Infrastructure and Modern Logistics

In 2002, the Group recorded a net profit of approximately HK$708,900,000 for its infrastructure and modern logistics businesses, representing approximately 57.6% of the net business profit* of the Group for the year.

Infrastructure and Modern Logistics

Infrastructure facilities

The Inner Ring Road, North-South Elevated Expressway and the Yanan Elevated Road, all being infrastructure projects invested by the Group in Shanghai, are the main arteries of Shanghai's core expressway network. These projects are among the Group's main sources of profit and cash flows. Net profit therefrom for 2002 amounted to approximately HK$703,650,000. As the investment costs of these projects have to be amortised every year, the accounting profits will slightly diminish year by year.

The Shanghai Waigaoqiao Container Terminal Phase One Project, a joint venture project, achieved substantial progress during 2002, with all the necessary approvals from the relevant PRC government authorities obtained. The subsequently established joint venture, Shanghai Pudong

* *net business profit represents net profit before headquarters administrative expenses.*

International Container Terminals Limited, in which the Group has a 10% interest, commenced formal operation on 1 March 2003 with a registered capital of RMB1,900,000,000. The Group contributed the agreed investment amount of RMB190,000,000 during the first quarter of 2003. Three container berths had been built along the existing 900-metre coastline of Waigaoqiao Terminal Phase One. The port comprises a total land area of 500,000 sq.m., including a 238,000-sq.m. container yard. Covering 16 international shipping routes, the project achieved an aggregate throughput of 1.78 million TEUs in 2002 and a net profit of approximately RMB240,000,000. It is believed that the project will achieve an aggregate throughput of 1.85 million TEUs towards the end of 2003. The project is expected to contribute stable profits to the Group in the future.

Modern Logistics

In May 2002, the Group acquired a 25% interest in EAS International, which owns a nationwide modern logistics network in PRC, and secured management control of the company. Investment in the first phase of acquisition totalled RMB55,000,000. The Group entered into an agreement later in July for further investment in/acquisition of the interest in EAS International. After discussions with various investment partners, detailed proposals in respect of the capital contribution/acquisition of interest will be finalised shortly. It is expected that the entire acquisition will be completed within the first half of 2003. Total investment made by the Group will be RMB265,000,000, including investment made in the first phase of acquisition, and the Group will eventually hold a 70% interest in EAS International.

Established in 1985, EAS International has developed into a major conglomerate providing comprehensive logistics services to over 1,100 cities in PRC and over 200 foreign countries and regions. It provides a full range of logistics services from transportation, warehousing, delivery and packaging, to customs processing as well as related value-added services. Since its takeover of the management of EAS International in May 2002, the Group's management has been dedicated to maintaining stable business growth, improving management standard, and diversifying into specialised logistics operations, with a view to developing EAS International into a highly competitive logistics enterprise with world-class modern logistics functions.

In July 2002, EAS International acquired a 51% controlling stake in Hong Kong's EAS Worldwide, which is principally engaged in global freight forwarding with its sales network focused on overseas market. EAS Worldwide will provide synergies within the Group's logistics network and will secure for EAS International quality international logistics partners as well as global customers. In 2002, EAS Worldwide achieved an increase in turnover of approximately 86% in its logistics business.

Shanghai Wai Lian Fa started formal operations in 2002. Overall business process integration has been completed with a large customer base in place. An increase of approximately 68% in average monthly revenue was recorded as compared with the previous year prior to the formation of the joint venture company. In response to the continuous growth in business volume, the company leased additional warehouse space totalling 67,000 sq.m.. It is currently stepping up the expansion into new business sectors such as airfreight forwarding operations in airport and export freight forwarding agency, thereby developing a high value-added modern logistics business set-up, characterised with its business in the Bonded Area.

Shanghai Sinotrans started formal operations in July 2002. The company achieved good performance and recorded a moderate profit during its first six months of operation with an import/export cargo volume of 300,000 tonnes and a container throughput of 3,300 TEUs. In order to further expand its operations, preparations for the establishment of a warehouse and container freight station in the Shanghai Chemical Industry Zone are currently under way.

