

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Shanghai Industrial Investment (Holdings) Company Limited, also incorporated in Hong Kong.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Further details of the impact on the adoption of these new and revised SSAPs are as follows:

Foreign currencies

The revisions to SSAP 11 *Foreign Currency Translation* have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

Under SSAP 15 (Revised) *Cash Flow Statements*, cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under separate headings, are classified as investing or financing cash flows. Interest paid and dividends paid are classified as financing cash flows, while interest received and dividends received are classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities.

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For the year ended 31 December 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/ CHANGES IN ACCOUNTING POLICIES (continued)

Employee benefits

SSAP 34 *Employee Benefits* introduces measurement rules for employee benefits, including retirement benefit plans. The adoption of this SSAP has not had any material effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised to income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in joint ventures

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the unamortised premium paid on acquisition in so far as it has not already been written off or amortised less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities are included in the consolidated income statement.

Interest in associates

An associate is an enterprise over which the Group is a position to exercise significant influence, including participation in financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in value of individual investments.

Investments in infrastructure projects

The Group's investments in infrastructure projects are recorded at cost, as reduced by any identified impairment loss. Payments receivable each year under the joint venture and operation management agreements are apportioned between income and reduction of the carrying value of the investments so as to reflect a constant periodic rate of return on the net investment in these infrastructure projects.

Where the estimated recoverable amount of these investments falls below their carrying amount, the carrying amount of the investments, to the extent that it is considered to be irrecoverable, is written off immediately to the income statement.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue recognition**

Sales of goods are recognised when goods are delivered and title has been passed.

Income from infrastructure projects where the Group is contracted to receive a pre-determined minimum sum over the period of the project is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment in these infrastructure projects.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from letting of properties and plant and equipment under operating leases, is recognised on a straight line basis over the period of the respective leases.

Income from investments in securities other than infrastructure projects is recognised when the Group's right to receive payment has been established.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years, including the renewable period.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment**

Property, plant and equipment, other than construction in progress, is stated at cost or valuation less depreciation or amortisation at the balance sheet date and any accumulated impairment losses.

Land and buildings which have been previously classified as investment properties are stated at their valuation immediately prior to transfer less subsequent depreciation. No further valuation will be carried out on these land and buildings.

Property, plant and equipment in the course of construction for production are carried at cost less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The cost or valuation of leasehold land is amortised over the period of the lease using the straight line method.

The cost of land use rights is amortised over the period of the rights using the straight line method.

Depreciation is provided to write off the cost or valuation of other property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	4% – 5%
Furniture, fixtures and equipment	20% – 33 $\frac{1}{3}$ % or over the period of the lease in case of fixtures in rented premises
Motor vehicles	20% – 30%
Plant and machinery	6 $\frac{2}{3}$ % – 20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method or, in the case of merchandise held for resale in a department store, cost is calculated using the retail price method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Notes to the Financial Statements

For the year ended 31 December 2002

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	2002	2001
	HK\$'000	HK\$'000
Sales of goods	2,675,319	2,479,925
Income from infrastructure projects	704,718	719,493
	3,380,037	3,199,418

5. INVESTMENT INCOME

	2002	2001
	HK\$'000	HK\$'000
Interest income	50,846	137,941
Gain on disposal of investments in securities	28,711	46,048
Income from unlisted investments, other than infrastructure projects	8,008	11,004
Dividend income from listed investments	3,314	2,845
Rental income from property, plant and equipment	2,909	3,717
	93,788	201,555

Notes to the Financial Statements

For the year ended 31 December 2002

6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Basic salaries and allowances	268,955	244,454
Bonuses	52,875	66,162
Retirement benefits scheme contributions, net of forfeited contributions of approximately HK\$1,336,000 (2001: approximately HK\$940,000)	19,021	14,981
	340,851	325,597
Amortisation of goodwill (included in administrative expenses)	1,869	-
Auditors' remuneration	5,000	5,000
Depreciation and amortisation of property, plant and equipment	105,947	108,114
Impairment loss recognised in respect of goodwill (included in administrative expenses)	-	1,158
Impairment loss recognised in respect of investments in infrastructure and other projects (included in other operating expenses)	3,231	17,277
Impairment loss recognised in respect of investments in securities (included in other operating expenses)	14,456	17,410
Net unrealised holding loss (gain) on investments in securities	15,569	(1,135)
Operating lease rentals in respect of equipment and motor vehicles	771	1,177
Operating lease rentals in respect of land and buildings to		
- ultimate holding company	5,884	8,179
- fellow subsidiaries	44,351	41,620
- others	8,022	15,623
Research and development costs	13,516	10,610
(Gain) loss on disposal of property, plant and equipment	(855)	969

Notes to the Financial Statements

For the year ended 31 December 2002

7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2002	2001
	HK\$'000	HK\$'000
Directors' fees:		
Executive	589	–
Independent non-executive	776	776
Other emoluments of executive directors:		
Basic salaries and allowances	22,408	23,105
Bonuses	11,238	19,569
Retirement benefits scheme contributions	2,186	1,962
Total directors' emoluments	37,197	45,412

The emoluments of the directors were within the following bands:

	2002	2001
	Number of	Number of
	directors	directors
Up to HK\$1,000,000	8	6
HK\$1,000,001 to HK\$1,500,000	2	3
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	2	–
HK\$3,500,001 to HK\$4,000,000	2	–
HK\$4,000,001 to HK\$4,500,000	2	2
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	–	1

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

All the five highest paid employees of the Group in both years were executive directors of the Company. Details of their emoluments are disclosed above.

Notes to the Financial Statements

For the year ended 31 December 2002

8. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	2002 HK\$'000	2001 HK\$'000
Gain on deemed disposal of interest in jointly controlled entities	218,000	155,694
Gain on deemed disposal of interest in an associate	2,665	–
Gain on disposal of interest in a jointly controlled entity	1,799	–
Gain (loss) on partial disposal of interest in subsidiaries	400	(2,886)
Gain on partial disposal of an associate	–	1,552
	<u>222,864</u>	<u>154,360</u>

9. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax		
– current year	30,102	8,510
– overprovision in prior years	(1,255)	(5,096)
– PRC income tax		
– current year	86,135	56,528
– under(over)provision in prior years	7,186	(7,304)
	<u>122,168</u>	<u>52,638</u>
Deferred taxation (note 30)		
– current year	(7,805)	7,124
– effect of change in tax rate	–	2,100
	<u>(7,805)</u>	<u>9,224</u>
Share of PRC income tax of jointly controlled entities	41,950	35,127
Share of PRC income tax of associates	26,063	11,865
	<u>68,013</u>	<u>46,992</u>
	<u>182,376</u>	<u>108,854</u>

Notes to the Financial Statements

For the year ended 31 December 2002

9. TAXATION (continued)

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries and associate are also entitled to reduced tax rates because they are classified as high technology entities under relevant rules. The current year's PRC income tax charges are arrived at after taking into account these various tax incentives, ranging from 10% to 33%.

Details of deferred taxation are set out in note 30.

10. DIVIDENDS

	2002	2001
	HK\$'000	HK\$'000
Interim dividend of HK15 cents per share (2001: HK14 cents per share)	141,332	125,688
2001 final dividend of HK34 cents per share (2000: HK30 cents per share)	312,688	269,756
Additional dividend due to exercise of share options/issue of new shares on subscription	-	47
	454,020	395,491

A final dividend of HK30 cents per share (2001: HK34 cents) has been proposed by the board of directors and is subject to approval by the shareholders in annual general meeting.

