

## Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 39 to the financial statements.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 60 of the annual report.

An interim dividend of HK15 cents per share was paid during the year. The directors recommend a final dividend of HK30 cents per share to the shareholders on the register of members on 28 May 2003.

### SHARE CAPITAL

Changes in the share capital of the Company during the year are set out in note 26 to the financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 26 to the financial statements. The directors considered that the share purchases would enhance the net asset value per share of the Company and were in the interest of the Company and its shareholders.

### INVESTMENT PROPERTY

At 31 December 2002, the investment property of the Group was revalued by an independent property valuer on an open market value existing use basis at HK\$3.3 million. The valuation did not give rise to any surplus or deficit. 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 ( <i>Chairman</i> )	
Chen Wei Shu ( <i>Vice Chairman</i> )	
Zhuo Fu Min ( <i>Vice Chairman</i> )	( <i>resigned on 30 June 2002</i> )
Lu Ming Fang ( <i>Chief Executive Officer</i> )	( <i>appointed on 5 January 2002</i> )
Lu Da Yong ( <i>Executive Deputy CEO</i> )	
Li Wei Da ( <i>Deputy CEO</i> )	
Lu Yu Ping ( <i>Deputy CEO</i> )	
Qian Shi Zheng ( <i>Deputy CEO</i> )	( <i>appointed on 5 January 2002</i> )
Zhou Jie ( <i>Deputy CEO</i> )	( <i>appointed on 5 January 2002</i> )
Yu Li	( <i>resigned on 11 March 2002</i> )
Cao Fu Kang	
Wen Song Quan	
Ge Wen Yao	
Huang Yan Zheng	
Gu Wen Xing	

**Independent non-executive directors:**

Lee Quo Wei  
Lo Ka Shui  
Woo Chia-Wei  
Leung Pak To, Francis

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs. Chen Wei Shu, Lu Da Yong, Li Wei Da, Lu Yu Ping, Cao Fu Kang and Wen Song Quan 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, Cao Fu Kang, Ge Wen Yao 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.

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. Lu Yu Ping has entered into a service agreement with the Company for an initial period of three years commencing 8 March 2000, which will continue thereafter unless and until 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. 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, such notice not to be given at any time before 1 February 2004.

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, such notice not to be given at any time before 5 July 2004.

Each of Messrs. Lu Ming Fang, Qian Shi Zheng and Zhou Jie has entered into a service agreement with the Company 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, such notice not to be given at any time before 5 July 2004.

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 an initial period of three years and will continue thereafter unless and until terminated by either party by six months' prior written notice, such notice not to be given at any time before 12 March 2005.

The original service agreement of Mr. Zhuo Fu Min was terminated on 5 January 2002 and a new service agreement was entered into and became effective on the same day, which was for an initial period of three years and was to continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Zhuo resigned as a director of the Company on 30 June 2002 and his service agreement was terminated on the same date.

Mr. Yu Li has entered into a service agreement with the Company for an initial period of three years commencing 3 April 1998, which was to continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Yu resigned as a director of the Company on 11 March 2002 and his service agreement was terminated on the same date.

## Directors' Report

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 IN SECURITIES

As at 31 December 2002, save as disclosed herein, none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

<b>Name of Director</b>	<b>Number of shares of the Company held as personal interest</b>
Cai Lai Xing	4,000,000
Chen Wei Shu	3,500,000
Lu Ming Fang	2,700,000
Lu Da Yong	2,700,000
Li Wei Da	1,200,000
Zhou Jie	2,700,000
Cao Fu Kang	1,000,000
Wen Song Quan	1,000,000

## SHARE OPTIONS

Particulars of the share option schemes adopted by the Group are set out in note 27 to the financial statements.

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

		Number of the Company's shares subject to share options				
Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2002
Category 1: Directors						
Chen Wei Shu	January 1999	9.568	1,500,000	-	(1,500,000)	-
Lu Ming Fang	August 1998	10.432	500,000	-	(500,000)	-
	January 1999	9.568	1,200,000	-	(1,200,000)	-
	July 2001	10.432	1,500,000	-	-	1,500,000
Lu Da Yong	January 1999	9.568	1,200,000	-	(1,200,000)	-
Li Wei Da	January 1999	9.568	1,200,000	-	(1,200,000)	-
Lu Yu Ping	March 2001	10.496	1,550,000	-	-	1,550,000
Zhou Jie	August 1998	10.432	1,500,000	-	(1,500,000)	-
	January 1999	9.568	1,200,000	-	(1,200,000)	-
Cao Fu Kang	January 1999	9.568	1,000,000	-	(1,000,000)	-
Wen Song Quan	January 1999	9.568	1,000,000	-	(1,000,000)	-
Gu Wen Xing	March 2001	10.496	500,000	-	-	500,000
Zhuo Fu Min *	January 1999	9.568	1,400,000	-	(1,400,000)	-
Yu Li *	August 1998	10.432	2,000,000	-	(2,000,000)	-
	January 1999	9.568	1,000,000	-	(1,000,000)	-
Total for directors		18,250,000	-	(14,700,000)	-	3,550,000
Category 2: Employees						
	August 1998	10.432	15,650,000	-	(15,250,000)	(400,000)
	January 1999	9.568	11,600,000	-	(10,600,000)	-
	March 2001	10.496	5,580,000	-	(1,170,000)	(90,000)
	July 2001	10.432	6,500,000	-	(2,500,000)	-
	September 2002 (note (i))	11.710	-	27,250,000	-	(100,000)
Total for employees		39,330,000	27,250,000	(29,520,000)	(590,000)	36,470,000
Total for the Company's option schemes		57,580,000	27,250,000	(44,220,000)	(590,000)	40,020,000
Category 3: Others (note (ii))						
	September 2000	15.900	50,000,000	-	-	(50,000,000)
Total for all categories		107,580,000	27,250,000	(44,220,000)	(50,590,000)	40,020,000

