



Chairman's Statement

I hereby present to the shareholders the summarised results of the Group for the year ended 31 December 2002 as follows:

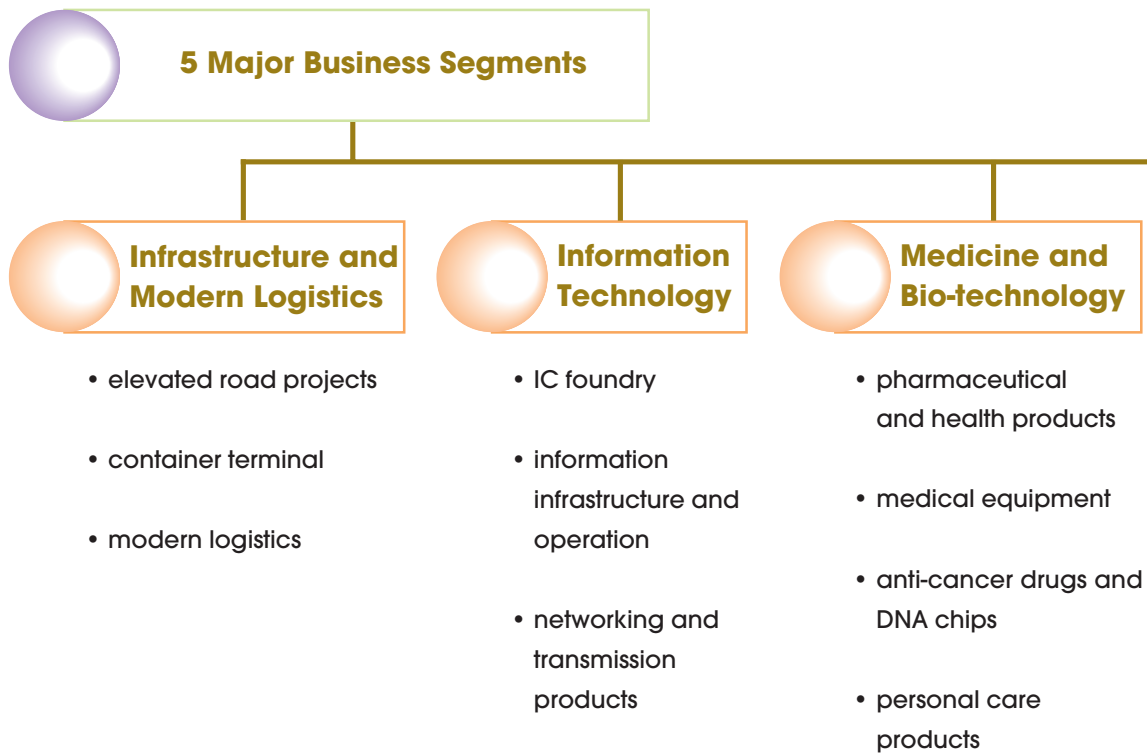
Profit for the year	HK\$1,126 million
Earnings per share	HK\$1.22
Proposed final dividend	HK30 cents per share



Creating a new horizon for Shanghai Industrial with greater shareholder value

During 2002, many overseas markets and the economy of Hong Kong were under great pressure due to uncertainties of the global economy. Corporate earnings were adversely affected by the deflationary environment. Through leveraging on the business opportunities created by the buoyant PRC economy, and particularly that of Shanghai, the Group has participated in a number of large-scaled and quality investment projects in PRC that will make great steps to future business development. Overall performance of the Group for 2002 remained stable with a profit of approximately HK\$1,126,340,000, showing a slight decrease of approximately 6.3% as compared with the previous year. The proposed dividend payout ratio is approximately 37%. The Group's core businesses made good progress for 2002 with main focuses during the year on the expansion and development of various new businesses with great potentials; strengthening of its existing investment projects that have market competitiveness; and consolidation and streamlining of non-core businesses, with a view to improving profitability and maximizing returns for our shareholders via optimization of the Group's resources allocation.

The Group's existing operation can be divided into five major business segments: (1) infrastructure and modern logistics, (2) information technology, (3) medicine and bio-technology, (4) consumer products and department retail and (5) automobile and parts. During the year under review, substantial progress was made in most of our businesses, of which various investment projects achieved satisfactory results.