Notes to the Financial Statements

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11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2002 HK\$'000	2001 HK\$'000
Earnings:		
Profit for the year and earnings for the purpose of basic earnings per share	1,126,343	1,202,534
Effect of dilutive potential ordinary shares		
– adjustment to the share of results of a subsidiary based on potential dilution of its earnings per share	(21)	–
Earnings for the purpose of diluted earnings per share	<u>1,126,322</u>	<u>1,202,534</u>
	2002	2001
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	919,908,679	898,671,854
Effect of dilutive potential ordinary shares		
– share options	<u>10,721,509</u>	<u>12,503,406</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>930,630,188</u>	<u>911,175,260</u>

Notes to the Financial Statements

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12. INVESTMENT PROPERTY

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
VALUATION		
Balance brought forward	12,000	12,000
Transfer to property, plant and equipment	(8,700)	–
Balance carried forward	<u>3,300</u>	<u>12,000</u>

The investment property was revalued at 31 December 2002 by Debenham Tie Leung Limited, an independent firm of property valuers, on an open market value existing use basis. The revaluation did not give rise to any surplus or deficit for the year.

The Group's property is rented out under an operating lease.

The Group's investment property is situated in the PRC and is held under medium-term land use rights.

Notes to the Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 January 2002	466,868	264,396	49,876	981,406	10,467	1,773,013
Acquired on acquisition of subsidiaries	11,899	86	-	10,310	689	22,984
Additions	14,060	13,989	7,966	56,082	42,526	134,623
Transfers/reclassifications	9,709	17,768	304	15,697	(34,778)	8,700
Disposals	(1,237)	(6,572)	(4,643)	(1,157)	-	(13,609)
At 31 December 2002	501,299	289,667	53,503	1,062,338	18,904	1,925,711
Comprising:						
At cost	491,599	289,667	53,503	1,062,338	18,904	1,916,011
At valuation - 1996	1,000	-	-	-	-	1,000
At valuation - 2001	8,700	-	-	-	-	8,700
	501,299	289,667	53,503	1,062,338	18,904	1,925,711
DEPRECIATION AND AMORTISATION						
At 1 January 2002	57,198	95,540	36,773	452,064	-	641,575
Provided for the year	14,582	30,168	4,437	56,760	-	105,947
Eliminated on disposals	(696)	(4,043)	(4,537)	(1,018)	-	(10,294)
At 31 December 2002	71,084	121,665	36,673	507,806	-	737,228
NET BOOK VALUE						
At 31 December 2002	430,215	168,002	16,830	554,532	18,904	1,188,483
At 31 December 2001	409,670	168,856	13,103	529,342	10,467	1,131,438

During the year ended 31 December 2002, the Group's investment property with a carrying value of HK\$8.7 million was transferred to land and buildings. Subsequent to the transfer, no further revaluation has been carried out.

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

In the current year, land and buildings include certain assets carried at cost or revaluation of HK\$9,361,000 (2001: HK\$7,721,000) in aggregate with accumulated depreciation of HK\$2,012,000 (2001: HK\$1,449,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$273,000 (2001: HK\$223,000).

In the current year, plant and machinery includes certain assets carried at cost of HK\$15,751,000 (2001: HK\$15,751,000) in aggregate with accumulated depreciation of HK\$11,227,000 (2001: HK\$9,652,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$1,575,000 (2001: HK\$1,575,000).

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
COST				
At 1 January 2002	2,803	20,579	7,222	30,604
Additions	–	3,296	335	3,631
Disposals	–	(27)	(689)	(716)
At 31 December 2002	2,803	23,848	6,868	33,519
DEPRECIATION				
At 1 January 2002	37	15,435	7,081	22,553
Provided for the year	112	3,330	138	3,580
Eliminated on disposals	–	(25)	(689)	(714)
At 31 December 2002	149	18,740	6,530	25,419
NET BOOK VALUE				
At 31 December 2002	2,654	5,108	338	8,100
At 31 December 2001	2,766	5,144	141	8,051

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
The net book value of property interests comprises:				
Properties held under				
- medium-term leases in Macau	1,275	-	-	-
- long leases in Macau	-	1,323	-	-
- medium-term leases in Hong Kong	280,816	288,720	-	-
- medium-term land use rights in the PRC	148,124	119,627	2,654	2,766
	430,215	409,670	2,654	2,766

The Group's land and buildings stated at 1996 and 2001 valuation were valued at 31 December 1996 and 31 December 2001 by an independent firm of professional property valuers on an open market value existing use basis before being transferred from investment properties. No further valuation has been carried out on these properties.

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14. GOODWILL

	THE GROUP
	HK\$'000
COST	
At 1 January 2002	1,158
Arising on acquisition of subsidiaries	29,586
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At 31 December 2002	30,744
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AMORTISATION AND IMPAIRMENT	
At 1 January 2002	1,158
Amortisation during the year	1,869
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At 31 December 2002	3,027
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NET BOOK VALUE	
At 31 December 2002	27,717
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At 31 December 2001	-
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The amortisation period adopted for goodwill ranges from 5 to 20 years.

15. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Listed shares, at cost	34,451	34,451
Unlisted shares, at cost	772,897	768,998
Amounts due from subsidiaries	13,032,394	12,222,825
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	13,839,742	13,026,274
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Market value of listed shares	25,619	31,164
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The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year of the balance sheet date. Accordingly, such amounts have been classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2002 are set out in note 39.

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16. INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets of jointly controlled entities	1,634,725	1,785,508
Goodwill on acquisition of jointly controlled entities	33,279	–
Amounts due from jointly controlled entities	212,074	198,727
	1,880,078	1,984,235
Less: impairment loss recognised	(2,445)	–
	1,877,633	1,984,235

The amounts due from jointly controlled entities are unsecured and repayable after one year.

Except for an amount of approximately HK\$19.3 million at 31 December 2001 which was non-interest bearing, the balances carried interest at commercial rates.

The directors considered that in the light of the recurring operating losses of a jointly controlled entity and irrecoverable market conditions, the interest in this jointly controlled entity is considered to be irrecoverable. Accordingly, an impairment loss of HK\$15,300,000 in respect of the whole interest in this jointly controlled entity was recognised in the income statement for the year, of which an amount of HK\$2,445,000 was credited to interest in jointly controlled entities and the balance of HK\$12,855,000 was credited to goodwill reserve.

Goodwill arising on acquisition of jointly controlled entities

	HK\$'000
COST	
Arising on acquisition of jointly controlled entities and balance at 31 December 2002	34,177
AMORTISATION	
Provided for the year and balance at 31 December 2002	898
NET BOOK VALUE	
At 31 December 2002	33,279

Notes to the Financial Statements

For the year ended 31 December 2002

16. INTEREST IN JOINTLY CONTROLLED ENTITIES (continued)

The amortisation period adopted for the above goodwill is 20 years.

Details of the Group's principal jointly controlled entities at 31 December 2002 are set out in note 40.

17. INTEREST IN ASSOCIATES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets of associates	2,449,531	1,638,797
Amount due from an associate	101,601	–
Goodwill arising on acquisition of associates/additional interest in an associate less amortisation	31,976	33,264
	<u>2,583,108</u>	<u>1,672,061</u>

**Goodwill arising on acquisition of associates/
additional interest in an associate**

	HK\$'000
COST	
At 1 January 2002	33,548
Arising on acquisition of associates	228
At 31 December 2002	<u>33,776</u>
AMORTISATION	
At 1 January 2002	284
Provided for the year	1,516
At 31 December 2002	<u>1,800</u>
NET BOOK VALUE	
At 31 December 2002	<u><u>31,976</u></u>

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTEREST IN ASSOCIATES (continued)

During the year ended 31 December 2001, the Group acquired an approximately 17% equity interest in Semiconductor Manufacturing International Corporation ("SMIC") for a consideration of approximately US\$185.6 million (approximately HK\$1,448 million). Part of the consideration of approximately HK\$1,089 million was paid in 2001 and during the year ended 31 December 2002, the Group paid the balance of the consideration of approximately HK\$359 million.

