



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

Annual
Report
2003





INFRASTRUCTURE FACILITIES

Investment projects include toll roads, water supply and sewage treatment facilities, and container terminals. With China's steady economic growth providing promising opportunities for growth in road traffic, transportation and water services, the Group's investment portfolio will drive significant earnings growth.

MEDICINE AND BIOTECHNOLOGY

Businesses include Chinese medicine, biomedicine, chemical pharmaceuticals and medical equipment. The Group has been undertaking restructuring measures so that it is centralised on a single investment and operating platform. As the Chinese pharmaceutical industry is undergoing transition and carrying out reform measures, the Group enjoys access to quality investment opportunities.

CONSUMER PRODUCTS AND AUTOMOBILES AND PARTS

Subsidiaries are engaged in the manufacture and sale of tobacco products, printing and packaging, dairy products, personal care products, and automobiles and parts. The increase of personal income in China is driving the demand for a wide range of consumer products and providing continued substantial growth for the consumer products industry.

INFORMATION TECHNOLOGY

Key investments are in R&D and the manufacture of semiconductor and optical communications products, as well as information infrastructure, e-commerce and value-added services projects under the Shanghai Infoport arena. As the Shanghai Municipality speeds up developments in these IT sectors, the Group can expect to share the returns provided by the strong growth.

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Corporate Information

Directors

Executive Directors

Mr. Cai Lai Xing (*Chairman*)*
Mr. Lu Ming Fang (*Chief Executive Officer*)**
Mr. Lu Da Yong (*Executive Deputy CEO*)
Mr. Ding Zhong De
Mr. Lu Shen
Mr. Qian Shi Zheng (*Deputy CEO*)**
Mr. Lu Yu Ping (*Deputy CEO*)**
Mr. Yao Fang
Mr. Ge Wen Yao

* *Chairman of the Executive Committee*

** *Members of the Executive Committee*

Independent Non-executive Directors

Mr. Lo Ka Shui #
Mr. Woo Chia-Wei ##
Mr. Leung Pak To, Francis ##

Chairman of the Audit Committee

Members of the Audit Committee

Company Secretary

Mr. Leung Lin Cheong, Roger

Authorised Representatives

Mr. Lu Ming Fang
Mr. Leung Lin Cheong, Roger

Stock Code

363

Web Site

<http://www.sihl.com.hk>

Registered Office

26th Floor, Harcourt House
39 Gloucester Road, Hong Kong
Tel: (852) 2529 5652
Fax: (852) 2529 5067

Auditors

Deloitte Touche Tohmatsu

Legal Advisers

Woo, Kwan, Lee & Lo (HK)
Yuan Tai Law Offices (PRC)
Jingtian & Gongcheng (PRC)
Morrison & Foerster (USA)

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of Communications
Citibank, N.A.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial & Commercial Bank of China (Asia) Limited

ADR Depository Bank

The Bank of New York
Investor Relations
P.O. Box 11258
Church Street Station
New York, NY 10286-1258

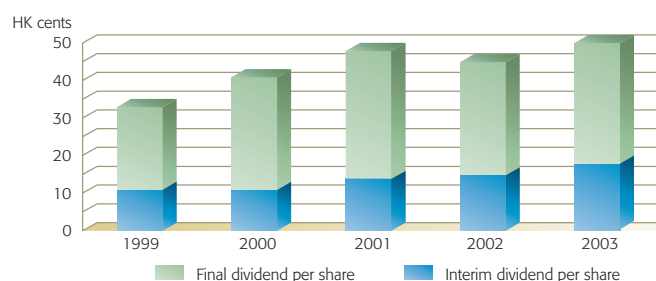
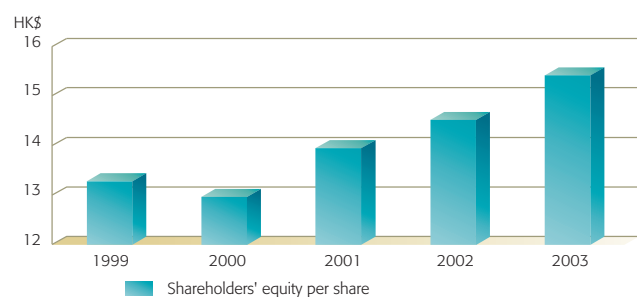
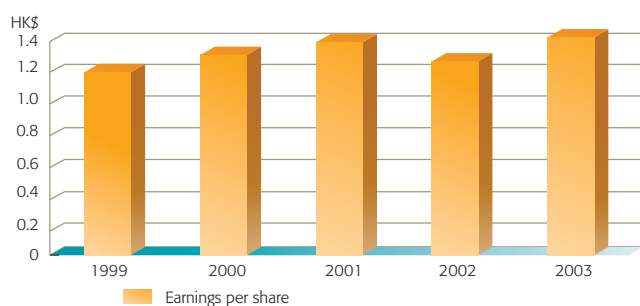
Share Registrar and Transfer Office

Secretaries Limited
28th Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong
Tel: (852) 2980 1766
Fax: (852) 2861 1465

Financial Highlights

	2003	2002	Increase (Decrease)
Turnover (HK\$'000)	2,825,978	3,380,037	(16.4%)
Profit for the year (HK\$'000)	1,259,166	1,126,343	11.8%
Shareholders' equity (HK\$'000)	14,490,840	13,497,806	7.4%
Earnings per share	HK\$1.34	HK\$1.22	9.8%
Dividend per share	HK50 cents	HK45 cents	11.1%
Interim	HK18 cents	HK15 cents	20.0%
Final	HK32 cents	HK30 cents	6.7%
Number of shares in issue	945,748,000	936,298,000	1.0%
Price per share (Year-end closing price)	HK\$17.75	HK\$10.75	65.1%
Market capitalisation (HK\$)	16,787 million	10,065 million	66.8%
Average return on equity	9.0%	8.7%	3.4%
Gearing ratio*	9.8%	10.4%	
Interest cover	58 times	25 times	

* $\text{interest-bearing loans} / (\text{shareholders' equity} + \text{minority interests} + \text{interest-bearing loans})$



Chairman's Statement



I hereby present to the shareholders the summarised results of the Group for the year ended 31 December 2003 as follows:

Profit for the year
HK\$1,259.17 million

Earnings per share
HK\$1.34

Proposed final dividend
HK32 cents per share

Chairman's Statement



Cai Lai Xing
Chairman

The year 2003 was an extraordinary one with numerous challenges for Shanghai Industrial. The economic situation in the first half-year, both globally and in Hong Kong, remained depressed with the war in Iraq and SARS erupting. The economies of China and Hong Kong, and even business contacts between Shanghai and Hong Kong, were dealt a severe blow. Meanwhile, the Group faced serious pressure to restructure its business with a need to resolve the issue of the guaranteed fixed-return projects in China, resulting in the market's concern over our future profits. The management team reacted positively and followed through determinedly its business transformation strategy, implementing several important operating and development initiatives during the year. We not only managed to overcome the difficulties in our

operation but also achieved outstanding results that were well received in the market. Both share price and market capitalisation rose substantially. In the latter half of 2003, the operating environment improved and the performance of existing businesses recorded good results. Furthermore, the Group's associated company, Semiconductor Manufacturing International Corporation ("SMIC"), issued additional preference shares at a premium, bringing an exceptional profit of approximately HK\$239.15 million to the Group. As at 31 December 2003, the Group recorded an audited consolidated profit of approximately HK\$1,259.17 million for the year, a rise of approximately 11.8% compared to the previous year. We saw a steady growth in business and overall operating performance was good.

Chairman's Statement

“The issue of guaranteed fixed return projects was settled properly”

After the PRC State Council announced in September 2002 that local governments must address the issue of guaranteed fixed return investment projects with foreign entities, the Group began to explore a resolution with the relevant authorities. After many rounds of negotiation, an agreement was reached in late August 2003. The Group disposed of its entire interests in the two elevated highway projects to the joint venture partners in China, and received full reimbursement of the carrying value of the investments plus after-tax compensation, totalling HK\$5,762.33 million. The issue of elevated highway projects was thus fully settled.

“The Group seized the opportunity to restructure its infrastructure business portfolio”

While disposing of the elevated highway projects, the Group seized the opportunity to acquire the right to operate the Shanghai-Nanjing Expressway (Shanghai section) for 25 years, for a consideration of RMB2 billion. The Group also collaborated with a subsidiary of the State enterprise China Energy Conservation Investment Corporation to form China Water & Sewage Treatment Company Limited, to invest in and operate water services businesses in China. The Shanghai-Nanjing Expressway is one of the busiest toll roads in the Yangtze River



Delta and investing in this quality project will bring steady cash income for the Group every year. Meanwhile, Mainland China has further opened public utilities markets to foreign enterprises. Water services projects have the characteristics of natural resources and possess enormous potential for market development. The Group made a timely entrance into the water services market in the year. As the economy in China grows steadily, returns on highway and water services projects will enjoy continuous growth. Profit contribution from the original elevated highway projects would have diminished annually due to amortization of their investment costs every year, whereas the new infrastructure investments will bring noticeable growth in profits to the Group.

As at the end of 2003, the throughput of Shanghai ports exceeded 11.28 million TEUs, representing an approximate 30% average annual growth. The Shanghai container port has become the world's third largest. The Group's joint venture company, Shanghai Pudong International Container Terminals Limited, operates the Phase I project of the Shanghai Waigaoqiao Container Port. Since it commenced business on 1 March 2003, satisfactory growth was recorded in both income and throughput compared to the previous year. The Group will continue to explore opportunities for increasing investment in port infrastructure in the future. The Group's realignment of infrastructure projects is basically completed – focusing on toll roads, water services and port facilities. The current business portfolio is of a high quality with growth potential.

“The core business is being predominantly developed and the medical segment consolidated into a single investment and operating platform”

Medicine and biotechnology has been a relatively fast-growing business in the Group, and is also one of the core businesses being predominantly developed. This business segment entered into a new stage of development in 2003 with the

Chairman's Statement

implementation of two major reorganisation moves in the medical business segment. Three listed companies in Shanghai and Hong Kong were involved and total funds worth approximately HK\$1,335.07 million. One of the moves was to acquire an approximate 56.63% interest in the A-share company Shanghai Industrial United Holdings Co., Ltd. ("SI United"), listed on the Shanghai Stock Exchange, from the parent company and other independent third parties; and the other was to privatise SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), listed on the GEM board of the Hong Kong Stock Exchange. The acquisition of SI United is now in its final stage of approval by the relevant PRC government authorities, while SIIC MedTech was officially withdrawn from listing on 17 September 2003. As a result of the restructuring, the medical businesses of the Group and its parent company will be combined and focus on a single investment and operating platform incorporating Chinese medicine, health food, biomedicine, chemical pharmaceuticals, medical equipment and medicine retails. This will make the business structure more focused, enhancing management efficiency and allowing better allocation of resources.



“ SMIC brought remarkable exceptional profit to the Group, enabling it to realise capital appreciation ”

The Group invested in SMIC in 2001 and became its single largest shareholder. After three years of rapid growth, SMIC has become one of the leading semiconductor foundries in the world, and was ranked the fourth leading semiconductor foundry in the world by *IC Insights* in 2003. The SMIC Shanghai factory was selected one of the 'Top Fabs of 2003' by the magazine *Semiconductor International* in 2003. As



semiconductors are used more extensively, the strong demand for semiconductors from the Chinese and global markets will further boost SMIC's global sales. In view of the powerful potential of the industry as well as the scale and competitive edge of the business, SMIC took the opportunity to issue twice additional preference shares at a premium in 2003, bringing an exceptional profit of HK\$239.15 million to the Group and enabling it to realise capital appreciation. In addition, after months of preparation, SMIC was successfully listed simultaneously in the United States and Hong Kong in March 2004, raising total funds exceeding HK\$7.8 billion. It is expected to generate a remarkable exceptional profit for the Group in 2004.

“ Overall business performance achieved steady progress and profit contributions continuously increased ”

Despite facing various challenges in the past year, the Group continued to strengthen the operating capabilities of its existing businesses. Overall business performance achieved steady progress and recurring income continued to grow. Medicines, consumer products, and automobiles and parts in the existing portfolio all offered good performances and continued to make steady profit contributions. Profit from Nanyang Brothers Tobacco Company, Limited rose by about 60.3% from the previous year. Bright Dairy and Food Co., Ltd. achieved double-digit growth in both sales revenue and profit for the eighth consecutive year. On 1 January 2004 it was selected as one of the constituents of the 'Shanghai Stock

Chairman's Statement

Exchange 50 A-Share Index' by the Shanghai Stock Exchange. All companies in the medicine segment recorded satisfactory performance, with a total turnover of HK\$1,127.89 million in 2003, generating a profit of over HK\$125.28 million for the Group. Shanghai Sunway Biotech Co., Ltd. made rigorous efforts in the development of the anti-tumour medication H101 (Gene-engineered Adenovirus Injection) project during the year. After five years of research, Phase III clinical trials for H101 were completed, further certifying efficacy of the drug. It is expected that certification for the new drug will be received in 2004. Phase I clinical trials for H103 have commenced. SIIC MedTech received two prestigious awards in 2003, including the 'Best BioTechnology Company' in the 4th Outstanding Information Technology and Financial Enterprise Awards organized by Capital magazine; and the '2003 Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500' award from Deloitte Touche Tohmatsu. These awards are firm recognition of the Group's efforts in the operations of its medical businesses in the past few years.

2003 saw an explosive growth in the automobile market in China. Shanghai Huizhong Automotive Manufacturing Co., Ltd. was engaged in both vehicles and parts manufacturing during the year. Total sales exceeded RMB5.9 billion, yielding a net profit of RMB221.92 million. Manufacture and sales of 15-tonne heavy duty trucks exceeded 1,000 units for the first time. Shanghai SIIC Transportation Electric Co., Ltd. achieved a net profit of approximately RMB123.79 million during the year, while its products continued to be listed on the 'Top 100 Famous Brands in Shanghai' for the fourth consecutive year.



We have a robust and stable financial position, and maintain stringent risk control



To accelerate the pace of business development on the Mainland, the Group instituted a new, interactive management structure between Shanghai and Hong Kong during the year. Initial consolidation of the business team in the Shanghai region was completed, further strengthening and improving investment and management with effective governance in member companies on the Mainland and thus helping the Group to expand its investments in other regions in China. In the past year, management persevered in the principle of 'prudence and progression' and put in enormous efforts in stabilizing and developing the business. The operating objectives for the year were primarily achieved; growth targets were met; consolidation brought notable results; and share price and market capitalisation saw breakthroughs. The Group adopts a prudent approach to its financial management but a flexible one towards investment. We also review allocation of our financial resources and fund management strategies regularly. We have in place effective risk control and management measures as well as a capital budget and an investment assessment system. Monitoring changes in the market during the year, the Group was agile in mobilizing part of its cash resources to seize numerous opportunities in the capital market, realising remarkable short-term gains. The Group is in a healthy financial position. Cash in hand of approximately HK\$5,354.80 million and total net assets at HK\$14,490.84 million were recorded as at 31 December 2003, providing good conditions for future investments in quality projects. While the macro environment is improving, competition in the market is still keen. Therefore, cost reduction and stringent risk control remain some of the Group's most important policies. In the meantime, the Group addresses investor relations seriously and actively strengthens communication with investors. In addition, we continue to improve corporate governance and enhance transparency to encourage robust management for long-term development.

Prospects

The PRC economy achieved a sustained growth. GNP and economic growth have reached new levels. The integrated economic power in the Shanghai and Yangtze River Delta has risen rapidly, offering tremendous business opportunities for investors. The Group benefits from its parent company's unique

Chairman's Statement



background and advantage in Shanghai and has been investing in Shanghai and the major areas of the Yangtze River Delta since the company's founding, illustrating the long-term and consistent support it receives from the Shanghai Municipal Government.

Shanghai has experienced rapid economic development in recent years. The city continues to develop into the centre of international economic, financial, trade and shipping activities. There is also a strong and sustained growth in domestic consumption in major cities and provinces. The environment is favourable to the Group's medicine, consumer products, and automobiles and parts businesses. Infrastructure and port facilities also benefit from this boom and future profits should be maintained at an upward trend. As a result of the Closer Economic Partnership Arrangement (CEPA) and the increasing number of tourists from the Mainland, the Hong Kong economy will turn around gradually. A dynamic flow of activities between China and Hong Kong will provide a momentum for the Group's business development.

The Group in recent years has been determinedly undergoing a business transformation, with a view to optimizing its investment portfolio and further withdrawing from non-core businesses. On the existing profit base, we continue to cultivate new business clusters and maintain healthy growth in the Group's businesses. And we have accomplished positive results. Presently, the Group shows clear indications on its business orientation, with four main business segments, namely infrastructure facilities, medicine and biotechnology, consumer products and automobiles and parts; and information technology. We will continue to work on achieving breakthroughs in operating performance and profitability of our core businesses, while strengthening control on system

risks. Through mergers and acquisitions, we aim at consolidating and elevating the Group's integrated competitiveness, to achieve even bigger and better developments, with the ultimate objective of creating the utmost value for shareholders.

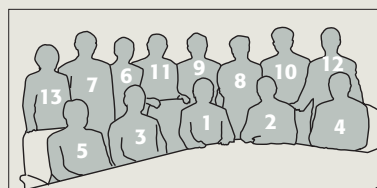
Cai Lai Xing

Chairman

Hong Kong

16 April 2004

Board of directors and management executives



Board of directors

1	Cai Lai Xing	<i>Chairman</i>
2	Lu Ming Fang	
3	Lo Ka Shui	<i>Non-executive directors</i>
4	Woo Chia-Wei	<i>Non-executive directors</i>
5	Leung Pak To, Francis	<i>Non-executive directors</i>
6	Ding Zhong De	
7	Lu Shen	
8	Qian Shi Zheng	
9	Lu Yu Ping	
10	Yao Fang	
11	Ge Wen Yao	

Management executives

2	Lu Ming Fang	<i>CEO</i>
8	Qian Shi Zheng	<i>Deputy CEO</i>
12	Zhou Jie	<i>Deputy CEO</i>
9	Lu Yu Ping	<i>Deputy CEO</i>
13	Wang Xiao Dong, Shanel	<i>Deputy CEO</i>

Business Review, Discussion and Analysis

– Infrastructure Facilities

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Shanghai Industrial Holdings Limited





Infrastructure facilities

In line with State policy, the Group disposed of its entire interests in the fixed return elevated highway projects during the year. By investing in the Shanghai-Nanjing Expressway (Shanghai section) project and initiating investment in water services projects, the Group restructured and strengthened the infrastructure business portfolio, enabling more growth with a clearer direction for further development. Net profit from the infrastructure facilities business for 2003 was approximately HK\$301.63 million, representing approximately 23.0% of the Group's net business profit*.