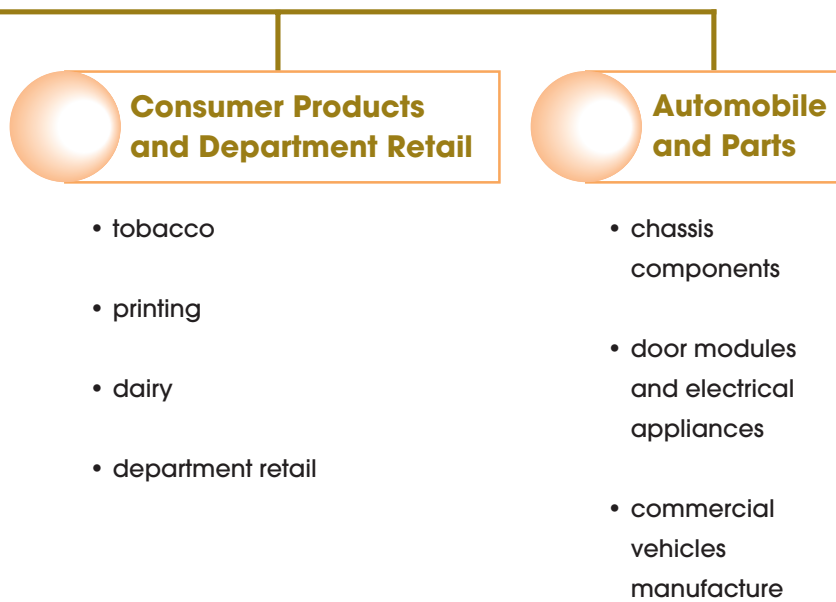


The Group has been actively driving the transformation of its businesses during the past few years. Three new business segments have evolved – modern logistics, medicine and bio-technology, and information technology, setting the stage for future growth. Profit derived from our infrastructure facilities remains one of the Group's major sources of income. The Waigaoqiao Phase One Project has commenced operation in 2003 and will further strengthen the earnings base for our infrastructure business. Medicine and bio-technology business enjoys rapid growth with its research and development, manufacture and distribution capabilities being carried forward under an integrated approach. Traditional businesses of the Group achieved stable growth, as the consumer products segment continues to strengthen its competitiveness and enjoy rapid growth whereas the automobile and parts business contributes to the Group's profits through continuous optimization.



Modern logistics achieved steady progress

In complement with its business transformation strategy, the Group took an important initiative in 2002 to further develop its modern logistics business and acquired a stake in EAS International Transportation Limited ("EAS International") in May 2002. By leveraging on EAS International's business advantages of 17 years of operation in the PRC market, the Group is able to strengthen and develop its nationwide reach



in the modern logistics business segment. Such investment, together with (i) Shanghai Industrial Sinotrans International Logistics Company Limited ("Shanghai Sinotrans"), a specialised chemistry industry logistics company set up in the Shanghai Chemical Industry Zone, (ii) Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited ("Shanghai Wai Lian Fa"), characterised with its business in the Waigaoqiao Bonded Area, and (iii) EAS Worldwide Logistics Limited ("EAS Worldwide"), a company acquired by EAS International in July 2002 focusing on overseas markets, made up the basic masterplan of the Group's modern logistics business.

Strategic positioning of information technology projects

Notwithstanding the world market for semiconductor products undergoing a cyclic adjustment in the wake of global economic recession, the PRC market keeps growing due to stable local economic growth and increasing demand for semiconductor products in the end-user market. Investors remain optimistic about the market outlook. Semiconductor manufacturing and related upstream and downstream industries have become investment attractions in PRC, especially in Shanghai.

Chairman's Statement

The
Management
Team

Lu Ming Fang
CEO



Lu Da Yong
Executive Deputy CEO



Li Wei Da
Deputy CEO



Lu Yu Ping
Deputy CEO

In view of such promising prospects, the Group has made a total investment of US\$185,600,000 in Semiconductor Manufacturing International Corporation ("SMIC") and became its single largest shareholder. With the extensive experience of its management and the support of investors, SMIC completed the construction of its No.1, No.2 and No.3 factories within a short period of time and commenced formal production and sales in March 2002. SMIC has now become the largest and

most advanced 8-inch wafer foundry offering the most comprehensive services in PRC. It is also the first domestic manufacturer to provide 0.18-micron CMOS process technology. SMIC will further upgrade its wafer processing technology, enhance production efficiency and seek to widen its customer base, thereby positioning itself for leadership in the global semiconductor industry.