\* The directors resigned during the year.

## Directors' Report

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.

Notes:

- (i) The fair value of the options granted in the current year measured as at 10 September 2002, being the date of grant, was HK\$73,707,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 28.69% based on historical volatility;
2. annual dividends of 35.82% of earnings based on historical dividends; and
3. the Hong Kong Exchange Fund Notes rate of 2.359% and based on the estimated expected life of 3 years.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted in the year.

Consideration received for share options granted during the year was HK\$75.

The closing price of the Company's shares on the trading day immediately before 10 September 2002, being the date of grant of options during the year, was HK\$11.20.

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options were exercised was HK\$14.84.

- (ii) The options were granted in July 2000 as part of the consideration for the acquisition of the equity interest in a company.

The option period commenced from six months after the completion date on 29 September 2000 and ended on 28 March 2002. The options lapsed during the year.

- (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 SIIC MedTech 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:

	Number of SIIC MedTech Shares subject to SIIC MedTech Options			
	Outstanding at 1.1.2002	Reclassification during the year	Lapsed during the year	Outstanding at 31.12.2002
Directors:				
Li Wei Da	6,000,000	-	-	6,000,000
Ge Wen Yao	2,500,000	-	-	2,500,000
Zhuo Fu Min (note)	8,000,000	(8,000,000)	-	-
	16,500,000	(8,000,000)	-	8,500,000
Employees	22,200,000	8,000,000	(500,000)	29,700,000
	38,700,000	-	(500,000)	38,200,000

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

Note: No share options were exercised by Mr. Zhuo Fu Min during the period prior to his resignation as a director of SIIC MedTech on 25 January 2002.

## DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

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 debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## Directors' Report

**SUBSTANTIAL SHAREHOLDERS**

As at 31 December 2002, the register kept by the Company under Section 16(1) of the SDI Ordinance showed that the following persons are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

<b>Name of shareholder</b>	<b>Number of ordinary shares beneficially held</b>
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	553,625,000
Shanghai Industrial Investment Treasury Company Limited ("STC")	548,066,000
Shanghai Investment Holdings Limited ("SIH")	548,066,000

Note: SIH, SIIC Capital (B.V.I.) Limited and Top Modern Limited are the beneficial owners of 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively. SIIC owns 100% of Top Modern Limited and STC which owns 100% of SIH which in turns owns 100% of SIIC Capital (B.V.I.) Limited and is accordingly deemed by the SDI Ordinance to be interested in the ordinary shares of the Company held by Top Modern Limited, SIIC Capital (B.V.I.) Limited, STC and SIH.

Nanyang Enterprises Limited, Billion More Investments Limited, Nanyang Enterprises Properties Limited and Gem Capital Investment (BVI) Limited are the beneficial owners of 1,699,000, 2,333,000, 1,032,000 and 485,000 ordinary shares of the Company respectively. SIIC indirectly owns 100% of these companies and is accordingly deemed by the SDI Ordinance to be interested in the respective shares held by these companies.

Save as disclosed above, the Company has not been notified of any other interests as at 31 December 2002 representing 10% or more of the issued share capital of the Company.

**CONNECTED TRANSACTIONS**

Details of the discloseable connected transactions for the year are set out in note 38(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 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 38(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.

## 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 infarction. 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, SIIC Kehua Biology Company Limited ("Kehua Biology") and Zhejiang Zuoli Pharmaceutical Company ("Zuoli"). 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. Zuoli is engaged in the development, manufacturing and sale of Chinese medicine and health maintenance products.

Save as disclosed above, during the year ended 31 December 2002, 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.

## Directors' Report

**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**

Other than the repurchase by the Company of certain of its shares on the Stock Exchange as described in note 26 to the financial statements, there was no purchase, sale or redemption of the shares of the Company by the Company or any of its subsidiaries during the year.

**DONATIONS**

During the year, the Group made charitable and other donations totalling HK\$83,500.

**RETIREMENT BENEFITS SCHEMES**

Details of the Group's retirement benefits schemes are set out in note 37 to the financial statements.

**POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in note 43 to the financial statements.

**CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**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, 22 April 2003