Elevated highway projects

During the year, the Group had to terminate its investment in the Inner Ring Road, the North-South Elevated Expressway and the Yanan Elevated Road ahead of time, due to changes in State policy. After many rounds of negotiations between the Group and the relevant government authorities, a satisfactory resolution was reached. An agreement was signed on 29 August 2003 by which the Group disposed of its entire interests to the joint-venture partner and received full reimbursement of the carrying value of the investments, amounting to US\$702,475,363 plus after-tax compensation of RMB300 million. The relevant government authorities approved the agreement in September and the issue of fixed-return projects was thus properly settled. This also provided the Group with the opportunity to improve the existing infrastructure facilities portfolio and enhance overall long-term profitability.



* Net business profit represents net profit before net corporate administrative expenses.

Business Review, Discussion and Analysis – Infrastructure Facilities

Toll roads

While settling the issue of fixed-return projects, the Group actively pursued further quality investments in toll roads. On 29 August 2003, the Group announced that it would acquire a 100% interest in Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited, which holds the right to operate the Shanghai section for 25 years, for a consideration of RMB2 billion. The company also operates the service facilities along that section. The Group will invest in the widening project of the Expressway in the future. On 25 December 2003, the Group signed a formal agreement with the Shanghai Municipal Engineering Bureau for this acquisition. The volume of traffic in the city of Shanghai is continually increasing, and while the return on toll roads is linked to usage, this project enjoys high potential for generating great value as well as steady cash revenue for the Group. The total number of vehicles passing through the Shanghai section in 2003 reached 12.33 million, providing a total toll-free income of approximately RMB173 million for the whole year. Since

the Group officially commenced operation in the first quarter of 2004, a daily average of 45,000 vehicles has passed through the section and daily average toll-free income of approximately RMB626,700 has been recorded, representing an increase of approximately 16.3% and 5.9% respectively compared to the same period last year.

Water services

Growing urbanization in China, further strengthening of the environmental protection laws and regulations by the government and the opening of the water services market have generated huge demand for investments in water supplies and sewage treatment facilities and services, creating enormous room for growth in water services projects. The Group announced in August 2003 that it would collaborate with State-level integrated environmental protection company China National Environment Protection Corp., a subsidiary of China Energy Conservation Investment Corporation, to invest in and operate water-related businesses in China. The two parties formed a joint-venture company, China Water & Sewage Treatment Company Limited (“China Water & Sewage”), in which each owns a 50% stake. The company officially commenced operations in November 2003 and its business has been growing rapidly. It was even elected as one of the ‘Ten Most Influential Enterprises’ by the water services



Business Review, Discussion and Analysis – Infrastructure Facilities



46.2% over the same period last year. Throughput at Shanghai ports has been rising continuously. Benefiting from the boom in the import-export trade, the joint venture recorded throughput exceeding 1.76 million TEUs since commencing business, which represents a growth of approximately 49.9% over the same period in the previous year. The terminal covers 18 international shipping routes. Port upgrading and expansion has progressed smoothly during the year and service quality has improved continuously, ensuring stable long-term development and good operating results.

media website, www.H2O-China.com at the end of 2003. China Water & Sewage is negotiating investments in water services projects, including joint operations in water supply plants and sewage plants in provinces such as Jiangsu, Fujian, Anhui, Hunan, and is expected to bring these projects to formal operation in the near future.

Port facilities

The newly formed joint venture, Shanghai Pudong International Container Terminals Limited, has been operating satisfactorily since it commenced operations on 1 March 2003. Revenue for the 10 months was approximately RMB595.64 million, a growth of more than 65%, and net profit stood at approximately RMB261.18 million, representing an increase of approximately

The Group's logistics business continued to make progress in business realignment. EAS International Transportation Limited ("EAS International") won several tenders for its warehouse delivery business in China in 2003, and jointly developed third-party logistics projects with new clients such as Samsung and Huawei. Currently it is engaged in the establishment of joint-venture projects in automobile logistics. EAS International's turnover in 2003 grew by about 29.1% compared to last year. Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited focuses on developing logistics for import-export, as well as manufacturing plants in bonded areas. In September 2003, it became one of the first logistics companies in the Shanghai Waigaoqiao Bonded Area with authorisation to operate direct freight forwarding. Shanghai Industrial Sinotrans International Transportation Company Limited (formerly Shanghai Industrial Sinotrans International Logistics Company Limited) started foundation work for the construction of a warehouse and container freight station in the Shanghai Chemical Industry Zone during the year, and the project is expected to be complete by mid 2004.

Business Review, Discussion and Analysis

– Medicine and Biotechnology



Business Review, Discussion and Analysis – Medicine and Biotechnology



Medicine and Biotechnology

2003 saw key restructuring of the Group's medicine and biotechnology business. In May 2003, the Company announced two major reorganisation moves worth a total of HK\$1,335.07 million: firstly, to privatise SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), which is listed on the GEM Board of the Hong Kong Stock Exchange; secondly, to acquire an approximate 56.63% interest in A-share listed company Shanghai Industrial United Holdings Co., Ltd. ("SI United"), which is listed on the Shanghai Stock Exchange. All legal procedures for the privatisation of SIIC MedTech were completed within the year, and the company was officially withdrawn from listing on the GEM Board of the Hong Kong Stock Exchange on 17 September 2003 and became a wholly owned subsidiary of the Group. The acquisition of SI United is still awaiting final approval by the relevant government authorities in China.

The SARS outbreak in 2003 was undoubtedly the most significant event affecting the industry during the year. On one hand, it stimulated sales of products for fighting SARS and infection, while on the other it affected sales of prescription drugs and some medical equipment products due to a drop in clinical visits. In general, the Group's medicine and biotechnology business recorded satisfactory results in 2003

with a net profit of approximately HK\$125.28 million, an increase of about 1.8 times that of the previous year, which constituted approximately 9.6% of the Group's net business profit*.

Chinese medicine and health food

The companies in the Group engaged in Chinese medicine and health food mainly include Chia Tai Qingchunbao Pharmaceutical Co., Ltd. ("Hangzhou Qingchunbao") and Xiamen Traditional Chinese Medicine Co., Ltd. ("Xiamen TCM"). Hangzhou Qingchunbao recorded a turnover and profit after tax of RMB1,078.07 million and RMB227.17 million for the year, an increase of approximately 27.4% and 21.5% respectively. Xiamen TCM's turnover for the year reached RMB99.87 million, yielding a profit after tax of around RMB24.87 million, increasing about 28.7% and 2.8 times respectively over the 2002 pro-forma results.

During the year, the Group acquired a 30% interest in 杭州胡慶餘堂藥業有限公司 (Hangzhou Huqingyutang Pharmaceutical Company Limited) ("Huqingyutang Pharmaceutical") for a consideration of RMB78.67 million. Huqingyutang Pharmaceutical has the royalty-free exclusive licence to manufacture and sell proprietary Chinese medicine and health food in Mainland China under the renowned "Huqingyutang" trademark. As at the end of December 2003, the company's turnover had reached RMB171.20 million.



Business Review, Discussion and Analysis – Medicine and Biotechnology

Huqingyutang Pharmaceutical currently produces more than 170 Chinese medicines. Three of its products have been certified as State-protected Traditional Chinese Medicines, and 40 are listed in the National Essential Health Insurance Medicine Catalogue. The company's major markets are in Eastern China. Turnover of the flagship product, "Stomach Rejuvenation Tablets", exceeded RMB79.10 million for the last year.

Key Chinese medicines including "Qingchunbao Anti-ageing Tablets", the "Dengfeng" injection series and "Dinglu Xinhuang Tablets" all maintained an upward trend in sales. The new "Qingchunbao Beauty Capsule" health product has received a favourable response from consumers and was able to lift sales almost 4 times over last year. Among the new products launched in 2003, "Qingchunbao Yong Zhen Tablets", a sister product of "Qingchunbao Anti-ageing Tablets", recorded the best sales performance. From its launch in September 2003 to the end of December, sales revenue inclusive of sales tax exceeded RMB10 million.



Research and development of new products continued with the "Bone-strengthening Capsule" receiving its approval letter for clinical tests in May 2003. Phase II clinical tests have already commenced. "Kang Wei Granule", which was jointly developed with Xiamen TCM Hospital, received its approval letter for Phase II clinical tests in August 2003. The second phase of development of existing products saw preparations for Phase III clinical tests of the "Dinglu Shenshu Granule" completed in 2003, and clinical tests have already commenced.



"Identifying the Bioactive Components of Shen Mai Injection and Their Mechanisms of Action", a joint research project with the University of Hong Kong, has discovered several effective components in ginseng and mai-tung. These displayed good effects on the protection of cardiac cells, anti low-density fat and protein oxidation. Several well-structured pure compounds were extracted from these effective components, and bioactive and functional tests for these compounds are currently being conducted.

To further expand the scope of its Chinese medicines business, the Group acquired a 55% interest in Liaoning Herbapex Pharmaceutical (Group) Company Limited in March 2004 for RMB85 million. This company manufactures 53 types of Chinese medicine in six different forms. Nine of its products have been certified as State-protected Traditional Chinese Medicines, and 16 are listed in the National Essential Health Insurance Medicine Catalogue. Its principal product, "Cang Song Rupixiao Tablets" for curing fibrocystic disease, enjoyed sales of RMB82.67 million in 2003.

Principal products	Companies	Sales		Growth
		2002	2003	
		RMB'000	RMB'000	
"Qingchunbao" Anti-ageing Tablets	Chia Tai Qingchunbao Pharmaceutical Co., Ltd.	351,188	407,585	16.1%
"Dengfeng" Shen Mai Injection	Chia Tai Qingchunbao Pharmaceutical Co., Ltd.	243,718	281,524	15.5%
"Qingchunbao" Beauty Capsules	Chia Tai Qingchunbao Pharmaceutical Co., Ltd.	14,796	70,974	379.7%
"Dinglu" Xinhuang Tablets	Xiamen Traditional Chinese Medicine Co., Ltd.	53,813	64,679	20.2%
"Dengfeng" Herba Houttuyniae Injection	Chia Tai Qingchunbao Pharmaceutical Co., Ltd.	31,687	42,930	35.5%

Business Review, Discussion and Analysis – Medicine and Biotechnology

Biomedicine

During the year, Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech") moved at full speed on its anti-tumour drug H101 project. Phase III clinical trials were completed and the application for the certification of the new drug is currently being processed. Preparations for the manufacture and sale of H101 are also underway. Sunway Biotech has also started Phase I clinical trials for H103 and preparations for trials of H102. The genetic product 'SunGran' achieved an historic high turnover with 115,000 tubes sold in 2003 across a sales network covering 17 provinces and cities, including more than 24 hospitals in the Shanghai region. Sunway Biotech invested RMB25 million in the year to upgrade its existing manufacturing facilities to meet the manufacturing needs of H101 and 'SunGran' by making use of existing resources. To facilitate the company's development, Sunway Biotech raised capital during the year, with Shanghai Alliance Investment Ltd. injecting US\$10.80 million to acquire an 18.6% interest in Sunway Biotech. The agreement was approved by the relevant authorities in February 2004. By completion of the transaction, the Group will own an approximate 70.4% interest in Sunway Biotech.

Chemical Pharmaceuticals

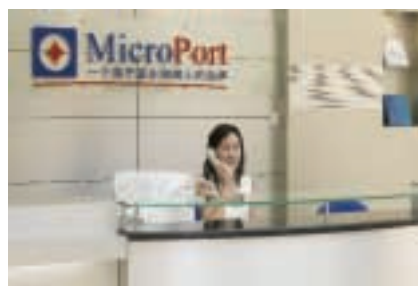
Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical") is engaged in the manufacture and sale of raw pharmaceuticals. In 2003, it recorded a turnover of RMB389.91 million. Net profit amounted to approximately RMB62.73 million, a substantial increase over the previous year. During the year, 'Levofloxacin' and 'Wei Shaxin' Tablets were awarded Second Honour in Technology Advancement in Shanghai and were accredited as Shanghai Municipal Quality Brands. 'Wei Shaxin' Tablets and 'Sunvecon' Capsules were listed as Top Brands in Shanghai. Sunve Pharmaceutical is actively promoting the export of its raw pharmaceutical products. In 2003, export of raw pharmaceuticals accounted for approximately 42% of its

turnover. Nine of its products have passed quality certification by the US Food and Drugs Administration (FDA) and are allowed to enter the US market.



Medical equipment

The sales growth of MicroPort Medical (Shanghai) Co. Ltd. ("MicroPort") suffered a slight setback as a result of the SARS outbreak. However, sales revenue for the year still stood at about 1.4 times over the previous year. Its key products – coronary stents, PTCA balloon catheters and abdomen aortic stents – were offered for use to more than 160 medical institutions. In the first quarter of 2004, MicroPort signed an agreement for the acquisition of a 40% interest in MicroPort by a renowned Japanese pharmaceutical company for US\$18 million. This transaction will help the company further develop its overseas markets. On the other hand, Guangdong Biolight Medical Technology Co. Ltd. recorded total sales of RMB29.52 million, up approximately 94.3% compared to 2002, due to the increased demand for monitoring apparatus during the SARS outbreak. During the year, E-COM Technology Limited reached an agreement with a renowned medical image equipment company to cooperate in the manufacture of "DR" digitalized radiation system products for distribution to markets such as Europe and the Asia-Pacific region.



The medical industry in the PRC is currently undergoing a transition period. A series of measures such as the reform of the medical system and tendering and purchase of drugs will have significant impacts on the medical industry as a whole. The Group will seize opportunities in the development of pharmaceutical and medical services industry and further expand its investment and operation in the medicine and biotechnology businesses, with a view to increasing the contribution from the business to over 30% of the Group's profit in the next three years.

Business Review, Discussion and Analysis

– Consumer Products and Automobiles and Parts



Consumer Products and Automobiles and Parts

Consumer Products

The average income of people in China has been rising in recent years stimulating demand for all kinds of merchandise. The economy in Hong Kong also turned around in the latter half of 2003, with improved consumer sentiment benefiting the Group's consumer-related businesses in the Mainland and Hong Kong. Net profit from the consumer products business was approximately HK\$404.46 million in 2003. After deducting the exceptional profit of HK\$28.23 million generated from the disposal of Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") during the year and the exceptional profit of HK\$218 million from the listing of Bright Dairy and Food Co., Ltd. ("Bright Dairy") (formerly Shanghai Bright Dairy and Food Co. Ltd.) on the Shanghai Stock Exchange in the previous year, the consumer products business posted an actual growth in net profit of approximately 22.6% in 2003, constituting approximately 30.8% of the Group's net business profit*. If the above non-operating items are taken into account, net profit dropped by approximately 23.0% from the previous year.

Tobacco and printing

Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco") had a successful year in 2003. Turnover for the year rose by approximately 42.9% from the previous year. Net profit amounted to approximately HK\$192.40 million, up by

some 60.3%. Sales of existing products in the Hong Kong market grew steadily, and the new brand "WINNER" cigarettes boosted sales further. The number of tourists from the Mainland increased significantly, pushing total sales in the market up by approximately 27.7% over last year. Export markets posted good performance, with total sales increased by approximately 47.5%. Brands sold in the Mainland market have already built a good reputation for their packaging and taste. Ultra Mild and Classic "Double Happiness" were successfully launched in 2003, driving the year's sales in the market up by some 25.5%. With the Closer Economic Partnership Arrangement (CEPA) zero tariff policy gradually being implemented, and given the size of its manufacturing plants and existing production capacity, Nanyang Tobacco will benefit by such a competitive advantage in the market and enjoy greater profitability.



Wing Fat Printing Company, Limited ("Wing Fat Printing") also had a solid performance in 2003, with a turnover for the year of approximately HK\$378.04 million. This represented a rise of about 7.9% over the previous year and constituted a net profit of approximately HK\$95.52 million, an increase of approximately 11.5%. Basic superstructure work for the new 27,000-square-metre factory in Dongguan was completed at the end of 2003. The new facility will begin operations by mid

Business Review, Discussion and Analysis – Consumer Products and Automobiles and Parts

2004. Printing joint ventures in China in which the company has interests grew rapidly, and contributed more than 50% of Wing Fat Printing's total profit.

Dairy

Bright Dairy is a leading nationwide dairy enterprise in China. By virtue of its quality brand and robust management, sales revenue and profit both attained double-digit growth for the eighth consecutive year. Sales in 2003 stood at around RMB5,968.27 million, increasing by approximately 20.3% from the previous year, and net profit rose by some 34.6%. Net profit attributable to the Group was approximately RMB92.31 million. About 72% of all dairy products are sold outside Shanghai, with its sales network covering the northern, central, northwest and southern parts of China. The company acquired Zhengzhou Bright Shanmeng Dairy Co. Ltd. at the end of 2003, further consolidating its nationwide development strategy.

Bright Dairy has further enhanced brand awareness and customer confidence by developing high value-added products, implementing regional differentiation and setting up a comprehensive distribution network and assessment system of service standards and customer satisfaction. To ensure a continuous supply of milk, Bright Dairy set up Shanghai Bright Holstein Co. Ltd. to co-ordinate milk sources and further provide dairy farming skills and management in China. Keenly



aware of consumer preferences, the company implemented a 'nutrition and health' theme and developed 107 new products in six categories and these new products made up some 20% of total sales. In 2004, Bright Dairy will boost its growth with profits and will also tailor-made development plans catering to market conditions in various locations, thus enhancing fast growth in all regions.

Personal care products

Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") is involved in the personal care products business. Income from its principal business in 2003 was around RMB1,344.54 million, an increase of approximately 15.3% compared to the previous year. Profit was around RMB77.62 million, a rise of some 2.8%, with profit attributable to the Group amounting to approximately RMB14.41 million. Growth in the personal care product market in China narrowed in 2003, and the market met with keen competition. As a result, prices of these products have remained low. Shanghai Jahwa adopted a timely and focused marketing and sales strategy in the year, enabling it to stabilize sales of its key products. Sales revenue of the 'Liushen' and 'CHINFIE COCOOL' brands increased by approximately 5.7% and 3% respectively over last year; while sales of the 'Herborist' brand rose by more than 45%. During the SARS outbreak, Shanghai Jahwa also launched two new products – an antiseptic lotion and an air freshener.