In the opinion of the directors, the Group can exercise significant influence over the financial and operating policy decisions of SMIC and accordingly SMIC is classified as an associate.

During the year ended 31 December 2002, the Group also acquired a 25% equity interest in EAS International Transportation Limited ("EAS International") through acquisition of a subsidiary for a consideration of approximately HK\$52 million. EAS International is engaged in the freight forwarding and logistics businesses in the PRC. As at 31 December 2002, the Group also advanced a loan of HK\$100 million to EAS International to finance its operations. The loan is unsecured, bears interest at prevailing market rates and is repayable within two years.

The Group is committed to acquire an additional interest in EAS International at a consideration of approximately HK\$196 million, subject to adjustments. Upon completion of the further acquisition, the Group will become the controlling shareholder of EAS International. The capital commitment has been disclosed in note 33.

The amortisation period adopted for goodwill ranges from 5 to 20 years.

Details of the Group's principal associates at 31 December 2002 are set out in note 42.

Notes to the Financial Statements

For the year ended 31 December 2002

18. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Unlisted investment in infrastructure projects		
– Yanan Road, at cost	1,405,344	1,405,344
– Inner Ring Road and the North-South Elevated Expressway, at cost	4,649,400	4,649,400
Less: Capital receipts from infrastructure projects	(598,296)	(472,679)
	5,456,448	5,582,065
Unlisted investments in other projects, at cost in		
– the PRC	114,230	114,230
– Hong Kong	5	5
Less: Impairment loss recognised	(22,831)	(19,600)
	91,404	94,635
Amounts due from investees, net of allowance	3	3
	5,547,855	5,676,703

During the year, the directors of the Company reviewed the carrying amount of the unlisted investments in other projects in light of the current market condition with reference to the financial results and business operated by certain investees. The directors identified an impairment loss of HK\$22,831,000 (2001: HK\$19,600,000) on the unlisted investments, estimated by reference to the fair value of the investments and the amount has been recognised in the income statement accordingly.

The Group's investment in Yanan Road at 31 December 2002 represents a 50.2% interest in the registered capital of 上海延安路高架道路發展有限公司 Shanghai Yanan Road Elevated Road Development Co., Ltd. ("Shanghai Yanan Road JV") which is a sino-foreign cooperative joint venture company established under the laws of the PRC for the period from 6 November 1995 to 31 December 2017 and is engaged in the construction, operation, management and maintenance of an elevated road in Shanghai, the PRC.

Notes to the Financial Statements

For the year ended 31 December 2002

18. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS (continued)

Under the terms of the relevant joint venture agreement and operation management agreement, the Group is contracted to receive a pre-determined sum from Shanghai Yanan Road JV in quarterly instalments during the period from March 1997 to December 2017 as a return on its investment. Should the operating profit of Shanghai Yanan Road JV be inadequate to pay the required contracted instalments to the Group, then the shortfall and interest accrued thereon will be paid by the PRC joint venture partner of Shanghai Yanan Road JV. Any excess of the operating profit of Shanghai Yanan Road JV over the contracted instalment will not be shared by the Group and is attributable to the PRC joint venture partner. At the expiry of the cooperative period, the exclusive right to operate the Yanan Road will revert to the Shanghai Municipal People's Government at nil consideration and the remaining assets and liabilities of Shanghai Yanan Road JV will be attributable to the PRC joint venture partner.

The Group's investment in Inner Ring Road and the North-South Elevated Expressway at 31 December 2002 represents a 35% interest in the registered capital of 上海新建設發展有限公司 Shanghai New Construction Development Co., Ltd. ("Shanghai New Construction JV") which is a sino-foreign cooperative joint venture company established under the laws of the PRC for the period from 18 April 1997 to 30 April 2017 and is engaged in the operation, management and maintenance of the Inner Ring Road and the North-South Elevated Expressway in Shanghai, the PRC.

Under the terms of the relevant joint venture agreement and operation management agreement, the Group is contracted to receive a pre-determined minimum sum from Shanghai New Construction JV in quarterly instalments during the period from June 1997 to April 2017 as a return on the investment. Should the profits of Shanghai New Construction JV available for distribution be inadequate to pay the required contracted minimum instalments to the Group, then the shortfall will be paid by the PRC joint venture partner of Shanghai New Construction JV. Any excess of profit of Shanghai New Construction JV available for distribution over the contracted minimum instalment, except to the extent of any additional amount payable to the Group pursuant to the operation management agreement, will not be shared by the Group and is attributable to the PRC joint venture partner. At the expiry of the cooperation period, the exclusive right to operate and manage the Inner Ring Road and the North-South Elevated Expressway will revert to the Shanghai Municipal People's Government at nil consideration and the remaining assets and liabilities of Shanghai New Construction JV will be attributable to the PRC joint venture partner.

Notes to the Financial Statements

For the year ended 31 December 2002

18. INVESTMENTS IN INFRASTRUCTURE AND OTHER PROJECTS (continued)

In addition to the infrastructure projects, the Group's other unlisted investments include principally interests in various companies established in the PRC which are engaged in the provision of printing services, manufacture of paper products, manufacture and sale of packaging materials and operation of a training centre. Pursuant to various addendums to the joint venture agreements with the respective PRC joint venture partners, the Group has forfeited its economic interests in connection with the operation and management of these companies in return for the receipt of contracted annual payments. The results, assets and liabilities of these investee companies are insignificant to the Group.

The amounts due from investees are unsecured, non-interest bearing and have no fixed repayment terms.

In the opinion of the directors, for the purpose of the preparation of the Group's consolidated financial statements, the above joint ventures are not regarded as the Group's subsidiaries, jointly controlled entities or associates because they carry contracted returns over the period of the respective joint venture.

In the opinion of the directors, the underlying value of the above unlisted investments are at least equal to their carrying values.

Notes to the Financial Statements

For the year ended 31 December 2002

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Investment securities				
Listed equity securities				
in Hong Kong	57,024	-	-	-
Unlisted and non-current equity securities in the PRC	-	11,700	-	-
	57,024	11,700	-	-
Other investments				
Equity securities:				
Listed	85,222	6,966	6,817	1,625
Unlisted	217,909	235,505	-	-
	303,131	242,471	6,817	1,625
Debt securities:				
Listed	7,392	-	-	-
Unlisted	193,741	-	-	-
	201,133	-	-	-
	504,264	242,471	6,817	1,625
Comprising				
Listed				
Hong Kong	85,222	6,873	6,817	1,625
PRC	-	93	-	-
Others	7,392	-	-	-
Unlisted				
Hong Kong	179,021	-	-	-
PRC	189,829	207,425	-	-
United States of America	28,080	28,080	-	-
Others	14,720	-	-	-
	504,264	242,471	6,817	1,625
Market value of listed securities	128,972	6,966	6,817	1,625

Notes to the Financial Statements

For the year ended 31 December 2002

19. INVESTMENTS IN SECURITIES (continued)

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount of other investments analysed for reporting purposes as:				
Current	286,370	1,718	6,817	1,625
Non-current	217,894	240,753	-	-
	504,264	242,471	6,817	1,625
Carrying amount of investments in securities analysed for reporting purposes as:				
Current	286,370	1,718	6,817	1,625
Non-current	274,918	252,453	-	-
	561,288	254,171	6,817	1,625

20. LOANS RECEIVABLE**THE GROUP**

The receivables are due from minority shareholders of a subsidiary (the "MI Shareholders"). They are secured by the MI Shareholders' equity interests in the subsidiary and the dividend distribution by the subsidiary. Included in the balance are receivable of approximately HK\$6,303,000 which is interest-bearing and repayable in October 2006 and approximately HK\$2,400,000 which is interest-bearing and repayable in October 2004.

21. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT**THE GROUP**

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities.