Information Technology

Upon completion of the establishment of its production facilities, SMIC has been actively forming alliances or collaborations with numerous global leaders in the semiconductor industry and achieved rapid growth in technological development. It has started mass production of 0.18-micron wafer and completed the development of copper interconnect process technology. Great efforts have been made to upgrade its technology in order to secure more quality customers and provide them with suitable foundry services. Its existing technology business partners include international corporations such as Toshiba and Fujitsu of Japan, Chartered Semiconductor of Singapore, IMEC and Infineon of Europe, and ChipPac and Artisan Components of the US.

In December 2002, Infineon entered into an agreement for the transfer of its 0.14-micron technology to SMIC. In January 2003, Toshiba transferred to SMIC low power SRAM process technology mainly for mobile phones; Artisan Components authorised SMIC to use its design platform for 0.18-micron CMOS application. Meanwhile, SMIC entered into foundry agreements with Infineon and Toshiba for the production of various types of wafers. SMIC will seek to further secure process orders from more international IDM customers.

With its No.1, No.2 and No.3 factories in Shanghai commencing operation one after another, SMIC had a total workforce of over 3,200 at the end of 2002, and a current production capacity exceeding 30,000 wafers per month. As SMIC was still in the investment period and at an early stage of production during 2002, it remained in a loss situation due to substantial equipment depreciation expenses. The loss attributable to the Group amounted to approximately HK$120,950,000. SMIC is expected to receive considerable orders in 2003 and will continue to increase its production capacity in accordance with market demand.

Information Technology

Shanghai Information Investment Inc. ("SII") is the major investor of the "Shanghai Infoport" project. Its scope of investment covers, among others, information infrastructure and operation in Shanghai, e-commerce and value-added services, software and system integration. Net profit for 2002 stood at approximately RMB35,030,000. Major projects completed during the year are as follows:

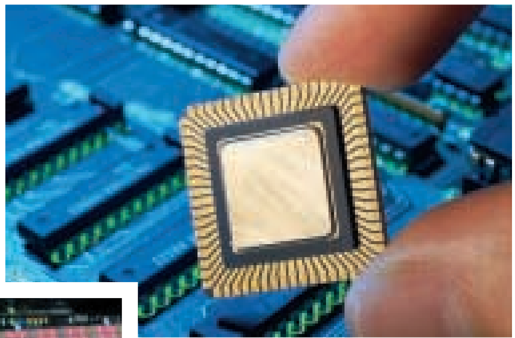
- Shanghai Cable Network – the company completed the upgrade of its two-way cable television network for 200,000 subscribers during the year, covering substantially all districts within the city's urban area with its two-way services now reaching over 1.70 million subscribers. Currently 67,000 subscribers have access to the "Cableplus" broadband data service. During the year, the company launched the first operational trial run for digital broadcasting television in mainland China and further expanded its paid TV business.

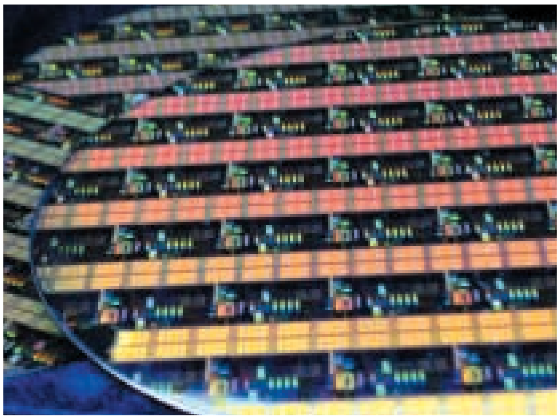
- Information Pipeline Infrastructure – construction of the Shanghai integrated information pipeline infrastructure made good progress and created a network that covers all major business districts within Shanghai's urban area. Part of the business network construction completed during 2002 provides prerequisites for the promotion of public service digitalisation. New pipelines with a total length of 280 kilometers were built during the year, thus creating a pipeline network with a total length of 830 kilometers. Network access is currently provided in 100 buildings. Sales contracts entered into during the year amounted to RMB160,000,000.

- Credit Information System – as at the end of 2002, the system comprised 600,000 enterprises. It had personal credit information of 2.90 million individuals stored in its consumer credit information databank and received 310,000 queries for personal credit reports during the year. The system, in which SII has a 35% interest, provides diversified information enquiry services to the community.

- Comprehensive Information System of Shanghai Port – construction of the port and customs transaction data platform was completed during the year. At present, customs transactions processed through this electronic system account for approximately 80% of the total number of customs transactions. It significantly reduces the time required for customs process which ranks the top amongst all ports throughout the nation. SII, being the largest shareholder, has a 22% interest in this project.

Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications") had a business adjustment during 2002. Lucent Technologies of the US, the major partner of Shanghai Optical Communications, is facing with a business restructure. Several joint ventures under Shanghai Optical Communications also carried out equity and assets adjustments accordingly. The company recorded a profit of only approximately RMB11,150,000 for 2002. Shanghai Communications Technologies Centre recorded a loss of approximately RMB2,680,000 for 2002, narrowed by approximately 61% as compared with that of the previous year.





Medicine and Bio-technology

Medicine and Bio-technology

The Group's medicine and bio-technology business segment comprises its Hong Kong-listed subsidiary, SIIC MedTech, together with its four medicine and bio-technology companies in Shanghai and the United States. Net profit for 2002 amounted to approximately HK$57,480,000, up approximately 59% over the net profit for 2001 excluding the Group's share of the exceptional gain derived from the listing of Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa"). The amount constitutes approximately 4.7% of the Group's net business profit*.

SIIC MedTech achieved a track record of approximately 26.3% average compound annual growth since its listing. Net profit for 2002 amounted to approximately HK$87,520,000. Excluding the exceptional gain derived from the listing of Shanghai Jahwa in the previous year and the exceptional provision for diminution in value in a member company made during the year, net profit for 2002 represented an increase of approximately 33.5% over the previous year. Mergers and acquisitions completed during the year, including Hangzhou Huqingyutang Drugstore Co.

Ltd., Xiamen Traditional Chinese Medicine Co. Ltd. ("Xiamen TCM"), MicroPort Medical (Shanghai) Co. Ltd. ("MicroPort") and E-COM Technology Limited ("E-COM Technology"), have provided SIIC MedTech a firm base for profit growth.

- **Pharmaceutical and Health Products**

  There are currently 33 prescription drugs, 56 non-prescription drugs and 3 health products offered under SIIC MedTech. Sales of the four key injection products of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao") – "Shen Mai Injection", "Dan Shen Injection", "Herba Houttuyniae Injection" and "Huang Qi Injection" – achieved strong growth of approximately 7.5%, 10.3%, 40.1%and 21.1% respectively for 2002; health product – " Qingchunbao Anti-ageing Tablets" hit another record in sales amounting to RMB328,000,000, up approximately 37% over the previous year. The company's new product – "Qingchunbao Beauty Capsule" – launched in August 2002 recorded sales in the first four months of nearly RMB15,000,000 and is expected to become a new growth driver; Xiamen TCM's product – "Xinhuang Tablets" – is one of SIIC MedTech's top five pharmaceutical products in terms of annual pro forma sales revenue. "Lycium Barbarum Granule" was also launched in late November.

- **Medical Equipment**

  Total investment in medical equipment accounts for less than 10% of SIIC MedTech's net assets. The medical equipment business is in the early stage of gaining significant market share. In the second half of the year, interventional surgical apparatus under the "MicroPort" brandname of MicroPort achieved sales growth of approximately 3.6 times over the first half of the year. E-COM Technology's digital angiographic equipment and information systems for medical applications also achieved a significant increase in sales over the previous year. The systems are currently applied in 14 hospitals in PRC.

- **Personal Care Products**

  SIIC MedTech is engaged in the sale of personal care products via its 28.15% interest in Shanghai Jahwa. Amid intensified market competition during 2002, Shanghai Jahwa still managed to achieve an increase in its overall sales revenue over the previous year and contributed a profit of approximately HK$24,000,000 to SIIC MedTech. Sales revenue of "Liushen" brand products maintained stable whereas "Chinf de Chinf", "Maxam" and "Herborist" recorded increase of approximately 6%, 13% and 42% respectively in sales revenue over the previous year.