Business Review, Discussion and Analysis – Consumer Products and Automobiles and Parts

Withdrawal from department retail business

During the year, the management followed through on its strategy of driving business transformation and further divesting from its non-core businesses. On 7 May 2003, the Group quit the department retail business and disposed of its 51% interest in Orient Shopping to the Chinese partner for a cash consideration of approximately RMB127.14 million, realising an exceptional profit of HK\$28.23 million.

Automobiles and Parts

Driven by the continuous improvement in China's macro economic environment, the automobile industry, which is one of the country's economic pillars, was able to sustain a high growth rate. Sales of sedans rose substantially to hit a historical record, which in turn boosted the sales of parts and components. In 2003, the Group's automobiles and parts business recorded a net profit of approximately HK\$142.97 million, an increase of about 34.3% over the previous year, representing approximately 10.9% of the Group's net business profit*.



Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") has five manufacturing plants and four joint-venture enterprises, and ranks 51st among the top 500 engineering enterprises in China. During the year, the Group engaged in the manufacture of both commercial vehicles and parts for passenger vehicles, enabling it to minimize the impact of external factors such as price cuts of automobiles. Sales for the year were approximately RMB5,962.12 million, up by about 44.6% from 2002. Net profit for the year was

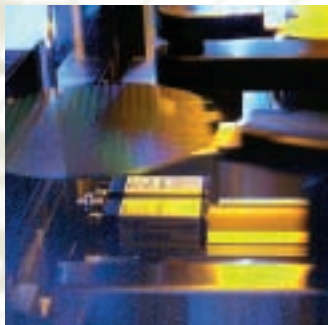
around RMB221.92 million, rising by about 42.1% over last year. Operating performance was satisfactory. To cope with the substantial increase in sales of parts to Shanghai Volkswagen and Shanghai General Motors, Shanghai Huizhong completed numerous trial productions of sedan chassis system accessories. Total sales exceeded 610,000 sets. Commercial vehicle projects also made good progress in the past year, with the manufacture and sale of heavy duty trucks breaking the 1,000-unit mark. Phase I of the construction work for the light passenger vehicle project was completed and trial productions started, while phase II of the construction work also began. The Ssangyong Motor Co. Ltd. MB100 production line that the Group acquired during the year launched vehicles with proprietary intellectual property rights, and Shanghai Huizhong's "ISTANA" was marketed in March 2004.

Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation") maintained its upward trend and reported strong growth in both sales and profit. Turnover reached RMB490.16 million, rising by about 28.1% from last year, and net profit for the year was approximately RMB123.79 million, up by around 50.6%. The joint venture has been in business for 15 years and has become a dominant player in the industry offering 21 automobile electric and electronic accessories categories. Important initiatives in the year included forming a joint venture with the US company Lear Corporation (Mauritius) Limited, investing in wire harnesses, switches and junction boxes. SIIC Transportation has a 45% stake in the joint venture, which started business in October. In addition, SIIC Transportation reached a joint venture agreement at the end of 2003 with ArinMeritor, Inc., one of two skylight window suppliers to Volkswagen in Germany, to promote the skylight window project.

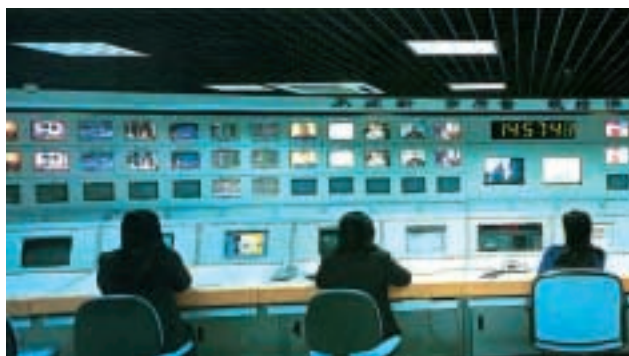


Business Review, Discussion and Analysis

– Information Technology



Business Review, Discussion and Analysis – Information Technology



Information Technology

Semiconductor Manufacturing International Corporation (“SMIC”) continues to grow rapidly, with continuous improvements in its production capacity and technological advancement on wafers. During the year, SMIC twice issued additional preference shares at a premium. As a result, the Group recorded an exceptional profit of approximately HK\$239.15 million in 2003. Taking this into account, the Information Technology business posted a total net profit of approximately HK\$337.23 million, representing approximately 25.7% of the Group’s net business profit*.

SMIC is one of the world’s leading semiconductor manufacturers, providing various advanced integrated wafer fabrication services to clients globally. SMIC was listed on 17 and 18 March 2004 in the United States and Hong Kong respectively and simultaneously. Of the 5,151,515,000 ordinary shares, which included 3,030,303,000 new shares, issued in the Global Offering at an issue price of HK\$2.69 per share, approximately 20% were offered to the public in Hong Kong while the rest were placed internationally. Based on the five

per cent of the shares initially allocated for placing in Hong Kong, the Hong Kong public offering was 272 times over-subscribed, and the international placing was also over-subscribed by 18 times. A total of HK\$7.8 billion was raised from the new shares in the Global Offering. The proceeds are to be used for constructing and expanding production facilities in Beijing and for technological enhancement. They will also be used to upgrade the production capacities of the plants in Shanghai and Tianjin. Despite having its stake diluted to approximately 10%, the Group is still the single largest shareholder in SMIC and benefited from its listings at a premium. A remarkable exceptional profit will be accounted for in 2004.

In the second half of 2003, SMIC launched two private placements. On 22 September 2003, the Series C preference shares were placed to both existing and new shareholders, including US venture capital investors, raising a total of



Business Review, Discussion and Analysis – Information Technology



HK\$5 billion. The Group's shareholding was diluted from approximately 16.2% to approximately 13.6%. On 23 September 2003, SMIC and Motorola entered into a share subscription agreement: SMIC issued Series D preference shares in exchange for Motorola's 8-inch wafer foundry in Tianjin and became its strategic partner by providing the required production capacity and technical support. When all the Series D preference shares have been issued, of which an approximate 7,140,000 shares were issued by the end of 2003, the Group's stake in SMIC will be diluted to approximately 12% but it will remain as the single largest shareholder. The Group posted an exceptional profit of approximately HK\$239.15 million in 2003 arising from these two placings.

At present, SMIC has production plants in Shanghai, Beijing and Tianjin. The 8-inch wafer foundry in Shanghai has been operating to full capacity, producing 49,000 wafers for wafer fabrication and 9,000 wafers for copper interconnects per month. Trial productions in one of the three newly constructed 12-inch wafer foundries in Beijing is scheduled to begin by

the end of 2004 which will be the first production line of 12-inch wafers in the PRC. With the acquisition of the MOS17 production line in Tianjin, the company projects that by the end of 2005, its total production capacity will increase to 170,000 8-inch or equivalent wafers and 15,000 wafers for copper interconnects per month. Notwithstanding the relatively high fixed cost and depreciation cost for the purchase of equipment, the company has been reporting earnings since the fourth quarter of 2003. The sales volume for the year 2003 was approximately US\$365.82 million. Net loss was approximately US\$66.15 million and EBITDA was approximately US\$163.57 million.

During the year, Shanghai Information Investment Inc. ("SII") set in motion its 'Yangtze Delta' development strategy, which saw the launch of its "Dongfang Cable" network brand in a cross-regional business drive. Net profit for 2003 was approximately RMB53.23 million, an increase of about 52.8% over the previous year, a result of marketing and sales efforts for major projects. During the year, the cable network



Business Review, Discussion and Analysis – Information Technology



company heavily promoted its value-added broadband service. The number of “Cableplus” subscribers reached 138,000, while the number of digital television subscribers jumped to about 11,000. A total of 167 additional kilometres of information pipelines was built in the year, providing network access to 231 new buildings and boosting the sales of pipes and fibre-optics. In 2003, the credit information system had personal credit information of 3.7 million individuals in its databank. The system is gearing up to provide an on-line credit assessment and rating service. During the year, the comprehensive logistics information system of Shanghai ports made remarkable progress: the construction of a 1,100-square-metre central unit and related broadband network covering the ports and airport and the building of the customs transaction data platforms in collaboration with the Shanghai Customs Bureau to facilitate customs transactions services. Currently there are 30,000 subscribers to “easipass.com”.

In 2003, Shanghai Optical Communications Development Co., Ltd. realigned the investment structure of its subsidiaries. It was confirmed to have US Corning Inc. take a stake in Shanghai Fiber Optics Co., Ltd. (previously Lucent Technologies Shanghai Fibre Optics Co., Ltd.). The liquidation of Lucent Technologies of Shanghai, Ltd.’s assets will be completed in 2004. Net profit for 2003 was approximately RMB8.08 million, a drop of some 14.4% from the previous year. Shanghai Communication Technology Centre’s main businesses are MPEG products and digital image compression. It recorded a loss of approximately RMB2.95 million for 2003.

During the year, the Group readjusted its strategic investments while searching for new business opportunities. The Group acquired an approximate 3.2% stake in Clear Media Ltd. in 2001 through the Compass Venture Fund. Clear Media Ltd. was listed in Hong Kong at the end of the same year. The Group disposed of all its shares in the market in the latter half of 2003. The proceeds from the sale, together with the accumulated book profit during the investment period, amounted to approximately HK\$19 million. The largest travel information website in China – Ctrip.com International Ltd. – was listed on NASDAQ on 9 December 2003. A total of 4.2 million ADRs were issued, representing some 28% of its total enlarged share capital, raising capital of about US\$75.60 million. The Group had always been one of its major investors, holding approximately 6.4% of its share capital before listing. The Group disposed of 1.2% of its stake through the listing, realising approximately HK\$19.63 million in cash, a return of 7 times of its investment cost. The Group now holds about 4.2% of the enlarged share capital of Ctrip.com International Ltd.

Five-Year Financial Summary

	Year ended 31 December				
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
RESULTS					
Turnover	3,300,590	2,960,521	3,199,418	3,380,037	2,825,978
Profit from operations	1,016,380	1,164,655	1,090,164	1,159,122	1,065,424
Finance costs	(178,590)	(135,560)	(93,771)	(63,745)	(31,001)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities	105,765	17,348	154,360	222,864	278,059
Share of results of jointly controlled entities	145,618	225,649	266,846	141,849	172,635
Share of results of associates	40,638	42,475	72,370	7,032	161,537
Impairment loss recognised in respect of interest in a jointly controlled entity	—	—	—	(15,300)	—
Profit from ordinary activities before taxation	1,129,811	1,314,567	1,489,969	1,451,822	1,646,654
Taxation	(43,259)	(80,300)	(108,854)	(182,376)	(241,904)
Profit before minority interests	1,086,552	1,234,267	1,381,115	1,269,446	1,404,750
Minority interests	(75,300)	(99,598)	(178,581)	(143,103)	(145,584)
Profit for the year	1,011,252	1,134,669	1,202,534	1,126,343	1,259,166
Earnings per share – basic	HK\$1.14	HK\$1.27	HK\$1.34	HK\$1.22	HK\$1.34
As at 31 December					
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES					
Total assets	14,980,454	14,494,442	14,836,204	16,462,662	17,075,454
Total liabilities	(3,000,295)	(2,454,138)	(1,915,487)	(2,346,307)	(2,203,680)
Minority interests	(369,407)	(401,062)	(482,309)	(618,549)	(380,934)
Shareholders' funds	11,610,752	11,639,242	12,438,408	13,497,806	14,490,840
Shareholders' equity per share	HK\$13.10	HK\$12.96	HK\$13.85	HK\$14.42	HK\$15.32

Financial Review

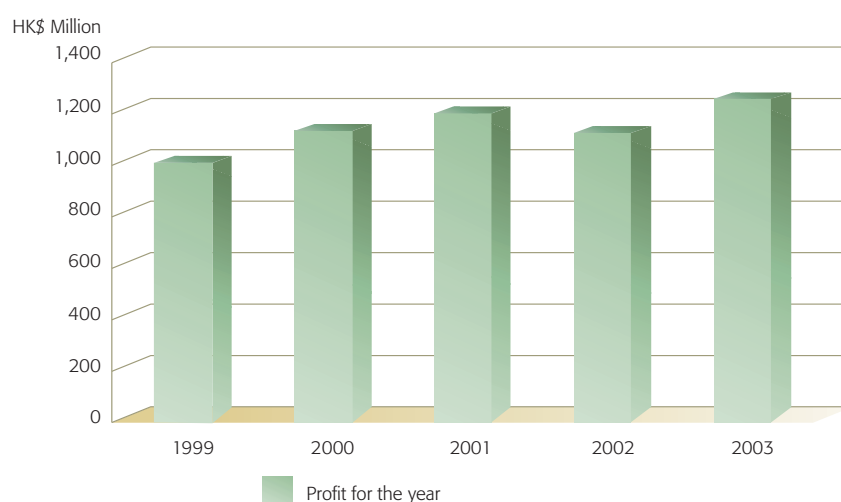
A) Basis of Preparation

The financial statements in the 2003 annual report of the Group have been prepared in accordance with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants that are generally accepted in Hong Kong. The major difference between the basis of preparation of the Group's 2003 financial results and that of 2002 has been the adoption of SSAP 12 (Revised) Income Taxes, which came into effect on 1 January 2003. The adoption of SSAP 12 (Revised) Income Taxes represents a change in the accounting policy. As required, such change should be applied retrospectively. However, such change has had no material effect on the results of the Group for the years 2003 and 2002 and, accordingly, no prior period adjustment is required.

B) Analysis of Financial Results

1. Profit for the Year

The Group's profit for 2003 was HK\$1,259.17 million, representing an increase of approximately 11.8% from HK\$1,126.34 million in 2002. While income from the guaranteed fixed return elevated highway projects for 2003 dropped by HK\$420.63 million from 2002, all other businesses recorded considerable increases in earnings, contributing to a satisfactory growth in the Group's overall profit for the year.

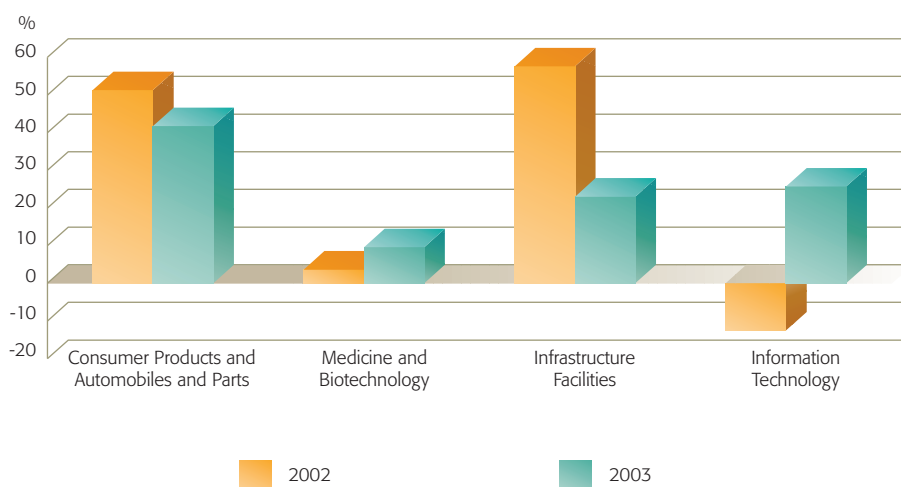


Financial Review

2. Profit Contribution from Each Business

A comparison of the Group's profit contributed by each business for 2003 and 2002 is as follows:

	2003 HK\$'000	2002 HK\$'000	Increase (decrease) %
Consumer Products and Automobiles and Parts	574,429	631,388	(13.3)
<i>Pro forma: Consumer Products and Automobiles and Parts</i>	<i>519,204</i>	<i>413,388</i>	<i>25.6</i>
Medicine and Biotechnology	125,281	44,753	179.9
Infrastructure Facilities	301,630	708,894	(57.5)
Information Technology	337,226	(154,533)	N/A



The consumer products and automobiles and parts business of the Group achieved outstanding performance during the year, of which automobiles and parts and tobacco businesses both recorded favourable growth. If profit and loss from major non-operating items for 2002 and 2003, including an exceptional profit of approximately HK\$218 million contributed to the Group from the listing of Bright Dairy and Food Co., Ltd. ("Bright Dairy") on the Shanghai Stock Exchange in 2002 and an exceptional profit of approximately HK\$28.23 million realised from the successful disposal of Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") in the first half of 2003, shall be excluded for pro forma purpose, actual profit growth of the consumer products and automobiles and parts business would have been approximately 25.6%.

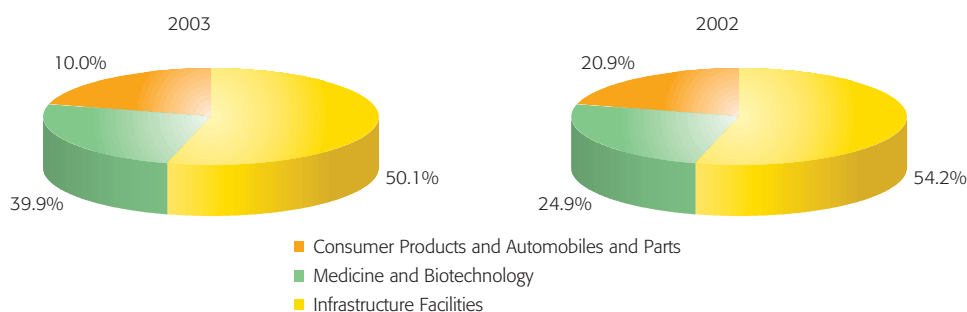
Further details of the operating performance and progress of each business for 2003 can be found in the section under the heading of "Business Review, Discussion and Analysis".