Notes to the Financial Statements

For the year ended 31 December 2002

22. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	266,987	268,593
Work in progress	21,914	21,598
Finished goods	80,870	49,881
Merchandise held for resale	31,800	33,248
	401,571	373,320

The inventories are stated at cost.

During the year, cost of inventories recognised in income statement amounted to approximately HK\$1,165 million (2001: approximately HK\$1,178 million).

23. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$292,419,000 (2001: HK\$264,293,000) and their aged analysis is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables:		
Within 30 days	136,135	125,262
Within 31 – 60 days	74,313	57,396
Within 61 – 90 days	39,334	39,471
Within 91 – 180 days	33,865	34,210
Within 181 – 360 days	7,692	2,277
Over 360 days	1,080	5,677
	292,419	264,293

Notes to the Financial Statements

For the year ended 31 December 2002

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$132,995,000 (2001: HK\$121,243,000) and their aged analysis is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Trade payables:		
Within 30 days	98,160	89,438
Within 31 – 60 days	17,905	15,380
Within 61 – 90 days	8,948	8,646
Within 91 – 180 days	3,452	6,294
Within 181 – 360 days	3,061	387
Over 360 days	1,469	1,098
	132,995	121,243

25. SHORT-TERM BORROWINGS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current portion of long-term bank loans (note 29)	-	1,170,000	-	1,170,000
Short-term bank loans	820,561	40,280	800,000	-
Other short-term loans	22,890	16,412	-	-
	843,451	1,226,692	800,000	1,170,000
Analysed as:				
Secured	19,159	23,458	-	-
Unsecured	824,292	1,203,234	800,000	1,170,000
	843,451	1,226,692	800,000	1,170,000

Notes to the Financial Statements

For the year ended 31 December 2002

26. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
– at 1 January 2001, 31 December 2001 and 31 December 2002	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
– balance at 1 January 2001	897,856,000	89,786
– exercise of share options	3,340,000	334
– shares repurchased and cancelled	(3,139,000)	(314)
– balance at 31 December 2001	898,057,000	89,806
– exercise of share options	44,220,000	4,422
– shares repurchased and cancelled	(5,979,000)	(598)
– balance at 31 December 2002	936,298,000	93,630

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$0.10 each	Price per share Highest	Lowest	Aggregate consideration paid
		HK\$	HK\$	HK\$'000
September 2002	1,113,000	12.05	11.65	13,271
October 2002	4,866,000	12.30	11.05	56,992

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the accumulated profits of the Company as set out in note 28.

Notes to the Financial Statements

For the year ended 31 December 2002

26. SHARE CAPITAL (continued)

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

All the shares issued by the Company during the year ranked pari passu with the then existing shares in all respects.

27. SHARE OPTION SCHEMES

Details of the share option schemes adopted by members of the Group are as follows:

(a) SIHL Old Scheme

The share option scheme of the Company (the "SIHL Old Scheme") was adopted on 17 May 1996 for the primary purpose of providing incentives to executive directors and eligible employees of the Company or its subsidiaries, and was to expire on 16 May 2006.

Under the SIHL Old Scheme, the Board of Directors of the Company could grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted had to be accepted within 28 days from the date of grant.

Options 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. Under the SIHL Old Scheme, the exercise price was determined by the directors of the Company, and was not to be less than the higher of the nominal value of the Company's shares and 80% of the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

Without prior approval from the Company's shareholders or in other cases, a prior approval from the Stock Exchange, the total number of shares in respect of which options could be granted under the SIHL Old Scheme was not permitted to exceed 10% of the shares of the Company in issue at any point in time.

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTION SCHEMES (continued)**(a) SIHL Old Scheme (continued)**

No employee could be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which had been exercised, and, issuable under all the options previously granted to him which were for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIHL Old Scheme.

At 31 December 2002, the number of shares in respect of which options had been granted under the SIHL Old Scheme and remained outstanding was approximately 1.4% (2001: approximately 6.4%) of the shares of the Company in issue at that date.

The following table discloses details of the Company's options under the SIHL Old Scheme held by employees (including directors) and movement in such holdings during the year ended 31 December 2002:

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
August 1998	10.432	19,650,000	-	(19,250,000)	(400,000)	-
January 1999	9.568	22,300,000	-	(21,300,000)	-	1,000,000
March 2001	10.496	7,630,000	-	(1,170,000)	(90,000)	6,370,000
July 2001	10.432	8,000,000	-	(2,500,000)	-	5,500,000
		<u>57,580,000</u>	<u>-</u>	<u>(44,220,000)</u>	<u>(490,000)</u>	<u>12,870,000</u>

Total consideration received for shares issued upon exercise of share options during the year ended 31 December 2002 was approximately HK\$442,975,000.

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For the year ended 31 December 2002

27. SHARE OPTION SCHEMES (continued)**(a) SIHL Old Scheme (continued)**

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2001	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2001
April 1997	30.912	8,400,000	-	-	(8,400,000)	-
May 1997	30.912	3,500,000	-	-	(3,500,000)	-
August 1998	10.432	21,870,000	-	(2,220,000)	-	19,650,000
January 1999	9.568	23,300,000	-	(1,000,000)	-	22,300,000
March 2001	10.496	-	7,750,000	(120,000)	-	7,630,000
July 2001	10.432	-	8,000,000	-	-	8,000,000
		<u>57,070,000</u>	<u>15,750,000</u>	<u>(3,340,000)</u>	<u>(11,900,000)</u>	<u>57,580,000</u>

Total consideration received for shares issued upon exercise of share options during the year ended 31 December 2001 was approximately HK\$33,987,000.

Options granted under the SIHL Old Scheme 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 on the trading day immediately before the dates on which the options were exercised was HK\$14.84.

During the year, the SIHL Old Scheme was terminated. Upon termination of the SIHL Old Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the SIHL Old Scheme shall remain in force. The outstanding options granted under the SIHL Old Scheme shall continue to be subject to the provisions of the SIHL Old Scheme.

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27. SHARE OPTION SCHEMES (continued)**(b) SIHL New Scheme**

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), terminated the SIHL Old Scheme and adopted a new share option scheme (the "SIHL New Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 31 May 2002.

Upon termination of the SIHL Old Scheme, no further options may be granted thereunder. However, in respect of the outstanding options, the provisions of the SIHL Old Scheme shall remain in force.

According to the SIHL New Scheme, the Board of Directors of the Company may grant options to any director and employee of each member of the Group (including a company in which (i) the Company is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board, the Company is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Share options granted should be accepted within 30 days from the date of grant. The Board of Directors may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of the adoption of the SIHL New Scheme. The Board of Directors may also provides restrictions on the exercise of a share option during the period a share option may be exercised.

The exercise price is determined by the Board of Directors of the Company, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL New Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

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27. SHARE OPTION SCHEMES (continued)**(b) SIHL New Scheme (continued)**

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the SIHL New Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

The following table discloses details of the Company's options under the SIHL New Scheme held by employees (including directors) and movement in such holdings during the year:

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
September 2002	11.71	-	27,250,000	-	(100,000)	27,150,000

(c) SIIC MedTech Old Scheme

A subsidiary of the Company, SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") adopted a share option scheme (the "SIIC MedTech Old Scheme") on 11 November 1999 for the primary purpose of providing incentives to directors and eligible employees and was to expire on 10 November 2009.

Under the SIIC MedTech Old Scheme, the Board of Directors of SIIC MedTech could grant options to eligible employees, including directors of SIIC MedTech and its subsidiaries, to subscribe for shares in SIIC MedTech for a consideration of HK\$1 for each lot of share options granted. Options granted had to be accepted within 28 days from the date of grant.

Options are exercisable at any time during the three years commencing on the expiry of three years after the date of grant. The exercise price was determined by the Board of Directors of SIIC MedTech, and was not to be less than the highest of (i) the closing price of SIIC MedTech's shares on the date of grant, (ii) the average closing price of SIIC MedTech's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the SIIC MedTech share.

