

# Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2003.

## Principal Activities

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 43 to the financial statements.

## Results and Dividends

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 57 of the annual report.

An interim dividend of HK18 cents per share was paid during the year. The directors recommend a final dividend of HK32 cents per share to the shareholders on the register of members on 28 May 2004.

## Share Capital

Changes in the share capital of the Company during the year are set out in note 28 to the financial statements.

## Investment Property

At 31 December 2003, the investment property of the Group was revalued by an independent property valuer on an open market value existing use basis at HK\$3.69 million. The revaluation resulted in a surplus amounted to HK\$390,000, of which HK\$215,000, net of minority interests' share of HK\$175,000, has been credited directly to the investment property revaluation reserve. Details are set out in note 12 to the financial statements.

## Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

## Directors' Report

### Directors and Directors' Service Contracts

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

#### Executive directors:

Cai Lai Xing (*Chairman*)

Lu Ming Fang (*Chief Executive Officer*)

Lu Da Yong (*Executive Deputy CEO*)

Ding Zhong De (appointed on 19 January 2004)

Lu Shen (appointed on 19 January 2004)

Qian Shi Zheng (*Deputy CEO*)

Lu Yu Ping (*Deputy CEO*)

Yao Fang (appointed on 7 May 2003)

Ge Wen Yao

Chen Wei Shu (*Vice Chairman*) (resigned on 19 January 2004)

Li Wei Da (*Deputy CEO*) (resigned on 19 January 2004)

Zhou Jie (*Deputy CEO*) (resigned on 19 January 2004)

Cao Fu Kang (resigned on 7 May 2003)

Wen Song Quan (resigned on 7 May 2003)

Huang Yan Zheng (resigned on 19 January 2004)

Gu Wen Xing (resigned on 25 April 2003)

#### Independent non-executive directors:

Lo Ka Shui

Woo Chia-Wei

Leung Pak To, Francis

Lee Quo Wei (resigned on 1 January 2004)

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs. Ding Zhong De, Lu Shen, Qian Shi Zheng, Ge Wen Yao, Woo Chia-Wei and Leung Pak To, Francis retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. Cai Lai Xing and Ge Wen Yao has entered into a service agreement for an initial period of three years commencing 1 April 1996 and the service agreements have continued thereafter for a further three years commencing 1 April 2002, which will be terminated by either party by six months' prior written notice.

Each of Messrs. Cao Fu Kang and Huang Yan Zheng has entered into a service agreement for an initial period of three years commencing 1 April 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Messrs. Cao and Huang resigned as directors of the Company on 7 May 2003 and 19 January 2004 respectively. Their service agreements were terminated on their respective date of resignation.

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Mr. Li Wei Da has entered into a service agreement with the Company for an initial period of three years commencing 22 November 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Li resigned as a director of the Company on 19 January 2004 and his service agreement was terminated on the same date.

Mr. Lu Yu Ping has entered into a service agreement with the Company for an initial period of three years commencing 8 March 2000 and the service agreement has continued for a further three years commencing 8 March 2003, which will be terminated by either party by six months' prior written notice.

Mr. Gu Wen Xing has entered into a service agreement with the Company for an initial period of three years commencing 20 June 2000, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Gu resigned as a director of the Company on 25 April 2003 and his service agreement was terminated on the same date.

Mr. Wen Song Quan has entered into a service agreement with the Company for an initial period of three years commencing 1 August 2001 and will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Wen resigned as a director of the Company on 7 May 2003 and his service agreement was terminated on the same date.

The original service agreement of Mr. Chen Wei Shu was terminated on 5 January 2002 and a new service agreement was entered into and became effective on the same day, which is for an initial period of three years and will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Chen resigned as a director of the Company on 19 January 2004 and his service agreement was terminated on the same date.

Each of Messrs. Lu Ming Fang and Qian Shi Zheng has entered into a service agreement for a period of three years commencing 5 January 2002, which will be terminated by either party by six months' prior written notice.

Mr. Zhou Jie has entered into a service agreement for an initial period of three years commencing 5 January 2002 which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Zhou resigned as a director of the Company on 19 January 2004 and his service agreements was terminated on the same date.