Financial Review

3. Turnover

An analysis of the Group's turnover by principal activities for the year ended 31 December 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000	Increase (decrease) %
Consumer Products and Automobiles and Parts	1,415,067	1,832,933	(22.8)
Medicine and Biotechnology	1,127,892	842,386	33.9
Infrastructure Facilities	283,019	704,718	(59.8)
	2,825,978	3,380,037	(16.4)



Turnover for the consumer products and automobiles and parts business fell by approximately 22.8% from 2002, primarily as a result of the disposal of Orient Shopping for the year. Excluding the effect on turnover of Orient Shopping, the turnover for the consumer products and automobiles and parts business actually increased by approximately 33.0% over the previous year. Pro forma turnover of the consumer products and automobiles and parts business for 2002 and 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000	Increase (decrease) %
Consumer Products and Automobiles and Parts	1,415,067	1,832,933	(22.8)
Less: turnover of Orient Shopping	—	769,139	
Pro forma: Consumer Products and Automobiles and Parts	1,415,067	1,063,794	33.0

As two elevated highways projects of the Group were affected by the cancellation of guaranteed fixed return on investment projects of foreign entities by the PRC State Council, an after-tax compensation in the sum of RMB300 million was received during the year and was included in the turnover for the first half of the year. As a result, the turnover therefrom declined by approximately 60% from 2002.

Financial Review

During the year, the turnover for the medicine and biotechnology business grew by approximately 33.9% over 2002. Other than the business growth achieved in the existing medicine companies, Xiamen Traditional Chinese Medicine Co., Ltd. acquired in July 2002 also helped contribute to further increases in turnover. Sales from our flagship Chinese medicine product – “Qingchunbao Anti-ageing Tablets” – stood at over RMB400 million, representing an increase of 16.1% over the previous year. Meanwhile, sales for the “Shen Mai Injection” and the “Herba Houttuyniae Injection” of the “Dengfeng” injection product series also increased by about 15.5% and 35.5% respectively.

4. Profit from Ordinary Activities before Taxation

(1) *Gross profit margin*

Gross profit margin (excluding income from infrastructure projects) for 2003 rose significantly to approximately 53.0% from about 42.2% in 2002, due mainly to an improvement in overall gross profit margin resulting from upward adjustments driven by surging demand for consumer products as well as the disposal of Orient Shopping, which was engaged in commercial retail business that has a relatively low gross profit margin.

(2) *Investment income – net*

Investment income – net for 2003 increased significantly by about HK\$230.89 million to approximately HK\$309.11 million from about HK\$78.22 million in 2002. The increase was mainly attributed to investment income derived from the listing of Ctrip.com International, Ltd. on NASDAQ in the United States during the year, out of which an investment income of HK\$21.33 million was realised from the disposal of such investment. The Group still holds part of the equity interests in the investment with a corresponding unrealised profit of approximately HK\$158.26 million. Other contributors to the increase were short-term investment income derived from the use of internal funds.

(3) *Administrative expenses*

Administrative expenses for 2003 increased by HK\$44.93 million over the previous year, due mainly to an increase in the number of subsidiaries that were consolidated under the medicine and biotechnology business.

(4) *Other operating expenses*

Other operating expenses increased by HK\$71.63 million over the previous year, mainly due to a provision of approximately HK\$67.33 million made for a jointly controlled entity's borrowings.

(5) *Finance costs*

Finance costs for the year declined by approximately HK\$32.74 million from the previous year as the Group repaid a syndication loan of HK\$1.17 billion and raised another syndication loan of HK\$1.6 billion at more favourable interest rates. These, together with the benefits deriving from a general decline in market interest rates, helped to reduce finance costs for the year significantly as compared to last year.

(6) *Gain on disposal of interests in subsidiaries, associates and jointly controlled entities*

During the year, the Group made gain of approximately HK\$28.23 million and HK\$12.06 million respectively from the disposal of a 51% interest in its subsidiary, Orient Shopping and the indirect disposal of a 13.5% interest in Shanghai Sunway Biotech Co., Ltd. In addition, the issue and placement of Series C and Series D preference shares at a premium by Semiconductor Manufacturing International Corporation (“SMIC”) in 2003 contributed a dilution gain of approximately HK\$239.15 million to the Group.

Financial Review

Profit from deemed disposal of interest in a jointly controlled entity last year was derived from the listing of Bright Dairy on the Shanghai Stock Exchange in August 2002. The Group's interest in Bright Dairy was then diluted from 40% to 30.8%, generating an exceptional profit of approximately HK\$218 million for the Group.

(7) *Share of results of jointly controlled entities*

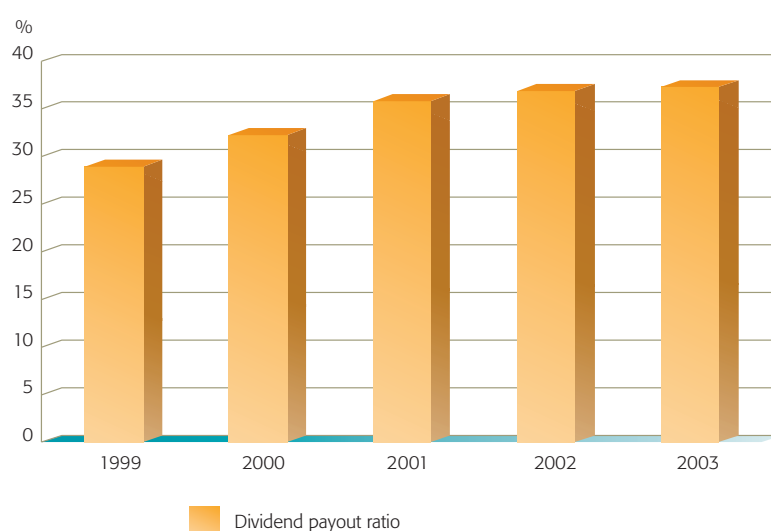
Share of results of jointly controlled entities for the year increased to approximately HK\$172.64 million from about HK\$141.85 million last year. The increase was primarily due to earnings growth of Shanghai Huizhong Automotive Manufacturing Co., Ltd. driven by the soaring automobile market in Mainland China and an increase in investment income of Shanghai Sunve Pharmaceutical Co., Ltd. Besides, the provision of HK\$21.25 million made for Clear Media Ltd. in 2002 was no longer required for the year. All these favourable factors have offset the effect of the transfer of the Group's share in Bright Dairy's profit from share of results of jointly controlled entities to share of results of associates since Bright Dairy's listing on the Shanghai Stock Exchange in August last year, and that share of results of jointly controlled entities still increased by approximately HK\$30.79 million.

(8) *Share of results of associates*

Share of results of associates for the year recorded a substantial increase of approximately HK\$154.51 million from approximately HK\$7.03 million to about HK\$161.54 million. The increase was primarily due to the fact that Bright Dairy has become an associate and that SMIC achieved better operating results, such that loss for the year narrowed as compared to last year.

5. Dividends

According to the Group's dividend policy, shareholders shall be paid with dividends based on a steady dividend payout ratio linked to the Group's result performance. In 2003, the Board, based on this dividend policy, has recommended the payment of a final dividend of HK32 cents (2002: HK30 cents) per share at the forthcoming annual general meeting which, together with the interim dividend, make a total dividend of HK50 cents (2002: HK45 cents) per share for the year. The dividend payout ratio was approximately 37.3% for the year (2002: approximately 36.9%).

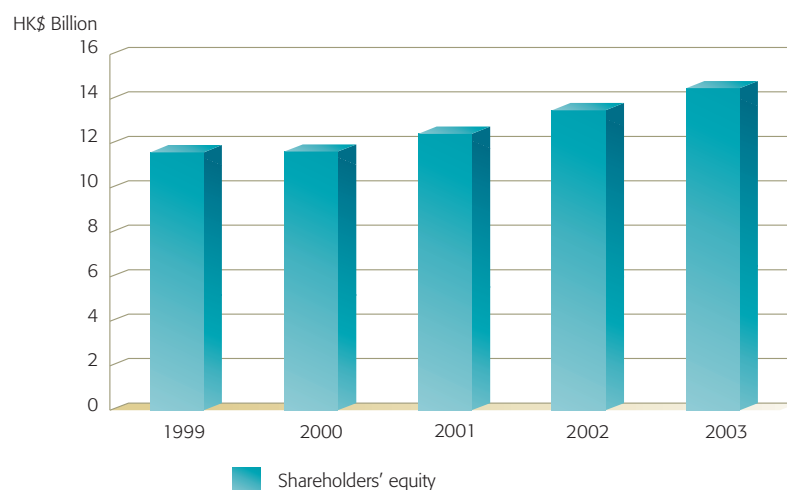


Financial Review

C) Financial Positions of the Group

1. Capital

As at 31 December 2003, the Group had issued a total of 945,748,000 shares of par value HK\$0.1 each. The number of shares in issue increased by 9,450,000 shares over the end of 2002. This was mainly due to the exercise of share options by the staff members of the Group. Based on a market price of HK\$17.75 per share as at 31 December 2003, the Group had a market capitalisation of HK\$16,787 million.



2. Loans

As at 31 December 2003, the Group had total loans of HK\$1,619.95 million, comprising primarily RMB short-term loans equivalent of HK\$19.95 million and a five-year term syndication loan of HK\$1.6 billion. Such syndication loan, which was engaged in April 2002, shall become due in April 2007. The long-term portion of the HK\$800 million and the revolving portion of the HK\$800 million comprising a total amount of the syndication loan were dealt with under long-term bank loan and short-term borrowings in the financial statements respectively.

3. Liquidity

As at the end of 2003, cash held by the Group was approximately HK\$5,354.80 million, of which the proportions of US\$, HK\$ and RMB were approximately 80%, 5% and 15% respectively. The total amount of cash held by the Group increased by HK\$2,109.40 million over the end of 2002 which was mainly due to the receipt of approximately US\$702 million from the disposal of the elevated highway projects.

D) Policies on Financial Risk Management

1. Cash flow and liquidity management

The Group takes a prudent approach towards financial management and closely monitors its cash management and allocation of resources. In order to implement effective control over cash management, the Group's financing and cash management responsibilities are both under centralised operations at the Head Office level. At present, the Group remains in a net cash position in respect of its debt-equity structure with affluent liquidity and a sound interest cover, allowing the Group to raise funds from the market whenever the situation requires.

2. Exchange rate risk

The Group mainly operates in Mainland China and Hong Kong and faces exchange rate risk mainly arising from fluctuations in the exchange rates of HK\$ against US\$ and RMB. The Group closely monitors any exchange rate fluctuations in these currencies and the market trends. During the year, the Group did not enter into any derivative contracts, which aimed at minimising exchange rate risk.

3. Interest rate risk

The Group's major financing loan comprises a syndication loan of HK\$1.6 billion. In order to exercise prudent management against interest rate risk, the Group reviews market trends, requirements of its business operations and its financial position from time to time, so as to identify the most effective management tool for interest rate risk. In 2003, the Group did not enter into any hedging contracts against interest rate risk after taking all related factors into account.

E) Independence of External Auditors

In order to ensure independence of the Group's external auditors, the Group will not engage external auditors to carry out non-audit work, except for those approved non-audit work as defined under the Sarbanes-Oxley Act and that any of the related work shall not impose any negative impact on the independence of their audit work.

The external auditors of the Group are Deloitte Touche Tohmatsu. Non-audit work rendered by them to the Group and related fees during the years 2003 and 2002 are as follows:

	2003 HK\$'000	2002 HK\$'000
Due diligence on acquisitions	55	1,389
Taxation services	36	46
Other consulting services	47	5

Corporate Governance

The Group places much emphasis on corporate governance, which has become a general concern in recent years. Over the years, the Group has been actively implementing highly effective corporate governance measures and has established a set of proper decision making procedures and a sophisticated internal management and process control system. In accordance with the Company's business development strategies, all Board members work closely with the management to make contribution for the Company's interest as a whole with the ultimate objectives to enhance our competitiveness and facilitate operating efficiencies, thereby creating greater value for our shareholders.

Board of Directors

The Board is mainly responsible for formulating the Company's long-term development strategies and operating directives, and supervising the management to ensure thorough implementation of the Board's resolutions and effective performance of their duties. Chairman of the Board shall ensure effective operation of the Board and put forward any important matters as and when appropriate for discussion in Board meetings. Under the leadership of the Chairman, the Board shall be responsible for the Company's overall management and making critical business decisions in the best interest of the Company. At present, the Board has twelve members, three of them are independent non-executive directors (please refer to pages 40 to 42 of this annual report for directors' profile).

Members of the Board comprise experts from various professions, who have served in relevant government departments in Mainland China, enterprises, financial institutions, etc. They all possess many years of working experience in the fields of corporate management, economic research and corporate financial activities as well as extensive experience in enterprise management. Meanwhile, our independent directors possess expertise in financial management, and experience and professional ability in running businesses. Several directors from Shanghai had been officials in the Shanghai Municipal Government responsible for economic planning, and senior executives in financial institutions. They are well informed and have in-depth knowledge of investing in the PRC, particularly in Shanghai and the Yangtze River Delta, and are therefore able to keep abreast of the latest economic development and business environment and capitalize on every investment opportunity. Three Board meetings were held during the year with agenda matters including annual and interim results, acquisition of interest in Shanghai Industrial United Holdings Co., Ltd., privatisation of SIIC Medical Science and Technology (Group) Limited, and disposal of interest in elevated road projects in Shanghai, etc.

At present, directors' remuneration and benefit packages are determined and approved by the Executive Committee based on the functions and performance of the respective directors and by reference to the market rate. The grant of the Company's share options to executive directors shall be approved by independent non-executive directors; the grant of share options to independent non-executive directors (or their associates), to the extent that such grant exceeds the limit required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), shall be subject to shareholders' approval. As required under the Listing Rules and subject to the internal guidelines of the Company, any proposed dealings in shares of the Company by directors shall be first notified to the Chairman of the Board or a director designated by the Company and such dealings shall only be carried out subject to written confirmation by the Chairman or the designated director as aforesaid. No director (and his associates) shall deal in any shares of the Company one month before the announcement of the Company's results or once he becomes aware of any price sensitive information of the Company. Such restrictions concerning share dealings shall be extended to cover all senior management staff and certain staff members. Details of directors' and shareholders' interests and connected transactions are contained in pages 50 to 53 of this annual report.

The Company's Articles of Association require that, at least one-third (or the nearest one-third) of the Board of Directors retires each year on the basis of the longest length of service and may offer themselves for re-election at the Annual General Meeting. Any newly appointed director shall retire at the close of the next Annual General Meeting eligible for re-election. Directors who retire by rotation eligible for re-election at the forthcoming Annual General Meeting include Mr. Ding Zhong De, Mr. Lu Shen, Mr. Qian Shi Zheng, Mr. Ge Wen Yao, Mr. Woo Chia-Wei and Mr. Leung Pak To, Francis. Shareholders may lodge with the Company notice to propose a person for election as a director within the time as stipulated in the Company's Articles of Association before the Annual General Meeting. As presently provided, such notification period shall be at least seven days before the Annual General Meeting. As required under the newly revised provisions of the Listing Rules that became effective on 31 March 2004, all listed companies shall make an amendment to their Articles of Association at the forthcoming Annual General Meeting. After the amendment, the notification period for shareholders to lodge with the previously mentioned notice (together with a written

Corporate Governance

confirmation from the director who consents to be elected) shall commence no earlier than the date after the despatch of the notice of Annual General Meeting for such election and ends no later than seven days before the date of the Annual General Meeting. A resolution to the amendment to the Articles of Association is contained in item 8 on the Notice of Annual General Meeting in the circular to shareholders despatched together with this annual report.

Executive Committee

The Executive Committee is appointed and authorised by the Board to take charge of major decision making in relation to day-to-day business of the Company including business investment, operation of assets, financial management, human resources, disclosure of information, etc. The Committee shall report to the Board and ensure notification to the Board of any important matters. Existing members of the Executive Committee are Mr. Cai Lai Xing, Mr. Lu Ming Fang, Mr. Qian Shi Zheng and Mr. Lu Yu Ping. The Committee is responsible for overall business planning, management and supervision. It is also responsible for implementing the policies approved by the Board and reviewing major business activities and project investment. The responsibility of day-to-day management is delegated to senior management, which reports directly to Executive Committee/relevant executive directors (please refer to pages 42 to 46 of this annual report for senior management profile). Committee meeting will be held from time to time. A total of 14 meetings were held during the year (including by way of written resolutions).

Audit Committee

The Audit Committee plays a vital role in corporate governance. The Committee is responsible for reviewing the accounting policies and statement of accounting practice adopted by the Group. It also discusses matters related to financial reporting as well as internal control and audit, and report to the Board with any recommendations in respect of the above matters and operating risks faced by the Group, such that the Board may make the right decision in resolving the relevant matters. The Committee will preview the Group's annual and interim results every year and recommend the Board to approve the financial statements. The Committee meets regularly with the auditors and management/senior management staff to make relevant verification and enquiry. It may also seek external independent professional advice as and when the actual situation requires. Audit Committee now has three members, all being independent non-executive directors who possess extensive knowledge and experience in financial management and business administration. The Committee met three times during the year and one of such meetings was held in relation to internal control matters. Company Secretary takes up the post of Secretary for Audit Committee.

Investment Appraisal Committee

The Investment Appraisal Committee comprises representatives from different functional departments of the Company which include professionals in investment management, financial and legal affairs from Shanghai and Hong Kong. The Committee is established to conduct appraisal for the Company's investment projects based on the Company's overall business investment strategies from different perspectives through the various functional departments. By conducting comprehensive analysis and discussion on key elements of projects such as industry background, organizational structure, business development plan, return on investment as well as financial risk and legal issues, etc., independent professional advice will be formed for submission and report to the CEO or Deputy CEOs for their reference in making decision. Such appraisal will also be submitted to the management meeting for approval subject to the guidelines on corporate investment decision-making process. During the year, the Committee met from time to time as and when the actual business situation required.

Internal Audit Department

The Internal Audit Department is mainly responsible for monitoring the internal control system of the Group (including all its major member companies) to ensure prudent and proper operation. Its scope of audit covers financial control, business operation, compliance and risk management, etc. The Department also conducts independent review, assessment and follow-up procedures, thereby ensuring clear distinction between authority and responsibilities within the management structure and that

Corporate Governance

the various member units may accomplish business targets and/or financial operation performance benchmark in accordance with the stipulated policies and guidelines. The Internal Audit Department is independent of the other functional departments and directly reports to the CEO/Deputy CEOs and the Audit Committee and submits independent reports on a regular basis. The representative(s) of the Internal Audit Department will attend every Audit Committee meeting and answer any questions and enquiries raised by members of Audit Committee.

Investor Relations

The Management highly values investor relations and good communications with investors. The Group informs investors from time to time its latest business development through press conferences or the Company's website. Analysts' conferences and telephone conference calls with overseas institutional investors arranged regularly and after the announcement of annual and interim results, to provide better understanding the business operation and financial condition of the Group so as to achieve higher level of corporate transparency. Detailed business information and financial data are provided in the annual report and interim report distributed to our shareholders. Whenever the Company makes announcement of important news or price sensitive information, relevant internal guidelines on disclosure of information are formulated in advance to ensure the disclosure of such information is made in a fair, timely and accurate manner. The Board assumes ultimate responsibility for the accuracy and completeness of such information.