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27. SHARE OPTION SCHEMES (continued)**(c) SIIC MedTech Old Scheme (continued)**

The total number of shares in respect of which options could be granted under the SIIC MedTech Old Scheme was not permitted to exceed 10% of the shares of SIIC MedTech in issue at any point in time, without prior approval from SIIC MedTech's shareholders.

No employee of SIIC MedTech could be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the options previously granted to him which had been exercised, and, issuable under all the options previously granted to him which were for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the SIIC MedTech Old Scheme.

The following table discloses the total entitlements of the Company's directors and employees under the SIIC MedTech Old Scheme:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Lapsed during the year	Outstanding at 31.12.2002
January 2000	1.69	<u>38,700,000</u>	<u>(500,000)</u>	<u>38,200,000</u>
	Exercise price per share HK\$	Outstanding at 1.1.2001	Lapsed during the year	Outstanding at 31.12.2001
Month of grant				
January 2000	1.69	<u>39,200,000</u>	<u>(500,000)</u>	<u>38,700,000</u>

The share options can be exercised during the period from 21 January 2003 to 20 January 2006.

During the year, the SIIC MedTech Old Scheme was terminated. Upon termination of the SIIC MedTech Old Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the SIIC MedTech Old Scheme shall remain in force. The outstanding options granted under the SIIC MedTech Old Scheme shall continue to be subject to the provisions of the SIIC MedTech Old Scheme.

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27. SHARE OPTION SCHEMES (continued)**(d) SIIC MedTech New Scheme**

SIIC MedTech has, in accordance with Chapter 23 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") terminated the SIIC MedTech Old Scheme and adopted a new share option scheme (the "SIIC MedTech New Scheme") at its extraordinary general meeting held on 6 May 2002 and the extraordinary general meeting of the Company held on 31 May 2002.

According to the SIIC MedTech New Scheme, the Board of Directors of SIIC MedTech may grant options to any director and employee of each member of SIIC MedTech Group, (including a company in which (i) the Company is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board, the Company is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group, to subscribe for shares in SIIC MedTech for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant. The Board of Directors of SIIC MedTech may at its absolute discretion determine the period during which an option may be exercised, such period should expire no later than 10 years from the date of grant of the option. The Board of Directors of SIIC MedTech may also provides restrictions on the exercise of an option during the period an option may be exercised. The exercise price is determined by the Board of Directors of SIIC MedTech, and shall not be less than the highest of (i) the closing price of SIIC MedTech's shares on the date of grant, (ii) the average closing price of SIIC MedTech's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SIIC MedTech New Scheme and any other share option schemes of SIIC MedTech shall not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of SIIC MedTech in issue at any point of time, without prior approval from the shareholders of SIIC MedTech.

During the year, no options were granted under the SIIC MedTech New Scheme.

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28. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY					
At 1 January 2001	9,316,446	159	1,137,728	2,472,536	12,926,869
Premium arising on issue of shares	33,652	-	-	-	33,652
Expenses incurred in connection with the issue of shares	(49)	-	-	-	(49)
Premium on shares repurchased and cancelled	-	-	-	(40,211)	(40,211)
Transfer arising on shares repurchased and cancelled	-	314	-	(314)	-
Profit for the year	-	-	-	719,595	719,595
Dividends paid (note 10)	-	-	-	(395,491)	(395,491)
At 31 December 2001	9,350,049	473	1,137,728	2,756,115	13,244,365
Premium arising on issue of shares	438,553	-	-	-	438,553
Expenses incurred in connection with the issue of shares	(361)	-	-	-	(361)
Premium on share repurchased and cancelled	-	-	-	(69,665)	(69,665)
Transfer arising on shares repurchased and cancelled	-	598	-	(598)	-
Profit for the year	-	-	-	762,169	762,169
Dividends paid (note 10)	-	-	-	(454,020)	(454,020)
At 31 December 2002	9,788,241	1,071	1,137,728	2,994,001	13,921,041

The Company's reserve available for distribution to shareholders as at 31 December 2002 represents the accumulated profits of approximately HK\$2,994.0 million (2001: approximately HK\$2,756.1 million).

The Company's capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong was not realised profits and is an undistributable reserve.

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For the year ended 31 December 2002

29. LONG-TERM BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unsecured bank loans	800,000	1,170,000	800,000	1,170,000
Other unsecured loan	-	4,187	-	-
	<u>800,000</u>	<u>1,174,187</u>	<u>800,000</u>	<u>1,170,000</u>
Less: Bank and other borrowings due within one year included under current liabilities (note 25)	-	(1,170,000)	-	(1,170,000)
Amount due after one year	<u>800,000</u>	<u>4,187</u>	<u>800,000</u>	<u>-</u>
The bank and other borrowings are repayable as follows:				
Within one year	-	1,170,000	-	1,170,000
Between one to two years	-	4,187	-	-
Between two to five years	800,000	-	800,000	-
	<u>800,000</u>	<u>1,174,187</u>	<u>800,000</u>	<u>1,170,000</u>

30. DEFERRED TAXATION

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Balance brought forward	84,024	74,800
(Credit) charge for the year (note 9)	(7,805)	9,224
Balance carried forward	<u>76,219</u>	<u>84,024</u>

The deferred tax liability represents principally the tax effect of timing differences arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2002

30. DEFERRED TAXATION (continued)

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of property in the PRC as it is not expected that the potential deferred taxation liability will crystallise in the foreseeable future.

The Company had no significant unprovided deferred taxation at the balance sheet date.

31. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the following subsidiaries:

- (a) a 56% interest in the Xiamen Traditional Chinese Medicine Co., Ltd., a sino-foreign equity joint venture company established in the PRC, for a consideration of approximately HK\$40,759,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$8,939,000; and
- (b) the entire issued share capital of EAS Da Tong International Aircargo Co., Ltd., a company incorporated in Hong Kong, for a consideration of HK\$51,728,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$20,647,000.

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Property, plant and equipment	22,984	36,899
Interest in an associate	31,081	–
Inventories	6,624	4,461
Trade and other receivables	17,242	378
Amounts due from shareholders	9,708	–
Bank balances and cash	51,186	7,159
Trade and other payables	(44,229)	(6,578)
Short-term bank loan	(5,234)	(30,137)
Taxation payable	(1,460)	–
Minority interests	(25,001)	(2,303)
	62,901	9,879
Goodwill arising on the acquisition of subsidiaries	29,586	914
	92,487	10,793

Notes to the Financial Statements

For the year ended 31 December 2002

31. ACQUISITION OF SUBSIDIARIES (continued)

	2002	2001
	HK\$'000	HK\$'000
Satisfied by:		
Cash consideration paid	92,487	5,263
Investments in infrastructure and other projects	-	6,116
Interest in an associate	-	(586)
	92,487	10,793
Net (outflow) inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Bank balances and cash acquired	51,186	7,159
Cash paid	(92,487)	(5,263)
	(41,301)	1,896

The subsidiaries acquired during the year contributed approximately HK\$26 million and HK\$5.2 million to the Group's turnover and profit from operations respectively.

32. OPERATING LEASE ARRANGEMENTS*The Group as lessee*

At the balance sheet date, the Group and the Company had commitments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	51,126	48,379	4,083	4,190
In the second to fifth year inclusive	177,834	170,557	46	1,732
After five years	306,877	327,674	-	-
	535,837	546,610	4,129	5,922

Notes to the Financial Statements

For the year ended 31 December 2002

32. OPERATING LEASE ARRANGEMENTS (continued)**The Group as lessee (continued)**

Operating lease payments represent rental payable by the Group and the Company for certain office and factory properties. Leases are negotiated for an average term of 20 years and rentals are fixed for an average term of 2 years.