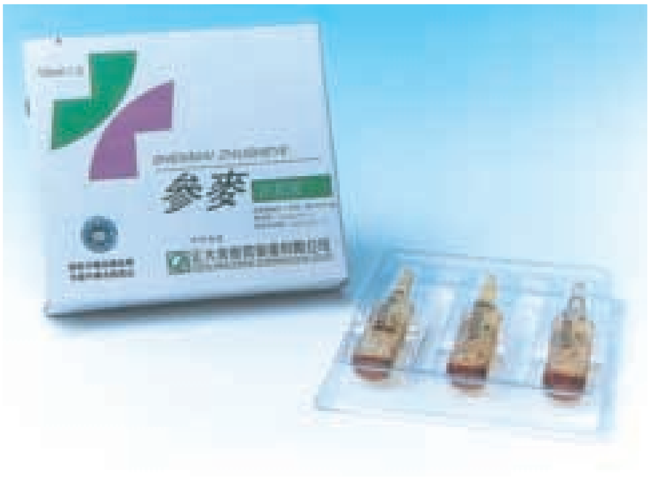
- **Production Technology**

  In accordance with the State's policy, PRC's domestic medical products manufacturers are required to obtain the Good Manufacturing Practice (GMP) certification. One of SIIC MedTech's key targets for 2002 was accelerating the GMP certification. The company constantly improves its products and enhances its overall competitiveness through technology upgrades and modifications. GMP related modification costs during the year amounted to approximately HK$103,000,000, of which some were used to upgrade and modify its manufacturing facilities in Hangzhou and Xiamen.

In June 2002, Sunway Biotech successfully completed Phase 2 clinical trials for H101 (Gene-engineered Adenovirus Injection), the anti-tumour drug, and obtained approval to commence for Phase 3 clinical trials in September. Phase 3 clinical trials are expected to be completed by the second half of 2003. Clinical trials for H103 (Oncolytic Recombinant Adenovirus Injection), a project for the activation of human immune system and inhibition of tumour growth, will formally commence within this year. Sunway Biotech recorded a loss of approximately RMB32,980,000 in 2002 mainly due to an increase in research and development costs.

Shanghai Sunve Pharmaceutical Co., Ltd.'s profit in 2002 was somewhat narrowed by the negative effect of the State's regulations concerning adjustment of the sale price of drugs. Breakeven was basically achieved during the year. In order to better allocate its resources, the company exited certain of its investments in projects which lack potential as well as completed the cessation of the VC (Vitamin C) production project. Promotion of imported drug "Permixon" was launched in Shanghai, and new anti-tumour raw drug "Paclitaxel", which was developed in-house, has been successfully introduced. Other drugs such as "Ursodesoxycholic Acid Tablet", "Flunarizine Tablet" and sodium salt product series all achieved satisfactory sales performance. The joint venture companies, Shanghai Roche and Shanghai Givaudan, both recorded profits.

Since its incorporation in 1999, Mergen has now developed itself into an array manufacturer providing comprehensive services of the design, production and sale of array containing genes in the United States. Amid a sluggish bio-technology industry and weakened US drug market during 2002, Mergen still managed to achieve stable growth in its operations during the year. During the first half of 2002, Mergen introduced new human ExpressChip™ and rat ExpressChip™ respectively, and in October, Mergen introduced its first "bacterial array" containing staphylococcus aureus genome for used in case study of microbacteria. Mergen turned to profitability at the end of 2002.



Consumer Products and Department Retail

Net profit arising from the Group's consumer products and department retail businesses for 2002 was approximately HK$512,230,000, representing an increase of approximately 117% over 2001 and accounting for approximately 41.6% of the Group's net business profit*. Nanyang Tobacco and Wing Fat Printing kept generating considerable returns for the Group whereas Bright Dairy, which was successfully listed on the PRC "A" Share Market during the year, sustained rapid expansion in its operations.

Tobacco and Printing

Nanyang Tobacco maintained stable growth in its operations during 2002 with its net profit at approximately HK$120,020,000, up approximately 31% over 2001. Exports and domestic sales in the Hong Kong market remained stable and the company successfully consolidated its Singapore market and expanded into the Taiwan market. In 2002, total cigarette output grew approximately 13.5% as compared with the preceding year. Overall sales performed satisfactorily with an increase of approximately 9.7% over 2001. As a result of the marketing initiatives taken for just more than a year in the Singapore market in close collaboration with local agents, sales of the new brand "GENTORI" obtained a market share of approximately 12% in the local cigarette industry. In April 2002, super mild "Double Happiness" became the first home-produced cigarette successfully launched in the Taiwan market. After adjustments to its market segmentation, the

company's market shares in both the PRC and Hong Kong markets showed significant growth. As to new product development, the company successfully completed the trial production of super mild "Double Happiness" (6 mg). The product has been launched and is well-received in the PRC market.