The Group also encourages its shareholders to communicate directly with the management and express their valuable opinions as to the business operation and financial information of the Group at each year's annual general meeting. For any queries about attending the annual general meeting or voting procedures, please contact our Company Secretarial Department at Tel.: (852) 2821 3910, Fax: (852) 2866 3330, E-mail: leunglc@sihl.com.hk. For share transfer and registration matters, please contact our share registrar and transfer office at Tel.: (852) 2980 1766, Fax: (852) 2861 1465. In addition, in line with our development needs, the Company has redesigned its website during the year, providing investors with more user-friendly access and informative data on various aspects of the Group's operations. Please drop by this new website at www.sihl.com.hk.

The Company has basically achieved the globalisation of trading of its shares by establishing a global round-the-clock stock-trading platform for investors. The American Depositary Receipts (ADR) program (Level One) is currently in place for investors to conduct over-the-counter transactions in the United States. Each American Depositary Receipt represents 10 shares in the Company. The Bank of New York is the depository bank for the American Depositary Receipts. The Company's shares are quoted on the London Stock Exchange through the London Automated Quotation System. Hong Kong investors may obtain quotation information of the Company's shares in the System on every trading day through the public media.

Condensed Timetable

2003 Results Announcement	16 April 2004
Closure of Register of Members	25 May 2004 to 28 May 2004, both dates inclusive
Annual General Meeting	3:00pm on 28 May 2004
Payment of Final Dividend	8 June 2004

Code of Best Practice

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association.

Human Resources

As at 31 December 2003, the Company and its subsidiaries employed a total of 3,700 full-time staff, of which 591 staff were stationed in Hong Kong and 3,109 staff were stationed in Mainland China. Talent resources are indispensable elements to the long-term development of any corporation. The Company has adopted a human resources policy to recruit a wide range of talents according to development needs, and arrange proper assignment of duties and job deployment based on the potentials and aspirations of every staff member. Moreover, guidance and training are provided to our staff in line with the future development plan of the Company, thereby achieving mutual growth and sharing the success accomplished by concerted efforts of the staff members at all levels and the Company as a whole.

Performance Appraisal

The Company has formulated performance appraisal policies to conduct assessment in a fair and justified manner. Job specifications and performance assessment must be integrated with the Company's overall business development objectives to create corporate values. Meanwhile, the Company carries out annual review and appraisal in accordance with the work performance of staff members and by reference to the market remuneration level to determine the remuneration and compensation package of every staff member. The management will from time to time review the compensation package offered to the staff that covers retirement protection scheme, cash allowance, medical insurance, on the job training, etc. to ensure effective recruitment and retention of talents. The Company operates a defined contribution pension scheme for all qualified employees. In compliance with the Mandatory Provident Fund Schemes Ordinance, the Company also operates a mandatory provident fund scheme and all employees who join the Company after the enactment of the Ordinance shall participate in the mandatory provident fund scheme. Assets of the two schemes are administered separately by independent custodian for operation and management in accordance with the relevant laws and regulations. The Company also maintains motivation scheme to pay year-end discretionary bonus and/or grant share options as appropriate to dedicated staff in recognition of their performance. Details of the Company's share options are contained in Note 29 to the financial statements of this annual report.

Training and Learning

In recent years, the Company has developed a learning-oriented corporate culture that encourages the staff members to pursue constant improvement continuous learning. A variety of regular training programs and activities are provided to staff members at all levels. They include seminars on management issues, on the job training, interpretations of laws and regulations, financial management, that help the staff give full play to their capabilities and special skills at work more effectively and desirably. Meanwhile, the Company also offers allowance to staff taking external courses after work to encourage them to make good use of their spare time and capitalise on every learning opportunity. By presenting the "Shanghai Industrial Technology Innovation Scholarship" each year to the universities of Hong Kong, the Company seeks to promote continuing education and contribute to our community. The management believes that to build up and cultivate a working environment of organisational learning and knowledge sharing can help our staff members keep enhancing self-values and competitiveness. As a result, the Company benefits with a team of capable staff force who participate in the Company's long-term development with high competence, devotion and integrity.

Communication and Sharing of Experience

The Company devotes much attention to communicate with its staff members at all levels and encourages them to reflect to the management directly of their opinions on the Company's operation, future development strategies as well as other issues concerning staff interest. Regular staff meetings are held to explain our new investment initiatives, business prospects, and management philosophy, etc., such that the staff members may have a better understanding of the various information of the respective corporation they belong to and perform their duties with the highest devotion heading towards the future development direction of the Company. Since most of the Group's staff is stationed either in Hong Kong or in Shanghai, in order to enhance communications, the Company arranges mutual visits for its staff from both places annually as appropriate and organizes exchange meetings for the management staff of member companies. By organising the various activities, the Company seeks to facilitate knowledge updates and exchange of experience among the staff members with a view to cultivating teamwork spirit, and enhance their sense of identification and belonging to the corporation.

Milestones of 2003



1	2
3	4

Mar Shanghai Pudong International Container Terminals Limited, a joint venture under the Shanghai Pudong Waigaoqiao Container Terminal Phase One Project, commenced formal operation. (pix 1)

Apr Acquired a 30% stake in Huqingyutang Pharmaceutical for a consideration of RMB\$78.67 million (pix 2)

May Disposed of its entire 51% interest in Orient Shopping to Shanghai Yibai (Holdings) Company Ltd.

May SMIC Fab 1 awarded one of the "Top Fabs of 2003" by *Semiconductor International* (pix 3)

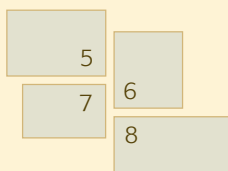
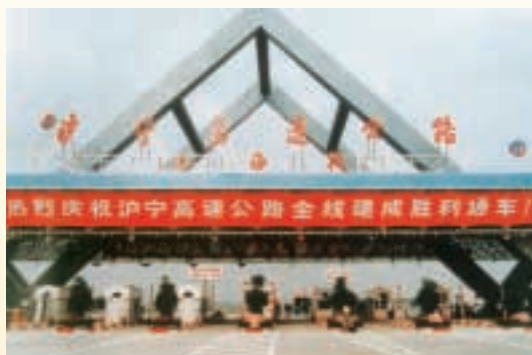
May Announced two large-scale reorganisation moves of medicine business segment: a 56.63% stake acquisition in SI United, an "A" Share company listed on the Shanghai Stock Exchange for a consideration of RMB866.46 million; the privatisation of the GEM-listed SIIC MedTech for a consideration of HK\$517.65 million (pix 4)

Jun Completed the integration of a management team at the Shanghai Regional Head Office to strengthen operation management

Aug Announced 2003 interim results with a net profit of approximately HK\$491.49 million, representing an increase of approximately 1.3% over 2002

Aug Disposed of all its entire interests in two infrastructure projects in Shanghai, being Yanan Elevated Road, the Inner Ring Road and the North-South Elevated Expressway, and received reimbursements of US\$702,475,363 and RMB300 million

Milestones of 2003



Aug Contributed capital of RMB250 million to form a joint venture, China Water & Sewage Treatment Company Limited, with a subsidiary of China Energy Conservation Investment Corporation, to be engaged in the development and operation of water services business in the PRC market. Upon approval by Ministry of Commerce, PRC in October, the joint venture commenced formal operation in November

Aug Acquired a 100% stake in Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited for a consideration of RMB2 billion and being granted the right to operate for a period of 25 years. An agreement was signed in December (pix 5)

Sep SMIC launched a US\$636 million placement of its Series C preference shares. The Group increased investment by US\$32 million (pix 6)

Sep SIIC MedTech officially withdrew listing of its shares from the GEM Board of the Hong Kong Stock Exchange

Dec SMIC acquired a fab in Tianjin from Motorola by way of a placement of Series D preference shares at a price of US\$360 million

Dec Sunway Biotech completed the H101 Phase III clinical trials

Dec SIIC MedTech was presented the 'Best BioTechnology Company' award by *Capital* magazine and the '2003 Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500' award by Deloitte Touche Tohmatsu (pix 7)

Dec Bright Dairy has been selected one of the 'Shanghai Stock Exchange 50 A-Share Index' (pix 8)

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. CAI Lai Xing, aged 61, is the Chairman of the Group and the Chairman of Shanghai Industrial Investment (Holdings) Company Limited. He is also a director of Semiconductor Manufacturing International Corporation. He graduated from Tong Ji University. He was formerly a Deputy Secretary of the Shanghai Municipal Government and was responsible for economic work such as planning, finance and research. He was also the Deputy Director of the Shanghai Planning Committee and Pudong Development Office, and a Director of the Municipal Government's Research Office. He has decades of experience in economics, finance and enterprise management. In 1988, he was accredited as a State-Class Economist for his outstanding contribution. Mr. Cai is presently a member of the National Committee of the Chinese People's Political Consultative Conference.

Mr. LU Ming Fang, aged 47, is the Chief Executive Officer of the Group and a Vice President of Shanghai Industrial Investment (Holdings) Company Limited. He is the Chairman of Shanghai Sunway Biotech Co., Ltd. and Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited, the Vice Chairman of China Water & Sewage Treatment Company Limited, Shanghai Pudong International Container Terminals Limited and Lianhua Supermarket Holdings Company Limited. He is also a Director of Shanghai Industrial United Holdings Co., Ltd. and Shanghai Information Investment Inc. He graduated from Shanghai Fudan University with a Master's Degree in Economics and holds the designation of Senior Economist. He had worked for Shanghai Medical Materials Company, Shanghai Municipal Drug Administration, Shanghai Wen Hui Bao and Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). Mr. Lu joined Shanghai Industrial Investment (Holdings) Company Limited in July, 1995, and had participated in the preparation for public listing of the Group and subsequent capital injection exercises. He was the Deputy General Manager of the Assets Management Department of Shanghai Industrial Investment (Holdings) Company Limited, a Director and Executive Deputy General Manager of Shanghai S. I. Capital Co., Ltd., the Managing Director of Shanghai Industrial United Holdings Co., Ltd., the Assistant President of Shanghai Industrial Investment (Holdings) Company Limited and General Manager of its Planning and Finance Department. He has over 25 years' management experience, including over 10 years' working experience in investment banking and listed companies.

Mr. LU Da Yong, aged 56, is the Executive Deputy CEO of the Group, an Executive Director of Shanghai Industrial Investment (Holdings) Company Limited. He is also the Chairman of Nanyang Brothers Tobacco Company, Limited, the Vice Chairman of Shanghai Huizhong Automotive Manufacturing Co., Ltd., Shanghai Wanzhong Automotive Components Co., Ltd. and SIIC Transportation Electric Co., Ltd., and a Director of The Wing Fat Printing Company, Limited. He graduated from the Party School of Shanghai where he majored in Industrial Enterprise Management. He was the Deputy General Manager of Shanghai Tobacco (Holdings) Company and Factory Director of the Shanghai Cigarette Factory in the PRC. He has over 30 years of experience in the tobacco industry.

Directors and Senior Management Profile

Mr. DING Zhong De, aged 54, is an Executive Director of the Group and of Shanghai Industrial Investment (Holdings) Company Limited. He is the Vice Chairman of SIIC Shanghai (Holdings) Co., Ltd. and the Chairman of Shanghai Industrial United Holdings Co., Ltd. He is also the Chairman of Shanghai Industrial United Holdings Medical Co., Ltd. and Shanghai Hua -Rui Investment Co., Ltd. He obtained a Bachelor's Degree in Economics and a Master's Degree in Business Management from Shanghai Fudan University and holds the designation of Senior Economist. He was the Deputy Director of Shanghai Municipal Party Committee's Research Office. He has extensive experience in economic research and enterprise management.

Mr. LU Shen, aged 47, is an Executive Director of the Group. He is a Director and General Manager of Shanghai United Holdings Co., Ltd. He is also the Chairman of Changzhou Pharmaceutical Co., Ltd. and Liaoning Herbapex Pharmaceutical (Group) Company Limited. He graduated from Shanghai Technology University with a Bachelor's Degree in Wireless Engineering and obtained a Master's Degree in Business Administration from Shanghai Jiaotong University. He holds the designation of Senior Economist. He was the Secretary-General of the Communist Youth League Shanghai Party and the Chairman of Shanghai City Hotel. He has extensive experience in enterprise management.

Mr. QIAN Shi Zheng, aged 51, is a Deputy CEO of the Group. He graduated from Shanghai Fudan University with a Master's Degree in Economics and a Doctorate Degree in Management. He was the Deputy Head and Deputy Professor of the Faculty of Accountancy of Shanghai Fudan University. He joined Shanghai Industrial Investment (Holdings) Company Limited in January 1998, and served as Chief Accountant, the General Manager of the Internal Audit Department and Deputy General Manager of the Planning and Finance Department of Shanghai Industrial Investment (Holdings) Company Limited. He has over 20 years' experience in finance and accounting theory and practice.

Mr. LU Yu Ping, aged 51, is a Deputy CEO of the Group. He is the President and a Director of EAS International Transportation Limited, the Chairman of Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited and Vice Chairman of Shanghai Industrial Sinotrans International Transportation Company Limited. He is also the Chairman of Shanghai Optical Communications Development Co., Ltd. and the Vice Chairman of Shanghai Communications Technologies Centre. He graduated from Shanghai Finance and Economics University where he majored in Finance. He furthered his study at Heriot-Watt University in U.K. and obtained Master's Degrees in International Finance and Financial Management, and holds the designation of Senior Economist. He had worked with a number of financial institutions, including Industrial and Commercial Bank of China, China International Trust and Investment Corporation and Deutsche Bank. He has over 27 years of experience in business finance, investment and enterprise management.

Mr. YAO Fang, aged 34, is an Executive Director of the Group and a Director and General Manager of SIIC Management (Shanghai) Limited. He is also a Director of Shanghai S. I. Capital Company Limited, Shanghai Industrial Development Co., Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited and Shanghai Information Investment Inc. , and the Vice Chairman of Bright Dairy and Food Co., Ltd. He graduated from the Chinese University of Hong Kong with a Master's Degree in Business Administration. He joined Shanghai Industrial Investment (Holdings) Company Limited in April 1996. He had worked for Bank of Communications (Shanghai branch) and Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). He has over 10 years' experience in money and capital markets operations.

Directors and Senior Management Profile

Mr. GE Wen Yao, aged 57, is an Executive Director of the Group. He is the Chairman of Shanghai Jahwa United Co. Ltd. He graduated from Shanghai Finance and Economics University where he majored in Economics and obtained a Master's Degree in Enterprise Management. He was the Factory Director of Shanghai Daily Chemicals Factory and Deputy General Manager of Shanghai Johnson Co., a Sino-American joint venture. He has over 27 years of management experience in cosmetics industry.

Non-executive Directors

Dr. LO Ka Shui, aged 57, graduated with Bachelor of Science Degree from McGill University and a M. D. from Cornell University. He is also certified in Cardiology. He has more than 24 years' experience in property and hotel development and investment both in Hong Kong and overseas. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited, and a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Phoenix Satellite Television Holdings Limited and China Mobile (Hong Kong) Limited. He is also a Vice President of The Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Board Member of the Airport Authority and the Ex-Chairman of the Hospital Authority. He is also a Director of Hong Kong Exchanges and Clearing Limited, and he served as Chairman of the Listing Committee for the Main Board from 1992 to 1996 and for the Growth Enterprise Market from 1999 to 2003.

Professor WOO Chia-Wei, aged 66, is currently Senior Advisor of Shui On Holdings Limited and President Emeritus of the Hong Kong University of Science and Technology. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR and also the Chinese People's Political Consultative Conference.

Mr. LEUNG Pak To, Francis, aged 49, is presently the Chairman of Citigroup Global Markets Asia and a Director of Digital China Holdings Limited. He has over 23 years of experience in corporate finance involving in capital raisings, mergers and acquisitions, corporate restructuring and reorganisation, investments and other general corporate financing advisory activities in Hong Kong and China. In 1980, Mr. Leung graduated with a master's degree in business administration from University of Toronto, Canada.

Senior Management

The Directors are responsible for the overall management of the Group, and have delegated certain day-to-day management responsibilities to the senior executives listed below:

Mr. ZHOU Jie, aged 36, is a Deputy CEO of the Group. He is also the Vice Chairman of Shanghai Sunve Pharmaceutical Co., Ltd. and 杭州胡慶餘堂藥業有限公司 (Hangzhou Huqingyutang Pharmaceutical Company Limited) and a Director of Shanghai Sunway Biotech Co., Ltd. He graduated from Shanghai Jiaotong University with a Master's Degree in Management Engineering. Mr. Zhou joined Shanghai Industrial Investment (Holdings) Company Limited in May 1996 and he previously held the positions of Chairman and General Manager of Shanghai S. I. Capital Co., Ltd. He had participated in the preparation for public listing of the Group and subsequent capital injection exercises. He was formerly the Deputy General Manager of the Investment Banking Head Office of Shanghai Wanquo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.). He has over 10 years' experience in investment banking and capital markets operation.

Directors and Senior Management Profile

Miss WANG Xiao Dong, Shanel, aged 42, is a Deputy CEO of the Group. She is also a Director and General Manager of China Water & Sewage Treatment Company Limited. She graduated from Peking University with a Bachelor's Degree in Law. She had worked for the Chinese Securities Market Research and Planning Centre, DBS Asset Management Ltd. and BOC International Holdings Ltd. and served as dealer in bond, capital and stock markets, fund manager of DBSAM and Managing Director of BOCI Asia Ltd. respectively. She has more than 10 years' professional working experience in the field of securities, investment and corporate finance.

Mr. LEUNG Lin Cheong, Roger, aged 50, is the Company Secretary of the Group. Mr. Leung is a Fellow of The Institute of Chartered Secretaries and Administrators, The Chartered Institute of Management Accountants and Hong Kong Society of Accountants. He also holds a Master's Degree in Business Administration from Brunel University in U.K. in conjunction with Henley Management College. He has over 23 years of management experience in listed corporate secretarial practice and administration.