Expanding medicine business development platform

Medicine and bio-technology is one of the core businesses of the Group under its transformation strategy which has been enjoying robust development. Through its Hong Kong-listed subsidiary, SIIC

Medical Science and Technology (Group) Limited ("SIIC MedTech"), together with its four medicine and bio-technology companies in Shanghai and the United States, the Group was able to achieve fast development in procuring acquisitions and mergers, and carrying forward its existing research and development, production and distribution capabilities.

**Qian Shi Zheng**

Deputy CEO

Zhou Jie

Deputy CEO

**Wang Xiao Dong,
Shanel**

Deputy CEO

In June 2002, Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech") successfully completed Phase 2 clinical trials for H101. The trials result further proved that the medicine is safe and has significant curing effects. The project has been included in the National 863 Project and recognised as one of the major science & technology development projects of Shanghai. Phase 3 clinical trials are under way and are expected to be completed within 2003. Phase 1 clinical trials for H103 are expected to commence during the first half of 2003. Array products containing genes developed by Mergen Limited ("Mergen"), including human ExpressChip™, rat ExpressChip™ and mouse ExpressChip™, have been well received by customers with favourable sales recorded. Mergen has taken gradual steps to expand the scale of research and pursued stable business development.

SIIC MedTech has been making steady improvement with a track record of approximately 26.3% average compound annual growth since its listing in 1999. During the year, SIIC MedTech made considerable efforts in consolidating and developing its existing operation and completed four mergers and acquisitions projects covering pharmaceutical products, medicine retailing and medical equipment.



Consumer products delivered satisfactory results

Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") maintained high profit growth with increasing market share. Bright Dairy was listed on the PRC "A" Share market in August 2002, raising proceeds of approximately RMB950,000,000. As a result, the Group recorded an exceptional gain of approximately HK\$220,000,000 in 2002. Tobacco and printing businesses continued to make steady improvement and remained major contributors to the Group's earnings. In 2002, Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco") recorded satisfactory sales growth and smoothly expanded into the overseas market. The Wing Fat Printing Company, Limited ("Wing Fat Printing") has been experiencing rapid business development with increasing exposure in the PRC market, from which more than 50% of its contribution to earnings was derived.

In January 2002, the Group implemented major changes to its management team due to its own business development needs and in compliance with the State's policy concerning the rotation of expatriates. With the appointment of the new CEO, Mr. Lu Ming Fang, and two deputy CEOs, the Group maintains continuity and stability in its operating approaches. 2002 has been a year full of challenges. The Group was not only faced with local and global economic downturn and the unfavourable business environment caused by the low interest rates, but also undergoing the process of business transformation and restructuring. After a year of hard work with unsparing efforts, the strategic positioning made in various aspects is being actively carried forward with initial success and will help the Group to pursue sustainable business development in the future.

Business development strategies and management

A clear set of business development strategies and top-class management are indispensable elements of corporate development. Under the business management philosophy of maximizing shareholder value, the Group endeavours to achieve sustainable growth by adopting effective operating initiatives and flexible management models.

Defined Business Strategies

The Group believes that Shanghai is undergoing a new round of major developments. The Group's head office must integrate itself into Shanghai's rapid development, seize every new business opportunity, develop new investment in industries which will bring substantial returns and promising growth, keep enhancing its comprehensive strength, and eventually enable global investors to share benefits resulting from the rapid development of Shanghai's economy. In recent years, the Group adopted a combined approach of investment and business operation, under which the Group increased its investments in the IT industry and expanded into new

business sectors such as modern logistics and medicine and bio-technology, with a view to developing these sectors into the Group's core businesses and main sources of earnings. As to its existing advantageous operations, the Group is implementing specialised management and development via strategic measures such as spin-off and reorganisation. Meanwhile, the Group is striving to achieve dynamic optimization of its business portfolio through gradual divestment from non-core businesses on a selective basis in order to better centralise the Group's resources and advantages.

Expertised Management Team

Directors and senior management staff of the Group all possess extensive experience and expertise in different industries. Through continuous recruitment of talents both locally and overseas, the Group has established a highly expertised and professional management team. The management team leads the Group to keep pursuing better performance with its rich PRC experience, extensive global vision and management concepts of high transparency.