During the year, Wing Fat Printing recorded an increase of approximately 24% in turnover over the previous year. Net profit was approximately HK$85,650,000, representing an increase of approximately 23% over 2001. Through continuous consolidation and development of its operations in mainland China, Wing Fat Printing secured a large new customer base and further enlarged its market share. Construction of the production facilities in Dongguan formally commenced in 2002 with a total investment cost of HK$200,000,000. The construction work is now progressing smoothly and the new plant is expected to be completed by mid-2003. The company intends to further upgrade its production technology and enhance its market competitiveness via such production facilities.

Consumer Products and Department Retail

Dairy

Bright Dairy was listed on Shanghai Stock Exchange on 28 August 2002 with an issue of 150 million new shares, raising proceeds of approximately RMB950,000,000. The listing has provided a new platform for Bright Dairy to expand its operations through the capital markets. Net profit of Bright Dairy for 2002 attributable to the Group was approximately RMB83,340,000, up approximately 26% over the previous year, notwithstanding the Group's shareholding dropping from 40% to approximately 30.8%. Sales increased approximately 42.6% over 2001. Both sales and profits have been growing at a rate of more than 30% for five consecutive years.

Bright Dairy is currently one of PRC's largest enterprises in the manufacture and sale of dairy products and armed with world-class milking and constant temperature refrigerating systems as well as advanced processing technology and equipment for dairy products. It has been ranked number one for five consecutive years in the country's dairy industry in terms of composite indicators such as sales, profit, milking volume, output and sales of liquid milk, nationwide market share, etc. The brand "Bright " is also recognised as one of the best-known brandnames throughout the nation. During the year, Bright Dairy has been actively expanding its market share via a number of acquisitions and mergers. It has acquired the entire interests of Guangzhou Danone Yoghurt Co., Ltd. with a view to fully capitalising on the well-known "Danone"

brandname in the Guangzhou dairy product market in complementary with its own brand "Bright" and gradually expand into Hong Kong, Macau and overseas markets. The company also invested in Hunan Bright Paipai Dairy & Food Co., Ltd. in Changsha, acquired a stake in Tianjin Bright & Mengde Dairy Co., Ltd. in Tianjin, and, subsequent to the year end date, acquired a 51% interest in Jiangxi Bright Hero Dairy Co., Ltd.. The company so far has established over 10 production bases in PRC.

Department Retail

Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") recorded sales of approximately RMB822,980,000 and a net profit of approximately RMB34,950,000 for 2002. During the year, Orient Shopping hosted various promotional and sales events and has undergone expansion work on the fifth floor as well as basement renovation during the year. Such expansion and renovation create a new face for the shopping centre and attract a stream of new customers.

Automobile and Parts

Automobile and Parts

Automobile and parts business recorded a net profit of approximately HK$106,440,000 for 2002, a drop of approximately 29.1% compared with the preceding year, and accounted for approximately 8.7% of the Group's net business profit*.

Domestic automotive market experienced a rebound with sales of sedans rising significantly from March onwards. Over 1 million sedans were manufactured and marketed domestically during the year. Sales of Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") also rose compared with the previous year. However, due to substantial price cuts in all types of domestically manufactured sedans as a result of China's accession to WTO, Shanghai Huizhong had to make corresponding price cuts in its automotive parts products. A net profit of approximately RMB157,660,000 was recorded for 2002. Its commercial vehicle (heavy truck and coach) project is progressing smoothly with pilot products released at the end of 2002. Sales promotion of its two new heavy truck models has started in January 2003.

Shanghai Wanzhong Automotive Components Co., Ltd. achieved stable growth in its operations during 2002 with an increase in net profit of approximately 28% compared with 2001. Its heavy

truck technology renovation project has formally commenced trial production during the year. During 2003, it will commence the production of related driving cab and other component products in conjunction with Shanghai Huizhong's automotive sales project and will carry forward its coach components manufacture project.

Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation") achieved an impressive sales performance in 2002 which, together with its share of profits of joint ventures, posted a net profit of approximately RMB82,990,000. During the year, SIIC Transportation implemented a technical cooperation project for automotive anti-theft device. Its e-intelligence box and sky-light window projects also achieved substantial progress. SIIC Transportation received considerable production orders from both Shanghai Volkswagon and Shanghai General Motors, and new product development and marketing initiatives are actively implemented. Its power window and automotive relay have been accredited "Famous Brandnames of Shanghai" among top one hundred quality products for three consecutive years.