Mr. ZHAI Pu, Philip, aged 29, is the Head of Investments of the Group. He graduated from Tsinghua University with a Bachelor's Degree in Materials Engineering. He obtained his Ph.D. Degree from Cambridge University. His research interests have been focusing on business strategy for MNCs in China, Sino-foreign joint venture management and investment analysis. He worked for Cybercity Investments and Vision Century Corporation, participating in the co-ordination of project investment and capital management in Hong Kong and Mainland China.

Ms. CHAN Yat Ying, Cherie, aged 36, is the Qualified Accountant and the Head of Finance Department of the Group. Ms. Chan graduated from University of Hong Kong with a Bachelor's Degree in Social Sciences. She also holds a Master's Degree in Financial Management awarded by University of London. Ms. Chan is a member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Chinese Institute of Certified Public Accountants. She has extensive working experience in banking and accounting professions.

Mr. CHEN Shu Zi, aged 56, is the Vice Chairman of Nanyang Brothers Tobacco Company, Limited, Chairman of Xiamen Traditional Chinese Medicine Co., Ltd., the Vice Chairman of Guangdong Biolight Medical Technology Co. Ltd. and a Director of E-COM Technology Limited. Mr. Chen joined SIIC Shanghai Holdings Co. Ltd. as General Manager of the Enterprise Management Department in October 1998. He graduated from Shanghai Fudan University with a Master's Degree in Economics Management. He was a Director and Deputy General Manager of Shanghai Rubber Tyre (Group) Limited. He has extensive working experience in enterprise management.

Mr. WEN Song Quan, aged 57, is a Director of Shanghai Industrial Investment (Holdings) Company Limited. He is the Chairman and General Manager of The Wing Fat Printing Company, Limited. He graduated from the Shanghai Academy of Printing. He was the Deputy Head of the Shanghai No. 10 Printing Factory and the General Manager of the Shanghai Packaging Co. He has over 40 years of experience in printing management.

Directors and Senior Management Profile

Mr. ZHENG Zhi Ping, aged 57, is a Director and Executive Vice President of Nanyang Brothers Tobacco Company, Limited. He graduated from Shanghai Fudan University. He was the Deputy Factory Director of Shanghai Cigarette Factory and a Director and Deputy General Manager of Shanghai Gao Yang International Tobacco Co., Ltd. He holds the designation of Senior Engineer and is a member of the Tobacco Machines Standardisation Committee. In 1996, he was accredited as a State-Class Technical Specialist for his outstanding contribution. He has over 36 years of experience in the technology development and enterprise management in the tobacco industry.

Mr. JIANG Ben Fu, aged 58, is a Director of SIIC Management (Shanghai) Limited and the General Manager of Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited. He graduated from Jiangxi Finance and Economy Institution where he majored in Accountancy, and holds the designation of Accountant. He was the Deputy General Manager of CNTIC Nan Fang I&E Co., and has over 30 years of experience in finance and enterprise management.

Mr. FENG Gen Sheng, aged 69, is the Vice Chairman and Chief Executive of Chia Tai Qingchunbao Pharmaceutical Co., Ltd., the Chairman of China (Hangzhou) Qing Chumbao Group Co. Ltd. and the Chairman of 杭州胡慶餘堂藥業有限公司 (Hangzhou Huqingyutang Pharmaceutical Company Limited). He holds the designation of Senior Economist and is a Certified Pharmacist. He was awarded as First Excellent Entrepreneur of the State. He has been a Director of Hangzhou No. 2 Chinese Herbal Medicine Factory since 1972 and has over 55 years of experience in the pharmaceutical industry and enterprise management.

Ms. WANG Jia Feng, aged 52, is the Chairman and General Manager of Bright Dairy and Food Co., Ltd. She is the Vice President of IDF China, Deputy Director of China Dairy Association, Deputy Director of China Industrial Association and the Chairman of Shanghai Dairy Association. She was the Director of Industrial & Foreign Economical Division SAICG and the Chairman and General Manager of Shanghai Dairy (Group) Co., Ltd. She graduated from Central TV University with a Degree in Engineering Enterprise Management. She furthered her study at East China Normal University and obtained a Master's Degree in International Economics, and subsequently obtained a EMBA Master's Degree from China Europe International Business School. She holds the designation of Senior Economist and was awarded as Excellent Entrepreneur of the State. She has over 30 years of experience in enterprise management.

Mr. ZHANG Hong, aged 38, is a Director and General Manager of Shanghai Huizhong Automotive Manufacturing Co., Ltd. and Shanghai Wanzhong Automotive Components Co., Ltd. He graduated from Nanchang Institute of Aeronautical Technology with a Bachelor's Degree in Material Engineering and Welding. He served as Deputy Head of the Technical Section of Shanghai Automobile Chassis Plant and the General Manager of Shanghai Automotive Brake Systems Co., Ltd. He has over 10 years' experience in the automotive components industry.

Mr. LIU Jian, aged 39, is a Director and General Manager of Shanghai SIIC Transportation Electric Co., Ltd. He graduated from Tong Ji University and obtained a Master's Degree in Business Administration. He holds the designation of Senior Engineer. He worked for Shanghai Volkswagon, and joined Shanghai SIIC Transportation Electric Co., Ltd. in November 2001 as Deputy General Manager.

Directors and Senior Management Profile

Mr. YANG Yi Chao, aged 45, is the General Manager of Shanghai Sunve Pharmaceutical Co., Ltd. He graduated from Shanghai Pharmaceutical Vocational College where he majored in Pharmacy. He is also the General Manager of Shanghai Lei Yun Shang Pharmaceutical Co. Ltd. He served as the General Manager of Shanghai ZhongHua Pharmaceutical Factory and Shanghai Sine Pharmaceutical Co. Ltd. He holds the designation of Engineer, and has over 20 years' solid experience in the pharmaceutical industry.

Mr. HU Fang, aged 54, is the President of Shanghai Sunway Biotech Co., Ltd. and a Director of Mergen Limited. He graduated from Shanghai Second Medical University with a Doctorate Degree, and later obtained a Postdoctorate from University of California, San Francisco. He was the Chairman of Hangzhou Jiu Yuan Gene Engineering Company, the President of Zhong Shi International Biotic Medical Group and the Head of Beijing Sai Yin Biological Technology Research Institute. He has over 24 years of experience in biogenes study.

Mr. QIAN Yi, aged 51, is the Vice Chairman and Executive President of Shanghai Sunway Biotech Co., Ltd. He graduated from Shanghai Fudan University with a Bachelor's Degree in Enterprise Management and obtained a Master's Degree from East China Normal University in Business Administration. He holds the designation of Senior Economist. He served as Deputy Head of Shanghai Boiler Works Ltd., the Deputy Chief Economist of Shanghai Heavy Machinery Plant, the Head of Shanghai Electric (Group) Corp. and the Consultant to the Chairman of SIIC Management (Shanghai) Ltd. He has extensive experience in economics and enterprise management and infrastructure project management.

Mr. HU Qian Jin, aged 48, is a Director and Chief Executive Officer of Mergen Limited of USA. He graduated from Shanghai Fudan University with a Bachelor's Degree in Biology. He also holds a Doctorate Degree from New York State University, Stone Brooks and a Postdoctorate from University of California, San Francisco. Dr. Hu was the Chairman of America HUS Biotic Medical Limited and the Senior Technical Advisor of Zhong Shi International Biotic Medical Group. He has in-depth knowledge in the study of human genome and molecular biology.

Mr. FENG He, aged 46, is a Director and General Manager of 杭州胡慶餘堂藥業有限公司 (Hangzhou Huqingyutang Pharmaceutical Company Limited). He holds the designation of Economist. He served as the Head of the Supplies Section of Hangzhou Huqingyutang Pharmaceutical Factory, the Manager and Head of Foreign Trade Section of Hainan Qingyu Industrial Company and the Deputy General Manager – Sales and Executive Deputy General Manager of Hangzhou Huqingyutang Pharmaceutical Factory Co. Ltd. He has over 27 years' experience in the pharmaceutical industry.

Mr. QIANG Shi Fa, aged 37, is a Director and General Manager of Xiamen Traditional Chinese Medicine Co. Ltd. He graduated from Xiamen University where he majored in Chemistry and obtained a Master's Degree in Science. He is a Certified Pharmacist, and holds the designation of Senior Engineer. Mr. Qiang joined Xiamen Traditional Chinese Medicine Factory in 1990. He was the General Manager of Xiamen Dinglu Ind. Corp. and the Factory Director of Xiamen Traditional Chinese Medicine Factory. He has extensive experience in enterprise management in the pharmaceutical industry.

Directors and Senior Management Profile

Mr. ZHENG Ji Yu, aged 41, is the Vice Chairman and General Manager of Liaoning Herbapex Pharmaceutical (Group) Company Limited. He graduated from L'Ecole Nationale Supérieure des mines de Nancy with a Master's Degree in Business Administration. He holds the designation of Economist. Mr. Zheng was accredited as an Excellent Entrepreneur of Liaoning Province, one of the Top Ten Young Entrepreneurs of Liaoning Province and a representative of Liaoning Province for the Tenth National People's Congress. He was the Office Director of the Real Estate Management Office of Huanren County, Liaoning Province and the Chief of Guaimozi Town of Huanren County. He has over 20 years' experience in local government administration and enterprise management.

Mr. CUI Zhen Jia, aged 54, is the Vice Chairman and General Manager of Shanghai Optical Communications Development Co., Ltd. and the Chairman of Shanghai Communications Technologies Centre. He graduated from China Europe International Business School with a Master's Degree in Business Administration and holds the designation of Senior Economist. He was the Deputy Head of Shanghai Alloy Factory and the Head of Shanghai Geological Instrument Co., Ltd. He also held various senior management positions in Shanghai Instrument Bureau, SVA (Group) Co., Ltd., SVA Co., Ltd., Shanghai Instrument & Electronics Holding (Group) Company. He has extensive experience in enterprise management..

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2003.

Principal Activities

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 43 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 57 of the annual report.

An interim dividend of HK18 cents per share was paid during the year. The directors recommend a final dividend of HK32 cents per share to the shareholders on the register of members on 28 May 2004.

Share Capital

Changes in the share capital of the Company during the year are set out in note 28 to the financial statements.

Investment Property

At 31 December 2003, the investment property of the Group was revalued by an independent property valuer on an open market value existing use basis at HK\$3.69 million. The revaluation resulted in a surplus amounted to HK\$390,000, of which HK\$215,000, net of minority interests' share of HK\$175,000, has been credited directly to the investment property revaluation reserve. Details are set out in note 12 to the financial statements.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

Directors' Report

Directors and Directors' Service Contracts

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Lai Xing (*Chairman*)

Lu Ming Fang (*Chief Executive Officer*)

Lu Da Yong (*Executive Deputy CEO*)

Ding Zhong De (appointed on 19 January 2004)

Lu Shen (appointed on 19 January 2004)

Qian Shi Zheng (*Deputy CEO*)

Lu Yu Ping (*Deputy CEO*)

Yao Fang (appointed on 7 May 2003)

Ge Wen Yao

Chen Wei Shu (*Vice Chairman*) (resigned on 19 January 2004)

Li Wei Da (*Deputy CEO*) (resigned on 19 January 2004)

Zhou Jie (*Deputy CEO*) (resigned on 19 January 2004)

Cao Fu Kang (resigned on 7 May 2003)

Wen Song Quan (resigned on 7 May 2003)

Huang Yan Zheng (resigned on 19 January 2004)

Gu Wen Xing (resigned on 25 April 2003)

Independent non-executive directors:

Lo Ka Shui

Woo Chia-Wei

Leung Pak To, Francis

Lee Quo Wei (resigned on 1 January 2004)

In accordance with Articles 92 and 101 of the Company's Articles of Association, Messrs. Ding Zhong De, Lu Shen, Qian Shi Zheng, Ge Wen Yao, Woo Chia-Wei and Leung Pak To, Francis retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. Cai Lai Xing and Ge Wen Yao has entered into a service agreement for an initial period of three years commencing 1 April 1996 and the service agreements have continued thereafter for a further three years commencing 1 April 2002, which will be terminated by either party by six months' prior written notice.

Each of Messrs. Cao Fu Kang and Huang Yan Zheng has entered into a service agreement for an initial period of three years commencing 1 April 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Messrs. Cao and Huang resigned as directors of the Company on 7 May 2003 and 19 January 2004 respectively. Their service agreements were terminated on their respective date of resignation.

Directors' Report

Mr. Li Wei Da has entered into a service agreement with the Company for an initial period of three years commencing 22 November 1996, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Li resigned as a director of the Company on 19 January 2004 and his service agreement was terminated on the same date.

Mr. Lu Yu Ping has entered into a service agreement with the Company for an initial period of three years commencing 8 March 2000 and the service agreement has continued for a further three years commencing 8 March 2003, which will be terminated by either party by six months' prior written notice.

Mr. Gu Wen Xing has entered into a service agreement with the Company for an initial period of three years commencing 20 June 2000, which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Gu resigned as a director of the Company on 25 April 2003 and his service agreement was terminated on the same date.

Mr. Wen Song Quan has entered into a service agreement with the Company for an initial period of three years commencing 1 August 2001 and will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Wen resigned as a director of the Company on 7 May 2003 and his service agreement was terminated on the same date.

The original service agreement of Mr. Chen Wei Shu was terminated on 5 January 2002 and a new service agreement was entered into and became effective on the same day, which is for an initial period of three years and will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Chen resigned as a director of the Company on 19 January 2004 and his service agreement was terminated on the same date.

Each of Messrs. Lu Ming Fang and Qian Shi Zheng has entered into a service agreement for a period of three years commencing 5 January 2002, which will be terminated by either party by six months' prior written notice.

Mr. Zhou Jie has entered into a service agreement for an initial period of three years commencing 5 January 2002 which will continue thereafter unless and until terminated by either party by six months' prior written notice. Mr. Zhou resigned as a director of the Company on 19 January 2004 and his service agreements was terminated on the same date.

The original service agreement of Mr. Lu Da Yong was terminated on 13 September 2002 and a new service agreement was entered into and became effective on the same day, which is for a period of three years and will be terminated by either party by six months' prior written notice.

Mr. Yao Fang has entered into a service agreement with the Company for a period of three years commencing 7 May 2003, which will be terminated by either party by six months' prior written notice.

Directors' Report

Both of Messrs. Ding Zhong De and Lu Shen has entered into a service agreement with the Company for a period of three years commencing 19 January 2004, which will be terminated by either party by six months' prior written notice.

The term of office of each of the non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests

As at 31 December 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange and Clearing Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Interests in Shares of the Company

(a) Ordinary shares of HK\$0.10 each

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Lai Xing	Beneficial owner	4,000,000	0.42%
Chen Wei Shu (<i>Note</i>)	Beneficial owner	3,500,000	0.37%
Lu Ming Fang	Beneficial owner	2,700,000	0.29%
Lu Da Yong	Beneficial owner	2,700,000	0.29%
Li Wei Da (<i>Note</i>)	Beneficial owner	1,200,000	0.13%
Zhou Jie (<i>Note</i>)	Beneficial owner	2,700,000	0.29%
		16,800,000	1.79%

Note: Messrs. Chen Wei Shu, Li Wei Da and Zhou Jie resigned as directors of the Company on 19 January 2004.

All interests stated above represented long positions.

Directors' Report

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares	Percentage of the issue share capital of the Company
Lu Ming Fang	Beneficial owner	1,500,000	1,500,000	0.16%
Lu Yu Ping	Beneficial owner	1,550,000	1,550,000	0.16%
		3,050,000	3,050,000	0.32%

Other than as disclosed above, as at 31 December 2003, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

Particulars of the share option schemes adopted by the Group are set out in note 29 to the financial statements.

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

			Number of the Company's shares subject to share options					
	Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Reclassified during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2003
Category 1: Directors								
Lu Ming Fang	July 2001	10.432	1,500,000	–	–	–	–	1,500,000
Lu Yu Ping	March 2001	10.496	1,550,000	–	–	–	–	1,550,000
Gu Wen Xing *	March 2001	10.496	500,000	(500,000)	–	–	–	–
Total for directors			3,550,000	(500,000)	–	–	–	3,050,000
Category 2: Employees								
	January 1999	9.568	1,000,000	–	–	–	(1,000,000)	–
	March 2001	10.496	4,320,000	500,000	(4,820,000)	–	–	–
	July 2001	10.432	4,000,000	–	(4,000,000)	–	–	–
	September 2002	11.710	27,150,000	–	(630,000)	(400,000)	–	26,120,000
Total for employees			36,470,000	500,000	(9,450,000)	(400,000)	(1,000,000)	26,120,000
Total for all categories			40,020,000	–	(9,450,000)	(400,000)	(1,000,000)	29,170,000

* No share options were exercised by Mr. Gu Wen Xing during the period prior to his resignation as a director of the Company on 25 April 2003.

Directors' Report

Options granted under the Company's share option schemes are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised was HK\$11.62.

- (b) Pursuant to the share option scheme adopted by SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a subsidiary of the Company, on 3 December 1999 ("SIIC MedTech Old Scheme"), certain directors and employees of the Company have interests in share options ("SIIC MedTech Options") to subscribe for shares in SIIC MedTech ("SIIC MedTech Shares") which were granted to them in January 2000 at an exercise price of HK\$1.69 per share as follows:

Name of director	Number of SIIC MedTech Shares subject to SIIC MedTech Options		
	Outstanding at 1.1.2003	Cancelled during the year	Outstanding at 31.12.2003
Li Wei Da	6,000,000	(6,000,000)	—
Ge Wen Yao	2,500,000	(2,500,000)	—
	8,500,000	(8,500,000)	—

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

On 15 July 2003, all holders of SIIC MedTech Options have agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the SIIC MedTech Old Scheme and received HK\$0.46 for each SIIC MedTech Options held, except for Messrs. Li Wei Da and Ge Wen Yao who consented to SIIC MedTech cancelling the share options granted to them at no consideration.

Directors' Right to Acquire Shares and Debenture

Save as disclosed under the section of "Share Options" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

Substantial Shareholders

As at 31 December 2003, the interests and short positions of every position, other than the directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Ordinary shares of HK\$0.10 each

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	Held by controlled corporation(s) (Note)	550,556,000	58.21%

Note: Shanghai Investment Holdings Limited ("SIH"), SIIC Capital (B.V.I.) Limited ("SIIC Capital BVI") and SIIC CM Development Limited ("SIIC CM Development") are the beneficial owners of 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively. SIIC owns 100% of SIIC CM Development and Shanghai Industrial Investment Treasury Company Limited ("STC") respectively whereas STC owns 100% of SIH which in turns owns 100% of SIIC Capital BVI.