Included in the above are operating lease commitments for land and buildings of approximately HK\$531 million (2001: HK\$542 million) and approximately HK\$4.1 million (2001: HK\$5.9 million) payable by the Group and the Company respectively to the ultimate holding company and fellow subsidiaries.

The Group and the Company had no significant operating lease commitments for equipment and motor vehicles at the balance sheet date.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP			
	Land and buildings		Plant and machinery	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	685	755	2,131	2,131
In the second to fifth year inclusive	1,212	1,770	4,262	6,393
	1,897	2,525	6,393	8,524

The Company had no significant operating lease arrangements at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2002

33. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
- investment in EAS International	196,262	-
- investment in securities	177,570	-
- investments in the PRC subsidiaries and jointly controlled entities	93,242	163,263
- acquisition of property, plant and equipment	36,398	17,458
- additions in construction in progress	7,275	5,641
- investment in SMIC	-	358,581
	510,747	544,943

Capital expenditure authorised but not contracted for in respect of		
- investments in the PRC subsidiaries and jointly controlled entities	8,025	-
- investment in securities	-	186,916
	8,025	186,916

In addition to the above, the Group's share of capital commitments of the jointly controlled entities are as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
- investments in the PRC subsidiaries and jointly controlled entities	8,045	12,070
- acquisition of property, plant and equipment	7,546	41,553
- additions in construction in progress	2,804	1,645
	18,395	55,268

Notes to the Financial Statements

For the year ended 31 December 2002

33. CAPITAL COMMITMENTS (continued)

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure authorised but not contracted for in respect of		
- acquisition of property, plant and equipment	4,053	-
- additions in construction in progress	8,411	-
	12,464	-

The Company had no significant capital commitment at the balance sheet date.

34. OTHER COMMITMENTS

At the 31 December 2001, there were outstanding interest rate hedging contracts entered into by the Company with certain financial institutions to hedge the floating interest rate risk of the Company's bank loans of US\$150 million. During the year ended 31 December 2002, the contracts expired.

35. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities extended to				
- subsidiaries	-	-	177,000	215,000
- jointly controlled entities	10,218	49,533	-	-
- associates	83,342	-	52,650	-
	93,560	49,533	229,650	215,000

Notes to the Financial Statements

For the year ended 31 December 2002

35. CONTINGENT LIABILITIES (continued)

Details of contingent liabilities given by the Group and the Company to connected persons are set out in note 38 (l)(c).

36. PLEDGE OF ASSETS

At 31 December 2002, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

- (i) plant and machinery with a net book value of approximately HK\$12.1 million (2001: nil);
- (ii) leasehold land and buildings with a net book value of approximately HK\$9.3 million (2001: nil); and
- (iii) bank deposits of approximately HK\$4.2 million (2001: HK\$4 million).

In addition, certain of the Group's plant and machinery with a net book value of HK\$3,782,000 (2001: nil) were pledged to an independent third party which provided a guarantee to a bank in respect of a bank loan granted to the Group.

As at 31 December 2002, the Group had bank deposits of approximately HK\$28.5 million (2001: HK\$28.2 million) and approximately HK\$10.2 million (2001: HK\$21.0 million) pledged to banks in respect of banking facilities granted to an associate and a jointly controlled entity respectively.

37. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits scheme for their qualifying employees pursuant to the Occupational Retirement Schemes Ordinance. To comply with the Mandatory Provident Fund Schemes Ordinance (the "MPFO"), a Mandatory Provident Fund Scheme (the "MPF Scheme") was also established. New employees joined on or after 1 December 2000, however, must join the MPF Scheme. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the income statement represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

Notes to the Financial Statements

For the year ended 31 December 2002

37. RETIREMENT BENEFITS SCHEMES (continued)

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the balance sheet date, no forfeited contributions are available to reduce the contribution payable in the future years.

38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES**(I) Connected Persons**

- (a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The significant transactions with the connected parties during the year, and significant balances with them at the balance sheet date, are as follows:

Connected persons	Nature of transaction	THE GROUP	
		2002	2001
		HK\$'000	HK\$'000
Transactions			
Ultimate holding company:			
Shanghai Industrial Investment (Holdings) Company Limited	Rentals paid on land and buildings (note (I))	5,884	8,179
Fellow subsidiaries:			
Nanyang Enterprises Properties Limited	Rentals paid on land and buildings (note (I))	15,600	19,800
SILC Estate Company Limited	Rentals paid on land and buildings (note (I))	535	969

Notes to the Financial Statements

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38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) Connected Persons (continued)

Connected persons	Nature of transaction	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Fellow subsidiaries: (continued)			
上海實業發展有限公司 (Shanghai SII C Development Ltd.)	Rentals paid on land and buildings (note (i))	21,375	18,978
上海上實(集團)有限公司 (SII C Shanghai Holdings Co., Ltd.)	Rentals paid on land and buildings (note (i))	6,841	1,810
Non-wholly owned subsidiaries:			
SIMST eMedical Network Limited ("SIMST")	Disposal of interest in an investment (note (ii))	8,953	–
寧夏上實保健品有限公司 (Ningxia SII C Viopes Nutraceuticals Company Limited) ("Ningxia SII C")	Interest income received (note (iii))	103	–
Joint venture partner of a PRC subsidiary:			
中國(杭州)青春寶集團公司 (China (Hangzhou) Qingchunbao Group Co.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (note (iv))	50	41
	Purchase of raw materials (note (v))	358	2,621

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**38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES
(continued)****(I) Connected Persons (continued)**

Connected persons	Nature of transaction	THE GROUP	
		2002	2001
		HK\$'000	HK\$'000
<i>Director of a subsidiary:</i>			
Mo Guo Ping	Partial disposal of an interest in a subsidiary (note (v))	2,280	-
	Interest paid (note (vi))	202	-
<i>Minority shareholder of a subsidiary:</i>			
鼎爐實業總公司 (Dinglu Industrial Co.) ("Dinglu") and its subsidiaries	Sales of finished medicine and health product (note (iv))	1,112	-
Balances			
<i>Fellow subsidiary:</i>			
上海上實資產經營有限公司	Balance at 31 December - payment on behalf of the Company (note (vii))	1,495	-
<i>Non-wholly owned subsidiary:</i>			
Ningxia SIIC	Balance at 31 December - loan receivables (note (iii))	4,673	-

Notes to the Financial Statements

For the year ended 31 December 2002

38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) Connected Persons (continued)

Connected persons	Nature of transaction	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
<i>Joint venture partner of a subsidiary:</i>			
China Qingchunbao and its subsidiaries	Balance at 31 December		
	– trade receivables	99	147
	– trade payables	37	1,116
	– dividend payable	1,549	50,000
<i>Director of a subsidiary:</i>			
Mo Guo Ping	Balance at 31 December		
	– loan payable (note (vi))	2,803	–
<i>Minority shareholders of subsidiaries:</i>			
Dinglu and its subsidiaries	Balance at 31 December		
	– trade receivables	35	–
	– non-trade receivables (note (vii))	63	–
	– non-trade payables (note (vii))	14,963	–
	– dividend payable	3,228	–
寧夏農林科學院	Balance at 31 December		
	– loan payable (note (iii))	1,869	–

Notes to the Financial Statements

For the year ended 31 December 2002

**38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES
(continued)****(I) Connected Persons (continued)**

Notes:

- (i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.
 - (ii) On 29 May 2002, SIMST, a non-wholly owned subsidiary of the Group, and S.I. Technology Venture Capital Limited ("SITVC"), a wholly-owned subsidiary of the Group, entered into a share transfer agreement, pursuant to which SIMST acquired a 13.35% interest in E-COM Technology Limited from SITVC at a consideration of RMB9,500,000 (approximately HK\$8,953,000). Details of this acquisition were included in a published announcement of SIIC MedTech on the same date.
 - (iii) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (iv) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
 - (v) The terms of this transaction was determined and agreed by both parties.
 - (vi) The loan is unsecured, bears interest at 5% per annum and repayable within one year.
 - (vii) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
- (b) Details of operating lease commitments with connected parties are set out in note 32.
- (c) As at 31 December 2002, the Company had given guarantees amounting to approximately HK\$22 million (2001: HK\$39 million) to various banks in respect of credit facilities granted to The Wing Fat Printing Company, Limited ("Wing Fat") which is 93.3% indirectly owned by the Group. Also, the Group had provided advances to Wing Fat for financing its operations. As at 31 December 2002, the Group had advanced approximately HK\$109 million (2001: HK\$159 million) to Wing Fat. The advances are unsecured, non-interest bearing and have no fixed repayment terms. The guarantees given by the Company and advances made by the Group were the only financial assistance given by Wing Fat's shareholders to Wing Fat.

