

Financial Review

1. Turnover

Turnover of the Group for the year ended 31 December 2002 rose approximately 6% compared with 2001. An analysis of turnover by principal activities is as follows:

	2002	2001
	HK\$'000	HK\$'000
Consumer products and department retail	1,832,933	1,756,014
Medicine and bio-technology	842,386	723,911
Infrastructure and modern logistics	704,718	719,493
	<u>3,380,037</u>	<u>3,199,418</u>

During the year, turnover of medicine and bio-technology business grew by 16% over 2001, with one third of such growth derived from projects newly acquired and new products launched during 2002. The increase was also due primarily to the significant growth in the sales of Hangzhou Qingchunbao during 2002 in the amount of approximately HK\$114,000,000, which is largely as a result of the strenuous efforts made by Hangzhou Qingchunbao in enhancing its marketing activities through a series of promotional activities during the year, which drove up sales in healthcare products. "Qingchunbao Anti-ageing Tablets", the principal product of the Group, broke sales records in 2002, achieving breakthrough revenue of over HK\$328,000,000, representing an increase of approximately 37% over 2001. As to prescription drugs, sales of "Shen Mai Injection" and "Dan Shen Injection" increased by approximately 7.5% and 10.3% respectively during the year.

During the year, turnover of consumer products and department retail business rose by approximately 4% over 2001 primarily because Nanyang Tobacco successfully consolidated its Singapore market and expanded into the Taiwan market, coupled with its steady exports and domestic sales which led to the overall increase in sales. Wing Fat Printing has developed a number of new tobacco packs for use by Nanyang Tobacco. Tobacco pack orders from European Tobacco Inc. also increased.

2. Profit from Ordinary Activities Before Taxation

A. Gross profit margin

Gross profit margin (excluding income from infrastructure projects) for 2002 increased from 37.9% in 2001 to approximately 42.2%.

B. Investment income

Investment income for 2002 fell significantly from approximately HK\$201,560,000 for 2001 to approximately HK\$93,790,000, representing a decrease of approximately HK\$107,770,000. This was primarily due to the significant decrease in interest income from bank deposits of approximately HK\$87,100,000 during the year resulted from the significant reduction in bank deposit rates in the U.S. and Hong Kong since the second half of 2001. In addition, gains from disposal of securities investments also fell by approximately HK\$17,340,000.

C. Finance costs

Finance costs for the year decreased by approximately HK\$30,030,000 over last year primarily due to the Group's repayment in last year of a long-term bank loan of approximately HK\$585,000,000, which became due last year. The syndication loan of HK\$1,600,000,000 raised during the year enjoys a more favourable interest rate than that of the repaid loan.

D. Gain on deemed disposal of interest in a jointly controlled entity

Gain on deemed disposal of interest in a jointly controlled entity recorded in 2001 was derived from the listing of Shanghai Jahwa, a jointly controlled entity of the Group's subsidiary, SIIC MedTech, of which SIIC MedTech held a 40% interest, on the A share market of Shanghai Stock Exchange in March 2001 which generated an exceptional gain of approximately HK\$155,690,000 for SIIC MedTech, of which approximately HK\$100,000,000 was attributed to the Group. During the year, gain on the Group's deemed disposal of interest in a jointly controlled entity was derived from the listing of Bright Dairy on the A share market of Shanghai Stock Exchange in August 2002 which resulted in a dilution of interest from 40% to approximately 30.8% and generated an exceptional gain of approximately HK\$220,000,000 for the Group.

E. Share of results of jointly controlled entities

Share of results of jointly controlled entities for the year decreased by approximately HK\$125,000,000 from approximately HK\$266,850,000 in last year to approximately HK\$141,850,000. The decrease was primarily attributed to the decrease in profit of Shanghai Huizhong and the unfavourable results of Shanghai Optical Communications compared to last year. There was also a share of the Compass Fund's exceptional gain in last year attributable to the listing of Clear Media, held by the Compass Fund, on the Main Board of the Hong Kong Stock Exchange.

F. Share of results of associates

Share of results of associates for the year decreased by approximately HK\$65,340,000, from approximately HK\$72,370,000 in 2001 to HK\$7,030,000. Decrease in attributable profits during the year was mainly due to the share of loss of SMIC for the first time.

G. Impairment loss recognised in respect of interest in a jointly controlled entity

During the year, full provision was made for diminution in the investment value of Shanghai Pharmaceutical Business Network Co. Ltd., a member of SIIC MedTech, in accordance with the HK GAAP which resulted in an exceptional loss of HK\$15,300,000.

3. Dividends

During the year, the Group paid an interim dividend of HK15 cents per share (2001: HK14 cents). The Board has recommended the payment of a final dividend of HK30 cents per share (2001: HK34 cents), making a total annual dividend of HK45 cents per share (2001: HK48 cents), for approval at the forthcoming annual general meeting. Dividend payout ratio was approximately 36.9% (2001: approximately 35.8%).

4. Assets

As at 31 December 2002, the Group had total assets of approximately HK\$16,462,660,000 (2001: approximately HK\$14,836,200,000).

5. Loans and Capital

- A. The Group's short-term loan was reduced by HK\$383,240,000 over last year to approximately HK\$843,450,000, primarily as a result of the Group's repayment of a long-term syndication loan of approximately HK\$1,170,000,000 that became due during the year. During the year, a new five-year term and revolving loan of HK\$1,600,000,000 was raised, of which the revolving portion of HK\$800,000,000 was classified as short-term loan.
- B. Long-term loan increased by approximately HK\$800,000,000 being the long-term portion of the five-year loan of HK\$1,600,000,000.

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- C. As the Group has repaid during the year the last instalment of its five-year syndication loan of US\$300,000,000 raised in 1997, the Group has no US dollar loan. Its outstanding loans are in denominations of Hong Kong dollar and Renminbi, of which the five-year term loan of HK\$800,000,000 is repayable in full by 2007. As at 31 December 2002, approximately 97% of the outstanding loans were Hong Kong dollar loans.
- D. Cash held by the Group was approximately HK\$3,245,400,000, of which approximately 56%, 22% and 22% were held in US dollar, Hong Kong dollar and Renminbi respectively.
- E. The Group remains a net cash position in respect of its indebtedness. Its sound debt-equity structure lays a solid foundation for the Group's business development. During the year, in line with the pace of business development and actual funding requirements, the Group has capitalised on the current low interest rates to optimise its financial structure by way of raising a new HK\$1,600,000,000 syndication loan at more favourable interest rate with a view to reducing its overall finance costs.
- F. Shareholders' fund of the Group increased by approximately HK\$1,059,400,000 to approximately HK\$13,497,810,000.
- G. Gearing ratio of the Group increased from last year end's approximately 8.7% to approximately 10.4%.

6. Policy on Financial Risks Management

Exchange rate and interest rate risks

During the year, the Group did not enter into any forward exchange and interest rate hedging contracts, which aimed at minimising business and investment risks arising from unfavourable fluctuations in exchange and interest rates.

The Group will, from time to time review the market, its operating conditions and financial position, and will prudently undertake appropriate hedging activities against interest rate and exchange rate risks as necessary for offsetting any adverse impacts on the Group caused by unfavourable fluctuations in interest and exchange rates.