Billion More Investments Limited, Gem Capital Investment (BVI) Limited and Nanyang Enterprise Limited are the beneficial owners of 1,645,000, 485,000 and 350,000 ordinary shares of the Company respectively. SIIC indirectly owns 100% of these companies respectively.

All interests stated above represented long positions.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2003.

Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 41(l) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Chapter 14A Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 41(l)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreements governing such transactions or on terms not less favourable than terms available to third parties; and
- (iv) within the relevant cap amounts as agreed by the Stock Exchange.

Directors' Report

Directors' Interests in Contracts

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

Competing Interests

The ultimate holding company of the Company, SIIC has interest in SIIC International Investment Company ("SIICI") and Shanghai Industrial United Holdings Co., Ltd. ("Shanghai United").

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd. ("SMU Biotech") and Shanghai SIIC Kehau Biopharmaceutical Co., Ltd. ("SIIC Biopharmaceutical"). SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection which is used for emergency treatment to dissolve blood clog from myocardial infection. SIIC Biopharmaceutical is principally engaged in research and development of EPO which has a medical application for increasing erythrocyte. Shanghai United is a conglomerate engaging in three principal areas of business being high technology, supermarket chain, and textile manufacturing. Some of Shanghai United's investments in high technology enterprises are also engaged in medical and pharmaceutical related operations. Shanghai United has interest in Shanghai Medical Equipment Co., Ltd. ("Med Equipment"), a medical device company and SIIC Kehua Biology Company Limited ("Kehua Biology"). Med Equipment is engaged in the design, development, manufacturing and distribution of medical apparatus including emergency room, operating room and dental equipment. Kehua Biology is engaged in the development, production and distribution of clinical diagnosis reagent and related products. Its main products include hepatitis B testing agent, hepatitis C antibody diagnosis testing agent and HIV antigen.

Save as disclosed above, during the year ended 31 December 2003, none of the directors or the substantial shareholders of the Company had an interest in a business, which competes or may compete with the business of the Group.

Major Customers and Suppliers

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the directors, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

Directors' Report

Donations

During the year, the Group made charitable and other donations totalling HK\$97,075.

Retirement Benefits Schemes

Details of the Group's retirement benefits schemes are set out in note 40 to the financial statements.

Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 47 to the financial statements.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by directors of listed companies on terms no less exacting than the required standard set out in the Model Code, and have made enquiries with the directors that they have complied with the Model Code.

Code of Best Practice

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association.

Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board



CAI LAI XING

Chairman

Hong Kong, 16 April 2004

Auditors' Report

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 57 to 126 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

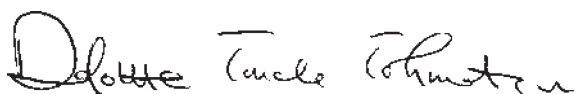
Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.



Certified Public Accountants
Hong Kong, 16 April 2004

Consolidated Income Statement

For the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	4	2,825,978	3,380,037
Cost of sales		(1,194,490)	(1,545,306)
Gross profit		1,631,488	1,834,731
Investment income – net	5	309,113	78,219
Other operating income		58,870	60,089
Distribution costs		(530,178)	(526,614)
Administrative expenses		(301,561)	(256,629)
Other operating expenses		(102,308)	(30,674)
Profit from operations	6	1,065,424	1,159,122
Interest on bank and other borrowings wholly repayable within five years		(31,001)	(63,745)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities	8	278,059	222,864
Share of results of jointly controlled entities		172,635	141,849
Share of results of associates		161,537	7,032
Impairment loss recognised in respect of interest in a jointly controlled entity		–	(15,300)
Profit from ordinary activities before taxation		1,646,654	1,451,822
Taxation	9	(241,904)	(182,376)
Profit before minority interests		1,404,750	1,269,446
Minority interests		(145,584)	(143,103)
Profit for the year		1,259,166	1,126,343
Dividends	10	451,112	454,020
Earnings per share	11		
– Basic		HK\$1.34	HK\$1.22
– Diluted		HK\$1.33	HK\$1.21

Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-Current Assets			
Investment property	12	3,690	3,300
Property, plant and equipment	13	1,198,019	1,188,483
Toll road operating right	14	1,841,082	—
Goodwill	15	256,736	27,717
Interest in jointly controlled entities	17	2,133,351	1,877,633
Interest in associates	18	3,210,651	2,583,108
Investments in infrastructure and other projects	19	87,709	5,547,855
Investments in securities	20	584,971	274,918
Loans receivable	21	5,043	8,703
Deposits paid on acquisition of property, plant and equipment	22	29,014	6,632
		9,350,266	11,518,349
Current Assets			
Inventories	23	303,500	401,571
Trade and other receivables	24	898,144	796,018
Investments in securities	20	1,027,232	286,370
Placement of deposits with financial institutions		141,509	214,953
Pledged bank deposits	25	41,762	42,869
Bank balances and cash		5,313,041	3,202,532
		7,725,188	4,944,313
Current Liabilities			
Trade and other payables	26	395,594	552,717
Taxation payable		116,240	73,920
Short-term borrowings	27	819,945	843,451
		1,331,779	1,470,088
Net Current Assets		6,393,409	3,474,225
		15,743,675	14,992,574

Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Capital and Reserves			
Share capital	28	94,575	93,630
Reserves		14,396,265	13,404,176
		14,490,840	13,497,806
Minority interests		380,934	618,549
Non-Current Liabilities			
Long-term bank loan	32	800,000	800,000
Deferred taxation	33	71,901	76,219
		871,901	876,219
		15,743,675	14,992,574

The financial statements on pages 57 to 126 were approved and authorised for issue by the Board of Directors on 16 April 2004 and are signed on its behalf by:



Lu Ming Fang
Chief Executive Officer



Qian Shi Zheng
Deputy CEO


Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-Current Assets			
Property, plant and equipment	13	5,993	8,100
Interest in subsidiaries	16	12,762,134	13,839,742
Interest in a jointly controlled entity	17	164,045	—
		12,932,172	13,847,842
Current Assets			
Deposits, prepayments and other receivables		19,494	21,885
Investments in securities	20	—	6,817
Dividend receivable		310,000	700,000
Bank balances and cash		2,600,688	1,087,956
		2,930,182	1,816,658
Current Liabilities			
Other payables and accrued charges		46,190	49,829
Short-term borrowings	27	800,000	800,000
		846,190	849,829
Net Current Assets		2,083,992	966,829
		15,016,164	14,814,671
Capital and Reserves			
Share capital	28	94,575	93,630
Reserves	30	13,861,956	13,921,041
		13,956,531	14,014,671
Non-Current Liabilities			
Amounts due to subsidiaries	31	259,633	—
Long-term bank loan	32	800,000	800,000
		1,059,633	800,000
		15,016,164	14,814,671



Lu Ming Fang
Chief Executive Officer



Qian Shi Zheng
Deputy CEO

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	PRC statutory reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2002	89,806	9,350,049	473	299	7,913	(1,001,256)	227,670	3,763,454	12,438,408
Exchange difference arising from translation of financial statements of PRC operations	-	-	-	-	(35)	-	-	-	(35)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	-	-	-	-	60	-	-	-	60
Net gain not recognised in the income statement	-	-	-	-	25	-	-	-	25
Exercise of share options	4,422	-	-	-	-	-	-	-	4,422
Premium arising on issue of shares	-	438,553	-	-	-	-	-	-	438,553
Expenses incurred in connection with the issue of shares	-	(361)	-	-	-	-	-	-	(361)
Shares repurchased and cancelled	(598)	-	-	-	-	-	-	-	(598)
Premium on shares repurchased and cancelled	-	-	-	-	-	-	-	(69,665)	(69,665)
Transfer arising on shares repurchased and cancelled	-	-	598	-	-	-	-	(598)	-
Realised on disposal of interest in a jointly controlled entity	-	-	-	-	-	(360)	-	-	(360)
Realised on deemed disposal of interest in a jointly controlled entity	-	-	-	-	(83)	2,347	(5,213)	5,213	2,264
Realised on partial disposal of interest in a subsidiary	-	-	-	-	(60)	-	-	-	(60)
Impairment loss on goodwill reserve	-	-	-	-	-	12,855	-	-	12,855
Profit for the year	-	-	-	-	-	-	-	1,126,343	1,126,343
Transfers, net of minority interests' share	-	-	-	-	-	-	44,185	(44,185)	-
Dividends paid (Note 10)	-	-	-	-	-	-	-	(454,020)	(454,020)
At 31 December 2002	93,630	9,788,241	1,071	299	7,795	(986,414)	266,642	4,326,542	13,497,806

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	PRC statutory reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2003	93,630	9,788,241	1,071	299	7,795	(986,414)	266,642	4,326,542	13,497,806
Surplus arising on revaluation of investment property	-	-	-	215	-	-	-	-	215
Exchange difference arising from translation of financial statements of PRC operations	-	-	-	-	26,066	-	-	-	26,066
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	-	-	-	-	72	-	-	-	72
Share of exchange difference arising from translation of financial statements of PRC operations of an associate	-	-	-	-	(65)	-	-	-	(65)
Net gain not recognised in the income statement	-	-	-	215	26,073	-	-	-	26,288
Exercise of share options	945	-	-	-	-	-	-	-	945
Premium arising on issue of shares	-	98,751	-	-	-	-	-	-	98,751
Expenses incurred in connection with the issue of shares	-	(88)	-	-	-	-	-	-	(88)
Realised on partial disposal of interest in a subsidiary	-	-	-	-	-	1,082	-	-	1,082
Realised on disposal of interest in subsidiaries	-	-	-	-	(38)	56,428	(4,491)	4,491	56,390
Realised on disposal of interest in an associate	-	-	-	-	(10)	1,622	-	-	1,612
Profit for the year	-	-	-	-	-	-	-	1,259,166	1,259,166
Transfers, net of minority interests' share	-	-	-	-	-	-	55,641	(55,641)	-
Dividends paid (Note 10)	-	-	-	-	-	-	-	(451,112)	(451,112)
At 31 December 2003	94,575	9,886,904	1,071	514	33,820	(927,282)	317,792	5,083,446	14,490,840

The accumulated profits of the Group include accumulated profits of approximately HK\$35.3 million (2002: accumulated losses of HK\$52.6 million) retained by jointly controlled entities and accumulated profits of approximately HK\$49.6 million (2002: HK\$35.5 million) retained by associates.

The goodwill reserve comprises approximately HK\$2,117 million (2002: HK\$2,182 million) in respect of goodwill, approximately HK\$52 million (2002: HK\$58 million) in respect of negative goodwill and approximately HK\$1,138 million (2002: HK\$1,138 million) in respect of capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong.

The People's Republic of China ("PRC") statutory reserves are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries, jointly controlled entities and associates.

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
Profit from operations	1,065,424	1,159,122
Adjustments for:		
Dividend income from listed investments	(3,583)	(3,314)
Income from unlisted investments, other than infrastructure projects	(8,254)	(8,008)
Interest income	(48,241)	(50,846)
Rental income	(2,959)	(2,909)
Amortisation of goodwill	6,412	1,869
Allowance on amount due from a jointly controlled entity	67,337	12,987
Depreciation and amortisation of property, plant and equipment	109,071	105,947
Net unrealised holding (gain) loss on investments in securities	(167,528)	15,569
Gain on disposal of investments in securities	(78,548)	(28,711)
Loss (gain) on disposal of property, plant and equipment	6,266	(855)
Impairment loss recognised in respect of investments in infrastructure and other projects	3,231	3,231
Impairment loss recognised in respect of investments in securities	31,740	14,456
Operating cash flows before movements in working capital	980,368	1,218,538
Decrease (increase) in inventories	67,026	(21,627)
Increase in trade and other receivables	(4,573)	(50,587)
Decrease in trade and other payables	(9,324)	(9,848)
Cash generated from operations	1,033,497	1,136,476
PRC income tax paid	(86,362)	(70,359)
Hong Kong Profits Tax paid	(48,243)	(6,023)
Hong Kong Profits Tax refund	–	3,750
NET CASH FROM OPERATING ACTIVITIES	898,892	1,063,844

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	(1,897,295)	(41,301)
Purchase of investments in securities		(1,888,900)	(615,041)
Increase in bank deposits		(1,135,396)	(66,671)
Purchase of additional interest in subsidiaries		(500,491)	–
Capital contributions to associates		(497,336)	(393,271)
Capital contributions to jointly controlled entities		(321,018)	(166,924)
Purchase of property, plant and equipment		(139,008)	(134,623)
(Increase) decrease in deposits paid on acquisition of property, plant and equipment		(22,382)	10,184
Advance to an associate		(1,006)	(101,601)
Proceeds from disposal of investments in infrastructure projects		5,456,448	–
Proceeds from disposal of investments in securities		1,056,017	292,088
Repayment from an associate		102,604	–
Dividends received from associates		85,405	17,973
Decrease (increase) in placement of deposits with financial institutions		75,472	(214,953)
Interest received		48,241	50,563
Capital distributions from jointly controlled entities		42,070	–
Dividends received from jointly controlled entities		29,280	58,195
Proceeds from partial disposal of interest in a subsidiary		27,300	2,280
Government grants received		14,151	–
Proceeds from disposal of property, plant and equipment		12,576	4,170
Income received from unlisted investments, other than infrastructure projects		8,254	8,008
Proceeds from partial disposal of interest in an associate		7,475	–
Repayment from minority shareholders of subsidiaries		3,660	9,708
Dividends received from listed investments		3,583	3,314
Repayment from a jointly controlled entity		3,510	–
Rental income received		2,959	2,909
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	35	1,353	–
Advances to jointly controlled entities		–	(26,334)
Advance to minority shareholders of a subsidiary		–	(8,703)
Capital receipts from infrastructure projects		–	125,617
Proceeds from disposal of interest in a jointly controlled entity		–	2,803
NET CASH FROM (USED IN) INVESTING ACTIVITIES		577,526	(1,181,610)

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
FINANCING ACTIVITIES		
Dividends paid	(451,112)	(454,020)
Dividends paid to minority shareholders of subsidiaries	(102,942)	(87,739)
Interest paid on bank and other borrowings	(31,001)	(62,109)
Repayment of borrowings	(29,502)	(1,237,270)
Expenses incurred in connection with the issue of shares	(88)	(361)
Proceeds from issue of shares	99,696	442,975
Borrowings raised	8,915	1,644,608
Capital contributions by minority shareholders of subsidiaries	3,622	—
Repurchase of shares	—	(70,263)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(502,412)	175,821
INCREASE IN CASH AND CASH EQUIVALENTS	974,006	58,055
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,064,690	3,006,635
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,038,696	3,064,690
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	5,313,041	3,202,532
Less: Bank deposits held for investment purpose	(1,274,345)	(137,842)
	4,038,696	3,064,690

Notes to the Financial Statements

For the year ended 31 December 2003

1. General

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Hong Kong Stock Exchange and Clearing 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 43.

2. Adoption of Hong Kong Financial Reporting Standard/Changes in Accounting Policy

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
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Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

Notes to the Financial Statements

For the year ended 31 December 2003

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.

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 or goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

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.

Toll road operating right

Toll road operating right is measured initially at cost and amortised on a straight line basis over its estimated useful lives.

Interest in subsidiaries

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

Interest in jointly controlled entities

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 goodwill in so far as it has not already been written off or amortised, less any identified impairment loss. The Group's share of the post-acquisition results of jointly controlled entities are included in the consolidated income statement.

The Company's interest in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

Interest in associates

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been written off or amortised, less any identified impairment loss.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

Revenue recognition (continued)

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 machinery 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

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% or over the period of the lease terms
Furniture, fixtures and equipment	20% – 33 ¹ / ₃ % or over the period of the lease in case of fixtures in rented premises
Motor vehicles	20% – 30%
Plant and machinery	6 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.

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. An 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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

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.

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.

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. Significant Accounting Policies (continued)

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.

4. Turnover

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

	2003 HK\$'000	2002 HK\$'000
Sales of goods	2,542,959	2,675,319
Income from infrastructure projects	283,019	704,718
	2,825,978	3,380,037

5. Investment Income – Net

	2003 HK\$'000	2002 HK\$'000
Net unrealised holding gain (loss) on investments in securities	167,528	(15,569)
Gain on disposal of investments in securities	78,548	28,711
Interest on bank deposits	40,589	47,792
Interest from investments in securities	6,410	1,268
Other interest income	1,242	1,786
Income from unlisted investments, other than infrastructure projects	8,254	8,008
Dividend income from listed investments	3,583	3,314
Rental income from property, plant and equipment	2,959	2,909
	309,113	78,219

Notes to the Financial Statements

For the year ended 31 December 2003

6. Profit from Operations

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Basic salaries and allowances	236,798	268,955
Bonuses	69,029	52,875
Retirement benefits scheme contributions, net of forfeited contributions of HK\$1,247,000 (2002: HK\$1,336,000)	20,398	19,021
	326,225	340,851
Allowance on amount due from a jointly controlled entity (included in other operating expenses)	67,337	12,987
Allowance on doubtful debts	9,088	1,100
Amortisation of goodwill (included in administrative expenses)	6,412	1,869
Auditors' remuneration	5,500	5,000
Bad debts written-off	1,238	–
Depreciation and amortisation of property, plant and equipment	109,071	105,947
Impairment loss recognised in respect of investments in infrastructure and other projects (included in other operating expenses)	3,231	3,231
Impairment loss recognised in respect of investments in securities (included in other operating expenses)	31,740	14,456
Operating lease rentals in respect of equipment and motor vehicles	441	771
Operating lease rentals in respect of land and buildings to		
– ultimate holding company	6,301	5,884
– fellow subsidiaries	16,914	44,351
– others	9,356	8,022
Research and development costs	8,043	13,516
Loss (gain) on disposal of property, plant and equipment	6,266	(855)

Notes to the Financial Statements

For the year ended 31 December 2003

7. Directors' Emoluments and Employees' Emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive	–	589
Independent non-executive	776	776
Other emoluments of executive directors:		
Basic salaries and allowances	20,167	22,408
Bonuses	13,047	11,238
Retirement benefits scheme contributions	1,906	2,186
Total directors' emoluments	35,896	37,197

The emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
Up to HK\$1,000,000	10	8
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,500,001 to HK\$4,000,000	2	2
HK\$4,000,001 to HK\$4,500,000	2	2
HK\$5,000,001 to HK\$5,500,000	2	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 2003

8. Gain on Disposal of Interests in Subsidiaries, Associates and Jointly Controlled Entities

	2003 HK\$'000	2002 HK\$'000
Gain on deemed disposal of interest in an associate	239,151	2,665
Gain on disposal of interest in subsidiaries	29,869	–
Gain on partial disposal of interest in a subsidiary	12,064	400
Loss on disposal of interest in an associate	(3,025)	–
Gain on deemed disposal of interest in a jointly controlled entity	–	218,000
Gain on disposal of interest in a jointly controlled entity	–	1,799
	278,059	222,864

9. Taxation

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax		
– current year	57,703	30,102
– under (over) provision in prior years	21,164	(1,255)
– PRC income tax		
– current year	87,841	86,135
– underprovision in prior years	3,114	7,186
	169,822	122,168
Deferred taxation (note 33)		
– current year	(11,492)	(7,805)
– effect of change in tax rate	7,174	–
	(4,318)	(7,805)
Taxation attributable to the Company and its subsidiaries	165,504	114,363
Share of PRC income tax of jointly controlled entities	31,679	41,950
Share of PRC income tax of associates	44,721	26,063
	76,400	68,013
	241,904	182,376

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

Notes to the Financial Statements

For the year ended 31 December 2003

9. Taxation (continued)

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%.