The original service agreement of Mr. Lu Da Yong was terminated on 13 September 2002 and a new service agreement was entered into and became effective on the same day, which is for a period of three years and will be terminated by either party by six months' prior written notice.

Mr. Yao Fang has entered into a service agreement with the Company for a period of three years commencing 7 May 2003, which will be terminated by either party by six months' prior written notice.

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Both of Messrs. Ding Zhong De and Lu Shen has entered into a service agreement with the Company for a period of three years commencing 19 January 2004, which will be terminated by either party by six months' prior written notice.

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

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

### Directors' Interests

As at 31 December 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange and Clearing Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

#### Interests in Shares of the Company

(a) *Ordinary shares of HK\$0.10 each*

| Name of director             | Capacity         | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|------------------------------|------------------|---------------------------------------|-------------------------------------------------------|
| Cai Lai Xing                 | Beneficial owner | 4,000,000                             | 0.42%                                                 |
| Chen Wei Shu ( <i>Note</i> ) | Beneficial owner | 3,500,000                             | 0.37%                                                 |
| Lu Ming Fang                 | Beneficial owner | 2,700,000                             | 0.29%                                                 |
| Lu Da Yong                   | Beneficial owner | 2,700,000                             | 0.29%                                                 |
| Li Wei Da ( <i>Note</i> )    | Beneficial owner | 1,200,000                             | 0.13%                                                 |
| Zhou Jie ( <i>Note</i> )     | Beneficial owner | 2,700,000                             | 0.29%                                                 |
|                              |                  | <u>16,800,000</u>                     | <u>1.79%</u>                                          |

*Note:* Messrs. Chen Wei Shu, Li Wei Da and Zhou Jie resigned as directors of the Company on 19 January 2004.

All interests stated above represented long positions.

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### (b) Share options

| Name of director | Capacity         | Number of options held | Number of underlying shares | Percentage of the issue share capital of the Company |
|------------------|------------------|------------------------|-----------------------------|------------------------------------------------------|
| Lu Ming Fang     | Beneficial owner | 1,500,000              | 1,500,000                   | 0.16%                                                |
| Lu Yu Ping       | Beneficial owner | 1,550,000              | 1,550,000                   | 0.16%                                                |
|                  |                  | 3,050,000              | 3,050,000                   | 0.32%                                                |

Other than as disclosed above, as at 31 December 2003, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Share Options

Particulars of the share option schemes adopted by the Group are set out in note 29 to the financial statements.

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

| Month of grant           | Exercise price per share HK\$ | Number of the Company's shares subject to share options |                              |                           |                           |                        |             | Outstanding at 31.12.2003 |
|--------------------------|-------------------------------|---------------------------------------------------------|------------------------------|---------------------------|---------------------------|------------------------|-------------|---------------------------|
|                          |                               | Outstanding at 1.1.2003                                 | Reclassified during the year | Exercised during the year | Cancelled during the year | Lapsed during the year |             |                           |
| Category 1: Directors    |                               |                                                         |                              |                           |                           |                        |             |                           |
| Lu Ming Fang             | July 2001                     | 10.432                                                  | 1,500,000                    | -                         | -                         | -                      | -           | 1,500,000                 |
| Lu Yu Ping               | March 2001                    | 10.496                                                  | 1,550,000                    | -                         | -                         | -                      | -           | 1,550,000                 |
| Gu Wen Xing*             | March 2001                    | 10.496                                                  | 500,000                      | (500,000)                 | -                         | -                      | -           | -                         |
| Total for directors      |                               |                                                         | 3,550,000                    | (500,000)                 | -                         | -                      | -           | 3,050,000                 |
| Category 2: Employees    |                               |                                                         |                              |                           |                           |                        |             |                           |
|                          | January 1999                  | 9.568                                                   | 1,000,000                    | -                         | -                         | -                      | (1,000,000) | -                         |
|                          | March 2001                    | 10.496                                                  | 4,320,000                    | 500,000                   | (4,820,000)               | -                      | -           | -                         |
|                          | July 2001                     | 10.432                                                  | 4,000,000                    | -                         | (4,000,000)               | -                      | -           | -                         |
|                          | September 2002                | 11.710                                                  | 27,150,000                   | -                         | (630,000)                 | (400,000)              | -           | 26,120,000                |
| Total for employees      |                               |                                                         | 36,470,000                   | 500,000                   | (9,450,000)               | (400,000)              | (1,000,000) | 26,120,000                |
| Total for all categories |                               |                                                         | 40,020,000                   | -                         | (9,450,000)               | (400,000)              | (1,000,000) | 29,170,000                |

\* No share options were exercised by Mr. Gu Wen Xing during the period prior to his resignation as a director of the Company on 25 April 2003.