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38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) Related parties, other than connected persons

- (a) The significant transactions with related parties, other than connected persons, during the year, and significant balances with them at the balance sheet date, are as follows:

Related parties	Nature of transaction	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Transactions			
Jointly controlled entities:			
Dragon Wealth Assets Limited	Service income (note (i))	1,170	1,919
	Promotional expenses paid (note (i))	1,894	3,724
Daily Wealth Investments Limited	Purchase of finished goods (note (ii))	220	1,418
	Material cost received (note (ii))	70	529
Associates:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Repayments received	18,956	-
	Collection made on behalf of the Group	-	23,289
	Payment made on behalf of the Group	-	21,364
	Purchase of materials (note (ii))	1,506	928
	Interest income received (note (iii))	402	93
浙江天外包裝印刷股份有限公司 (Zhejiang Tianwai Package Printing Co., Ltd.)	Printing services income (note (ii))	7,983	426

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38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) Related parties, other than connected persons (continued)

Related parties	Nature of transaction	THE GROUP	
		2002	2001
		HK\$'000	HK\$'000
Transactions (continued)			
<i>Associates: (continued)</i>			
EAS International	Interest income (note (v))	1,601	–
Balances			
<i>Jointly controlled entities:</i>			
Dragon Wealth Assets Limited	Balance at 31 December – long-term receivable (note (iv))	3,120	3,120
Mergen Holdings Ltd.	Balance at 31 December – long-term receivable (note (iv))	208,564	195,217
E-COM Technology Limited	Balance at 31 December – trade receivable	6,071	–
杭州胡慶餘堂 國藥號有限公司 Hangzhou Huqingyutang Drugstore Co., Ltd.	Balance at 31 December – non-trade receivable (note (vi))	2,336	–
Shanghai Sunve Pharmaceutical Co., Ltd.	Balance at 31 December – non-trade receivable (note (vi))	8,131	–

Notes to the Financial Statements

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38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) Related parties, other than connected persons (continued)

Related parties	Nature of transaction	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Balances (continued)			
<i>Associates:</i>			
上海家化聯合股份有限公司 Shanghai Jahwa United Co. Ltd. ("Shanghai Jahwa")	Balance at 31 December – loan receivable (note (iv))	8,120	4,000
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Balance at 31 December – non-trade receivable – short-term loan receivable (note (iii)) – trade payable	- 9,346 699	19,037 7,541 -
浙江天外包裝印刷股份有限公司 (Zhejiang Tianwai Package Printing Co., Ltd.)	Balance at 31 December – trade receivable	7,547	-
EAS International	Balance at 31 December – loan receivable (note (v))	100,000	-

Notes to the Financial Statements

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**38. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES
(continued)****(II) Related parties, other than connected persons (continued)**

Notes:

- (i) These transactions were carried out in accordance with the terms of the agreement entered into between the relevant parties.
 - (ii) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
 - (iii) The loan is unsecured, bears interest at 5% per annum and repayable within one year.
 - (iv) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (v) The loan is unsecured, bears interest at commercial rates and is repayable within two years.
 - (vi) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
- (b) Detail of guarantees and pledged assets given by the Group to related parties are set out in notes 35 and 36 respectively.

Notes to the Financial Statements

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39. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the attributable Company/ to the subsidiaries Group		Principal activities
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) (note)	PRC	RMB128,500,000	55%	35.4%	Manufacture and sale of Chinese medicine and health food
S.I. Infrastructure Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	100%	Investment holding
SIHL Treasury Limited	Hong Kong	Ordinary shares – HK\$2	100%	100%	Provision of treasury management services
SIIC MedTech	Cayman Islands/ Hong Kong	Ordinary shares – HK\$62,000,000	64.3%	64.3%	Investment holding
Nanyang Tobacco (Marketing) Company, Limited	British Virgin Islands/PRC and Macau	Ordinary shares – US\$1 – HK\$100,000,000	100%	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares – HK\$2	100%	100%	Manufacture of cigarettes
		Non-voting deferred shares – HK\$8,000,000	–	–	

Notes to the Financial Statements

For the year ended 31 December 2002

39. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued/ registered capital held by the attributable Company/ to the Group		Principal activities
			subsidiaries	Group	
Wing Fat	Hong Kong	Ordinary shares	93.3%	93.3%	Manufacture and sale of packaging materials and printed products
		- HK\$2,000,000			
		Non-voting deferred shares	-	-	
		- HK\$1,829,510			
上海東方商厦有限公司 (Shanghai Orient Shopping Centre Ltd.) (note)	PRC	RMB37,340,000	51%	51%	Management and operation of a shopping centre

Note: The company was established in the PRC as a sino-foreign equity joint venture company.

With the exception of S. I. Infrastructure Holdings Limited and SIHL Treasury Limited, all the above subsidiaries are indirectly held by the Company.

None of the deferred shares are held by the Group. The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have practically no rights to dividends or to participate in any distributions on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

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For the year ended 31 December 2002

40. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31 December 2002 are as follows:

Name of jointly controlled entity	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
Mergen Holdings Ltd.	BVI	50%	Investment holding in companies engaged in research and development of biotechnology products and manufacture and sale of pharmaceutical products
上海匯眾汽車制造有限公司 (Shanghai Huizhong Automotive Manufacturing Company Limited) ("Shanghai Huizhong")	PRC	50%	Manufacture and sale of commercial vehicles and automobile components and spare parts
上海市信息投資股份有限公司 (Shanghai Information Investment Inc.)	PRC	20%	Development of communication infrastructure and cable network and provision of internet-related services
上海三維制藥有限公司 (Shanghai Sunve Pharmaceutical Co., Ltd.)	PRC	48%	Manufacture and sale of pharmaceutical products
上海萬眾汽車零件有限公司 (Shanghai Wanzhong Automotive Components Co., Ltd.)	PRC	50%	Manufacture and sale of automobile components and spare parts

All the above jointly controlled entities are indirectly held by the Company.

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

A summary of the financial information of Shanghai Huizhong, the major jointly controlled entity of the Group, is set out in note 41.

