US\$'000</i>	2001 <i>US\$'000</i>	2002 <i>US\$'000</i>	2003 <i>US\$'000</i>
<b>ASSETS AND LIABILITIES</b>					
Investment in securities	63,571	59,282	41,986	41,743	39,785
Others	32,447	4,124	18,820	10,636	14,151
Net assets	<u>96,018</u>	<u>63,406</u>	<u>60,806</u>	<u>52,379</u>	<u>53,936</u>
Net asset value per share	<u>US\$10.41</u>	<u>US\$7.12</u>	<u>US\$6.83</u>	<u>US\$5.88</u>	<u>US\$6.06</u>