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Options granted under the Company's share option schemes are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised was HK\$11.62.

- (b) Pursuant to the share option scheme adopted by SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a subsidiary of the Company, on 3 December 1999 ("SIIC MedTech Old Scheme"), certain directors and employees of the Company have interests in share options ("SIIC MedTech Options") to subscribe for shares in SIIC MedTech ("SIIC MedTech Shares") which were granted to them in January 2000 at an exercise price of HK\$1.69 per share as follows:

| Name of director | Number of SIIC MedTech Shares<br>subject to SIIC MedTech Options |                                 |                                 |
|------------------|------------------------------------------------------------------|---------------------------------|---------------------------------|
|                  | Outstanding<br>at<br>1.1.2003                                    | Cancelled<br>during<br>the year | Outstanding<br>at<br>31.12.2003 |
| Li Wei Da        | 6,000,000                                                        | (6,000,000)                     | –                               |
| Ge Wen Yao       | 2,500,000                                                        | (2,500,000)                     | –                               |
|                  | <u>8,500,000</u>                                                 | <u>(8,500,000)</u>              | –                               |

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

On 15 July 2003, all holders of SIIC MedTech Options have agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the SIIC MedTech Old Scheme and received HK\$0.46 for each SIIC MedTech Options held, except for Messrs. Li Wei Da and Ge Wen Yao who consented to SIIC MedTech cancelling the share options granted to them at no consideration.

## Directors' Right to Acquire Shares and Debenture

Save as disclosed under the section of "Share Options" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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### Substantial Shareholders

As at 31 December 2003, the interests and short positions of every position, other than the directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

#### Ordinary shares of HK\$0.10 each

| Name of shareholder                                                | Capacity                                 | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|--------------------------------------------------------------------|------------------------------------------|---------------------------------------|-------------------------------------------------------|
| Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") | Held by controlled corporation(s) (Note) | 550,556,000                           | 58.21%                                                |

Note: Shanghai Investment Holdings Limited ("SIH"), SIIC Capital (B.V.I.) Limited ("SIIC Capital BVI") and SIIC CM Development Limited ("SIIC CM Development") are the beneficial owners of 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively. SIIC owns 100% of SIIC CM Development and Shanghai Industrial Investment Treasury Company Limited ("STC") respectively whereas STC owns 100% of SIH which in turns owns 100% of SIIC Capital BVI.

Billion More Investments Limited, Gem Capital Investment (BVI) Limited and Nanyang Enterprise Limited are the beneficial owners of 1,645,000, 485,000 and 350,000 ordinary shares of the Company respectively. SIIC indirectly owns 100% of these companies respectively.

All interests stated above represented long positions.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2003.

### Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 41(l) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Chapter 14A Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 41(l)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms not less favourable than terms available to third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

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### Directors' Interests in Contracts

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

### Competing Interests

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

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

Save as disclosed above, during the year ended 31 December 2003, none of the directors or the substantial shareholders of the Company had an interest in a business, which competes or may compete with the business of the Group.

### Major Customers and Suppliers

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

### Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the directors, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.



## Directors' Report

### Donations

During the year, the Group made charitable and other donations totalling HK\$97,075.

### Retirement Benefits Schemes

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

### Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 47 to the financial statements.

### Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by directors of listed companies on terms no less exacting than the required standard set out in the Model Code, and have made enquiries with the directors that they have complied with the Model Code.

### Code of Best Practice

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association.

### Auditors

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

On behalf of the Board



CAI LAI XING

*Chairman*

Hong Kong, 16 April 2004