Notes to the Financial Statements

For the year ended 31 December 2002

41. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP'S MAJOR JOINTLY CONTROLLED ENTITY

The following is a summary of the financial information extracted from the audited financial statements of Shanghai Huizhong for the year ended 31 December 2002:

Consolidated results for the year ended 31 December:

	2002 HK\$'000	2001 HK\$'000
Turnover	3,891,040	3,371,696
Profit from ordinary activities before taxation	169,475	289,536
Profit from ordinary activities before taxation attributable to the Group	84,738	144,768

Consolidated financial position as at 31 December:

	2002 HK\$'000	2001 HK\$'000
Non-current assets	1,241,037	1,332,663
Current assets	1,488,793	1,612,956
Current liabilities	(747,087)	(896,809)
Net assets	1,982,743	2,048,810
Net assets attributable to the Group	991,372	1,024,405

Notes to the Financial Statements

For the year ended 31 December 2002

42. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2002 and which are all sino-foreign equity joint venture companies established in the PRC are as follows:

Name of associate	Percentage of registered capital		Principal activities
	held by the subsidiaries	attributable to the Group	
EAS International	25%	25%	Provision of freight forwarding and logistics services
SMIC	16.2%	16.2%	Investment holding and manufacture and marketing of advanced technology semiconductors
Shanghai Jahwa	28.2%	18.1%	Manufacture, distribution and sale of personal care and cosmetics products
上海光明乳業股份有限公司 (Shanghai Bright Dairy and Food Co., Ltd.)	30.8%	30.8%	Manufacture, distribution and sale of dairy and related products
濟南泉永印務有限公司 (Jinan Quanyong Printing Co., Ltd.)	48%	44.8%	Provision of printing services
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	29%	27.1%	Manufacture of stamping foil
上海實業交通電器有限公司 (Shanghai SINC Transportation Electric Co., Ltd.)	30%	30%	Manufacture, distribution and sale of automobile components
上海乾通汽車附件有限公司	31.5%	31.5%	Manufacture, distribution and sales of automobile components
浙江天外煙草印刷有限公司 (Zhejiang Tianwai Tobaccos Printing Co., Ltd.)	35%	32.7%	Provision of printing services

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For the year ended 31 December 2002

42. PRINCIPAL ASSOCIATES (continued)

All the above associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

43. POST BALANCE SHEET EVENTS

The following significant events occurred after the balance sheet date:

- (a) In February 2003, the Group acquired a 10% interest in Shanghai Pudong International Container Terminals Limited ("SPICT") for a cash consideration of approximately HK\$178 million. SPICT is engaged in the container terminal business.
- (b) In April 2003, the Group increased its interest in EAS International from 25% to 50% for a cash consideration of approximately HK\$141.3 million.

44. SEGMENT INFORMATION

For management purposes, the Group is currently organised into five operating activities – consumer products and department retail, infrastructure and modern logistics, medicine and bio-technology, automobile and parts and information technology. These activities are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Consumer products and department retail	– manufacture and sale of cigarettes, packaging materials, printed products and dairy products and operation of a shopping centre
Infrastructure and modern logistics	– investment in elevated road projects and modern logistic projects
Medicine and bio-technology	– manufacture and sale of Chinese medicine and health food; bio-technology development
Automobile and parts	– manufacture and sale of commercial vehicles, automobile components and spare parts
Information technology	– development of communication infrastructure and information technology business

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44. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

2002	Consumer products and depart- ment retail HK\$'000	Infrastructure and modern logistics HK\$'000	Medicine and bio- technology HK\$'000	Automobile and parts HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
Income statement:						
External sales	1,832,933	704,718	842,386	-	-	3,380,037
Segment results	260,695	701,926	225,055	-	-	1,187,676
Less: Net headquarters administrative expenses						(79,400)
Add: Interest income						50,846
Profit from operations						1,159,122
Interest on bank and other borrowings wholly repayable within five years						(63,745)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities						222,864
Share of results of jointly controlled entities	77,067	756	3,474	94,055	(33,503)	141,849
Share of results of associates	69,543	7,355	24,161	30,210	(124,237)	7,032
Impairment loss recognised in respect of interest in a jointly controlled entity						(15,300)
Profit from ordinary activities before taxation						1,451,822
Taxation						(182,376)
Profit from ordinary activities after taxation						1,269,446

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44. SEGMENT INFORMATION (continued)

2002	Consumer products and depart- ment retail HK\$'000	Infrastructure and modern logistics HK\$'000	Medicine and bio- technology HK\$'000	Automobile and parts HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:							
ASSETS							
Segment assets	2,322,075	5,942,015	920,941	285,153	263,041	-	9,733,225
Interest in jointly controlled entities	4,152	61,614	288,136	1,093,016	430,715	-	1,877,633
Interest in associates	640,352	141,618	296,700	166,026	1,338,412	-	2,583,108
Unallocated corporate assets							2,268,696
Consolidated total assets							16,462,662
LIABILITIES							
Segment liabilities	399,257	-	238,190	-	1,125	-	638,572
Unallocated corporate liabilities							1,707,735
Consolidated total liabilities							2,346,307
Other information:							
Capital additions	86,930	20,647	75,899	-	708	3,009	187,193
Depreciation and amortisation	88,332	207	13,225	-	301	3,882	105,947
Impairment losses	-	-	15,300	-	14,456	3,231	32,987

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44. SEGMENT INFORMATION (continued)

2001	Consumer products and depart- ment retail HK\$'000	Infrastructure and modern logistics HK\$'000	Medicine and bio- technology HK\$'000	Automobile and parts HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
Income statement:						
External sales	<u>1,756,014</u>	<u>719,493</u>	<u>723,911</u>	<u>-</u>	<u>-</u>	<u>3,199,418</u>
Segment results	171,705	718,245	150,109	-	-	1,040,059
Less: Net headquarters administrative expenses						(87,836)
Add: Interest income						<u>137,941</u>
Profit from operations						1,090,164
Interest on bank and other borrowings wholly repayable within five years						(93,771)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities						154,360
Share of results of jointly controlled entities	89,660	(301)	(21,779)	146,388	52,878	266,846
Share of results of associates	26,571	-	27,576	19,830	(1,607)	<u>72,370</u>
Profit from ordinary activities before taxation						1,489,969
Taxation						<u>(108,854)</u>
Profit from ordinary activities after taxation						<u><u>1,381,115</u></u>

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For the year ended 31 December 2002

44. SEGMENT INFORMATION (continued)

2001	Consumer products and depart- ment retail HK\$'000	Infrastructure and modern logistics HK\$'000	Medicine and bio- technology HK\$'000	Automobile and parts HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:							
ASSETS							
Segment assets	2,324,922	5,923,964	750,708	161,028	291,639	-	9,452,261
Interest in jointly controlled entities	452,772	54,299	15,360	1,116,954	344,850	-	1,984,235
Interest in associates	133,075	-	284,012	153,571	1,101,403	-	1,672,061
Unallocated corporate assets							1,727,647
Consolidated total assets							14,836,204
LIABILITIES							
Segment liabilities	389,525	6,548	212,152	-	1,384	-	609,609
Unallocated corporate liabilities							1,305,878
Consolidated total liabilities							1,915,487
Other information:							
Capital additions	253,671	691	12,787	-	1,073	4,160	272,382
Depreciation and amortisation	91,243	22	11,573	-	35	5,241	108,114
Impairment losses	1,158	-	-	-	17,410	17,277	35,845

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44. SEGMENT INFORMATION (continued)

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services.

	Sales revenue by geographical market		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
PRC	2,620,785	2,471,323	1,039,145	969,930
South-East Asia	329,863	303,321	43,245	20,969
Other Asian countries	147,705	140,922	31,288	24,602
Hong Kong	137,671	124,068	54,600	14,083
Other areas	144,013	159,784	19,398	10,475
	3,380,037	3,199,418	1,187,676	1,040,059
Less: Net headquarters administrative expenses			(79,400)	(87,836)
Add: Interest income			50,846	137,941
Profit from operations			1,159,122	1,090,164

The Group's consumer products and department retail business is located in the PRC and Hong Kong while the infrastructure and modern logistics business, medicine and bio-technology business, automobile and parts business and information technology business are located in the PRC.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Geographical region	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
PRC	12,049,034	11,032,885	166,660	76,132
South-East Asia	29,050	13,146	-	-
Hong Kong	4,354,966	3,761,063	20,533	195,254
Other areas	29,612	29,110	-	996
	16,462,662	14,836,204	187,193	272,382