Internationalised Management Standards

With increasing demands in the market for transparency and accountability, corporate governance has become an important part of management. The Group has been actively introducing world-class corporate management standards into its operation and has established a sophisticated internal management and process control system covering investment decision-making process, business operation, financial management, risk control, information disclosures, etc.. Such system exemplifies our management features of standardisation, transparency, stableness and high efficiency and offers the greatest protection to our shareholders. To cope with the demands that arose from the continuous expansion of the Group's business in PRC, the Group will, with its management office in Shanghai as the platform, place greater emphasis on the establishment of regional head offices. The objectives are to maintain closer ties with, and strengthen effective control over, its various member companies in mainland China, at the same time providing conditions necessary for the expansion of investment activities in other regions of PRC.

Learning-styled Corporate Culture

The management recognised that continuing education and innovations are the keys to success in the intense market competitions. In recent years, the Group has developed a learning-styled corporate structure and a corporate culture that encourages innovations. A number of activities were organised including seminars on management issues and professional training courses, cultivating an environment of organisational learning and knowledge sharing via the exchange of views and information on recent business development and corporate initiatives among the management of various member companies with a view to giving full play to the Group's integrated management efficiency.

Chairman's Statement

Prospects

China's economy continues robust growth, creating tremendous business opportunities for enterprises. Shanghai's success in bidding for World Expo 2010 will generate significant economic benefits to the city itself as well as its neighbouring region. According to the latest municipal development plan, Shanghai will evolve into an international economic, financial, trading and



shipping hub, offering enormous business investment opportunities. To the Group, Shanghai and the Yangtze River Delta have always been the strategic places in which the Group endeavours to develop its operation, with its long-term business development being closely linked with the economic development of Shanghai. Firmly supported by the Shanghai Municipal Government, the Group has a definite advantage when investing in large-scaled and quality projects in Shanghai. In the foreseeable future, the Group will continue to benefit from the flourishing economies of Shanghai and the Yangtze River Delta, which will enable the Group to enter into a new horizon creating greater shareholder value.

In 2003, the Group will focus on the development of its infrastructure, medicine and biotechnology, modern logistics and information technology businesses, while it strives to maintain stable cash flows generated from consumer products and automobile and parts for the Group with increasing profitability during the process of business transformation.

The Group has preliminarily accomplished a basic masterplan for the development of its **modern logistics** business. Arrangement for the acquisition of a 70% stake in EAS International is expected to be finalised during the first half of 2003. The Group will further create greater synergies among EAS International and the Group's other logistics enterprises and actively seek international strategic investment partners in order to maximize competitive advantages in large scale operations and services.

Development of the Group's information technology business continues to evolve over time. The "Shanghai Infoport" Project, in which the Group has taken participation, is progressing satisfactorily under the full support of the Shanghai Municipal Government and starts to add values to our investment. SMIC is making great efforts to secure itself as a leading IC foundry in the PRC market and to generate remarkable returns for the respective investing parties. The Group's **information technology** business will benefit from the robust growth of this investment project.

While promoting the existing scientific research, production and sales of its **medicine and bio-technology** business sector, the Group also aims at setting up a competitive business platform with a leading edge on which a medicine group will be developed with strengths both in marketing and scientific research and development, with a view to exploring another major source of earnings for the Group.

With regard to the **infrastructure** business, the PRC government promulgated in last year its proposed policy requiring that the guaranteed fixed return on investment projects of foreign entities be rectified by 31 December 2002. Such policy affects the Group's investment in elevated road projects and the related revenue. Following repeated discussions with relevant government authorities, the Group will receive reimbursement of the investment amount of the affected projects. Active negotiations for new investment projects are under way and the results will be announced in due course. Shanghai Pudong International Container Terminals Limited has commenced operation this March and will benefit from the rapid growth of the container industry in Shanghai.

Facing an everchanging business environment, the Group's management will take a proactive attitude towards competitions and challenges, and explore new ideas for business positioning initiatives. We look far ahead and aim high, work on our solid foundation and advance with a pioneering spirit. We will endeavour to create the most favourable prospect for the Group and strive to maximize returns for our shareholders.



Cai Lai Xing

Chairman

22 April 2003