The underprovision in prior years mainly represents the tax provision of a subsidiary for its offshore income in previous years.

Details of deferred taxation are set out in note 33.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit from ordinary activities before taxation	1,646,654		1,451,822	
Tax at PRC Statutory Tax rate of 33% (2002: 33%)	543,396	33.00	479,101	33.00
Tax effect of expenses not deductible for tax purpose	55,324	3.36	37,114	2.55
Tax effect of income not taxable for tax purpose	(312,224)	(18.96)	(366,482)	(25.24)
Underprovision in respect of prior years	24,278	1.47	5,931	0.41
Tax effect of tax losses not recognised	30,922	1.88	46,329	3.19
Utilisation of tax losses previously not recognised	(15,566)	(0.95)	—	—
Increase in opening deferred tax balance resulting from an increase in the Hong Kong tax rate	7,174	0.44	—	—
Effect of tax exemption and tax reliefs granted to PRC subsidiaries	(17,733)	(1.08)	(13,796)	(0.95)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(36,350)	(2.21)	(19,365)	(1.33)
Effect of different tax rates of jointly controlled entities and associates operating in other jurisdictions	(33,876)	(2.06)	18,881	1.30
Others	(3,441)	(0.21)	(5,337)	(0.37)
Tax expense and effective tax rate for the year	241,904	14.68	182,376	12.56

Notes to the Financial Statements

For the year ended 31 December 2003

10. Dividends

	2003 HK\$'000	2002 HK\$'000
Interim dividend of HK18 cents per share (2002: HK15 cents per share)	170,205	141,332
2002 final dividend of HK30 cents per share (2001: HK34 cents per share)	280,907	312,688
	451,112	454,020

A final dividend of HK32 cents (2002: HK30 cents) per share has been proposed by the board of directors and is subject to approval by the shareholders in annual general meeting.

11. Earnings per Share

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

	2003 HK\$'000	2002 HK\$'000
Earnings:		
Profit for the year and earnings for the purpose of basic earnings per share	1,259,166	1,126,343
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	1,259,166	1,126,322

	2003	2002
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	940,604,493	919,908,679
Effect of dilutive potential ordinary shares		
– share options	3,354,778	10,721,509
Weighted average number of ordinary shares for the purpose of diluted earnings per share	943,959,271	930,630,188

Notes to the Financial Statements

For the year ended 31 December 2003

12. Investment Property

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
VALUATION		
Balance brought forward	3,300	12,000
Transfer to property, plant and equipment	–	(8,700)
Surplus on revaluation	390	–
Balance carried forward	3,690	3,300

The investment property was revalued at 31 December 2003 by Debenham Tie Leung Limited, an independent firm of property valuers, on an open market value existing use basis. The surplus arising on revaluation amounted to HK\$390,000 (2002: Nil), of which HK\$215,000, net of minority interests' share of HK\$175,000, has been credited to the investment property revaluation reserve.

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

For the year ended 31 December 2003

13. Property, Plant and Equipment

	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1 January 2003	501,299	289,667	53,503	1,062,338	18,904	1,925,711
Exchange adjustments	1,854	127	236	1,612	168	3,997
Acquired on acquisition of subsidiaries	–	4,660	859	32,224	1,055	38,798
Additions	1,738	11,257	7,045	42,600	76,368	139,008
Transfers/reclassifications	8,365	1,792	3,567	2,025	(15,749)	–
Disposals	(306)	(2,274)	(4,205)	(48,217)	(108)	(55,110)
Disposal of subsidiaries	(2,321)	(46,799)	(4,993)	–	(1,117)	(55,230)
Government grants received	–	–	–	(14,151)	–	(14,151)
At 31 December 2003	510,629	258,430	56,012	1,078,431	79,521	1,983,023
Comprising:						
At cost	500,929	258,430	56,012	1,078,431	79,521	1,973,323
At valuation – 1996	1,000	–	–	–	–	1,000
At valuation – 2001	8,700	–	–	–	–	8,700
	510,629	258,430	56,012	1,078,431	79,521	1,983,023
DEPRECIATION AND AMORTISATION						
At 1 January 2003	71,084	121,665	36,673	507,806	–	737,228
Exchange adjustments	402	75	135	505	–	1,117
Provided for the year	16,614	21,738	6,125	64,594	–	109,071
Eliminated on disposals	(72)	(2,032)	(3,638)	(30,526)	–	(36,268)
Eliminated on disposal of subsidiaries	(783)	(22,204)	(3,157)	–	–	(26,144)
At 31 December 2003	87,245	119,242	36,138	542,379	–	785,004
NET BOOK VALUE						
At 31 December 2003	423,384	139,188	19,874	536,052	79,521	1,198,019
At 31 December 2002	430,215	168,002	16,830	554,532	18,904	1,188,483

Notes to the Financial Statements

For the year ended 31 December 2003

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 (2002: HK\$9,361,000) in aggregate with accumulated depreciation of HK\$2,285,000 (2002: HK\$2,012,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$273,000 (2002: HK\$273,000).

In the current year, plant and machinery includes certain assets carried at cost of HK\$15,751,000 (2002: HK\$15,751,000) in aggregate with accumulated depreciation of HK\$12,802,000 (2002: HK\$11,227,000) 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 (2002: HK\$1,575,000).

The cost of certain plant and machinery, before deduction of government subsidy of HK\$14,151,000 (2002: Nil) is HK\$14,151,000 (2002: Nil).

	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2003	2,803	23,848	6,868	33,519
Additions	–	612	349	961
Disposals	–	–	(408)	(408)
At 31 December 2003	2,803	24,460	6,809	34,072
DEPRECIATION				
At 1 January 2003	149	18,740	6,530	25,419
Provided for the year	112	2,758	198	3,068
Eliminated on disposals	–	–	(408)	(408)
At 31 December 2003	261	21,498	6,320	28,079
NET BOOK VALUE				
At 31 December 2003	2,542	2,962	489	5,993
At 31 December 2002	2,654	5,108	338	8,100

Notes to the Financial Statements

For the year ended 31 December 2003

13. Property, Plant and Equipment (continued)

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The net book value of property interests comprises:				
Properties held under				
– medium-term leases in Macau	1,227	1,275	–	–
– medium-term leases in Hong Kong	272,911	280,816	–	–
– medium-term land use rights in the PRC	149,246	148,124	2,542	2,654
	423,384	430,215	2,542	2,654

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 basis before being transferred from investment properties. No further valuation has been carried out on these properties.

14. Toll Road Operating Right

	THE GROUP HK\$'000
COST AND NET BOOK VALUE	
Acquired on acquisition of a subsidiary and balance at 31 December 2003	1,841,082

The amount represents the right to receive toll fees from vehicles using the Shanghai section of the Shanghai – Nanjing Expressway and to operate service facilities in designated areas along the Shanghai section for a period of 25 years.

The Group's intangible assets are generally amortised over periods ranging from 5 to 20 years. However, the Group's right to operate the toll road is amortised on a straight line basis over 25 years, the period of the exclusive right. No amortisation was charged for the year as the acquisition of the subsidiary was completed in December 2003.

Notes to the Financial Statements

For the year ended 31 December 2003

15. Goodwill

	THE GROUP HK\$'000
COST	
At 1 January 2003	30,744
Arising on acquisition of subsidiaries/additional interest in subsidiaries	240,992
Eliminated on partial disposal of interest in a subsidiary	(5,561)
At 31 December 2003	266,175
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	3,027
Amortisation during the year	6,412
At 31 December 2003	9,439
NET BOOK VALUE	
At 31 December 2003	256,736
At 31 December 2002	27,717

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

16. Interest in Subsidiaries

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Listed shares, at cost	–	34,451
Unlisted shares, at cost	772,897	772,897
Amounts due from subsidiaries	11,989,237	13,032,394
	12,762,134	13,839,742
Market value of listed shares	–	25,619

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. Except for an amount of HK\$50 million at 31 December 2003 which bears interest at commercial rates, the remaining balances are non-interest bearing. 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 2003 are set out in note 43.

Notes to the Financial Statements

For the year ended 31 December 2003

17. Interest in Jointly Controlled Entities

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted capital contribution, at cost	–	–	164,045	–
Share of net assets of jointly controlled entities	2,015,276	1,634,725	–	–
Goodwill on acquisition of jointly controlled entities/ additional interest in jointly controlled entities less amortisation	87,145	33,279	–	–
Amounts due from jointly controlled entities	33,375	212,074	–	–
	2,135,796	1,880,078	164,045	–
Less: Impairment loss recognised	(2,445)	(2,445)	–	–
	2,133,351	1,877,633	164,045	–

The amounts due from jointly controlled entities are unsecured, bear interest at commercial rates and repayable after one year.

	THE GROUP HK\$'000
Goodwill arising on acquisition of jointly controlled entities/ additional interest in jointly controlled entities	
COST	
At 1 January 2003	34,177
Arising on additional interest in jointly controlled entities	58,500
At 31 December 2003	92,677
AMORTISATION	
At 1 January 2003	898
Provided for the year	4,634
At 31 December 2003	5,532
NET BOOK VALUE	
At 31 December 2003	87,145
At 31 December 2002	33,279

The amortisation period adopted for the above goodwill ranges from 10 to 20 years.

Details of the Group's principal jointly controlled entities at 31 December 2003 are set out in note 44.

Notes to the Financial Statements

For the year ended 31 December 2003

18. Interest in Associates

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets of associates	3,095,868	2,449,531
Goodwill on acquisition of associates/additional interest in associates less amortisation	114,780	31,976
Amount due from an associate	3	101,601
	3,210,651	2,583,108
	THE GROUP HK\$'000	
Goodwill arising on acquisition of associates/ additional interest in associates		
COST		
At 1 January 2003		33,776
Arising on acquisition of associates/additional interest in associates		97,917
Eliminated on partial disposal/deemed disposal of interest in associates		(7,881)
At 31 December 2003		123,812
AMORTISATION		
At 1 January 2003		1,800
Provided for the year		8,436
Eliminated on partial disposal/deemed disposal of interest in associates		(1,204)
At 31 December 2003		9,032
NET BOOK VALUE		
At 31 December 2003		114,780
At 31 December 2002		31,976

During the year, the Group had the following significant investment in associates:

- (a) The Group participated in the private placement by Semiconductor Manufacturing International Corporation ("SMIC") and further invested US\$32 million (approximately HK\$250 million) in SMIC. Following the private placements by SMIC, the Group's equity interest in SMIC was diluted from 16.2% to 13.4%.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

18. Interest in Associates (continued)

- (b) The Group acquired a further 25% equity interest in EAS International Transportation Limited ("EAS International") for a consideration of approximately HK\$141 million. EAS International is engaged in the freight forwarding and logistics businesses in the PRC. As at 31 December 2002, the Group advanced a loan of HK\$100 million to EAS International to finance its operations and the loan was fully repaid during the year.
- (c) The Group acquired a 30% interest in Hangzhou Huqingyutang Pharmaceutical Co. Ltd. ("Huqingyutang Pharmaceutical") for a consideration of approximately HK\$79 million. Huqingyutang Pharmaceutical is engaged in the manufacturing and trading of certain Chinese medicines and health products in the PRC.

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

Details of the Group's principal associates at 31 December 2003 are set out in note 46.

19. Investments in Infrastructure and Other Projects

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unlisted investment in infrastructure projects		
– Yanan Road, at cost	–	1,405,344
– Inner Ring Road and the North-South Elevated Expressway, at cost	–	4,649,400
Less: Capital receipts from infrastructure projects	–	(598,296)
	–	5,456,448
Unlisted investments in other projects, at cost in		
– the PRC	113,763	114,230
– Hong Kong	5	5
Less: Impairment loss recognised	(26,062)	(22,831)
	87,706	91,404
Amounts due from investees, net of allowance	3	3
	87,709	5,547,855

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\$26,062,000 (2002: HK\$22,831,000) on the unlisted investments, estimated by reference to the net recoverable amount of the investments and the amount has been recognised in the income statement accordingly.

Notes to the Financial Statements

For the year ended 31 December 2003

19. Investments in Infrastructure and other Projects (continued)

On 29 August 2003, the Group entered into two agreements to dispose of its investments in infrastructure projects in the PRC, Yanan Road and Inner Ring Road and the North-South Elevated Expressway, and received full reimbursement of the carrying value of the infrastructure projects amounting to approximately HK\$5,456.4 million together with an after-tax compensation of RMB300 million (approximately HK\$283.0 million).

The Group's investment in Yanan Road at 31 December 2002 represented 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. which was 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 was engaged in the construction, operation, management and maintenance of an elevated road in Shanghai, the PRC.

The Group's investment in Inner Ring Road and the North-South Elevated Expressway at 31 December 2002 represented 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. which was 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 was engaged in the operation, management and maintenance of the Inner Ring Road and the North-South Elevated Expressway in Shanghai, the PRC.

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 2003

20. Investments in Securities

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment securities				
Listed equity securities in Hong Kong	57,024	57,024	–	–
Unlisted equity securities:				
PRC	182,212	–	–	–
United States of America	1,950	–	–	–
	241,186	57,024	–	–
Other investments				
Equity securities:				
Listed	186,903	85,222	–	6,817
Unlisted	175,171	217,909	–	–
	362,074	303,131	–	6,817
Debt securities:				
Listed	–	7,392	–	–
Unlisted	1,008,943	193,741	–	–
	1,008,943	201,133	–	–
	1,371,017	504,264	–	6,817
Comprising				
Listed				
Hong Kong	9,094	85,222	–	6,817
PRC	4,295	–	–	–
United States of America	168,614	–	–	–
Others	4,900	7,392	–	–
Unlisted				
Hong Kong	211,903	179,021	–	–
PRC	175,171	189,829	–	–
United States of America	780,176	28,080	–	–
Others	16,864	14,720	–	–
	1,371,017	504,264	–	6,817
Market value of listed securities	225,713	128,972	–	6,817
Carrying amount of other investments analysed for reporting purposes as:				
Current	1,027,232	286,370	–	6,817
Non-current	343,785	217,894	–	–
	1,371,017	504,264	–	6,817
Carrying amount of investments in securities analysed for reporting purposes as:				
Current	1,027,232	286,370	–	6,817
Non-current	584,971	274,918	–	–
	1,612,203	561,288	–	6,817

Notes to the Financial Statements

For the year ended 31 December 2003

21. Loans Receivable

The Group

The receivable is due from a minority shareholder of a subsidiary (the "MI Shareholder"). It is secured by the MI Shareholder's equity interest in the subsidiary and the dividend distribution by the subsidiary. The receivable bears interest at 3.5% per annum and is repayable in October 2006.

22. 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.

23. Inventories

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	184,655	266,987
Work in progress	30,485	21,914
Finished goods	88,360	80,870
Merchandise held for resale	–	31,800
	303,500	401,571

The inventories are stated at cost.

During the year, cost of inventories recognised in consolidated income statement amounted to HK\$738 million (2002: HK\$1,165 million).

Notes to the Financial Statements

For the year ended 31 December 2003

24. 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\$405,350,000 (2002: HK\$292,419,000) and their aged analysis is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade receivables:		
Within 30 days	279,082	136,135
Within 31 – 60 days	46,529	74,313
Within 61 – 90 days	25,215	39,334
Within 91 – 180 days	34,795	33,865
Within 181 – 360 days	17,007	7,692
Over 360 days	2,722	1,080
	405,350	292,419

25. Pledged Bank Deposits

The Group

At 31 December 2003, bank deposits of HK\$41,762,000 (2002: HK\$42,869,000) were pledged to banks to secure general banking facilities granted to the Group, an associate and a jointly controlled entity.

26. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$85,178,000 (2002: HK\$132,995,000) and their aged analysis is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade payables:		
Within 30 days	59,976	98,160
Within 31 – 60 days	11,442	17,905
Within 61 – 90 days	5,105	8,948
Within 91 – 180 days	6,413	3,452
Within 181 – 360 days	486	3,061
Over 360 days	1,756	1,469
	85,178	132,995

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27. Short-term Borrowings

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Short-term bank loans	808,868	820,561	800,000	800,000
Other short-term loans	11,077	22,890	–	–
	819,945	843,451	800,000	800,000
Analysed as:				
Secured	8,868	19,159	–	–
Unsecured	811,077	824,292	800,000	800,000
	819,945	843,451	800,000	800,000

Other short-term loans are unsecured, bear interest at commercial rates and have no fixed repayment terms.

28. Share Capital

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
– at 1 January 2002, 31 December 2002 and 31 December 2003	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
– balance at 1 January 2002	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
– exercise of share options	9,450,000	945
– balance at 31 December 2003	945,748,000	94,575

Notes to the Financial Statements

For the year ended 31 December 2003

29. 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.

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 2003, the number of shares in respect of which options had been granted under the SIHL Old Scheme and remained outstanding was approximately 0.3% (2002: 1.4%) 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.

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29. Share Option Schemes (continued)

(a) SIHL Old Scheme (continued)

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
January 1999	9.568	1,000,000	–	(1,000,000)	–
March 2001	10.496	6,370,000	(4,820,000)	–	1,550,000
July 2001	10.432	5,500,000	(4,000,000)	–	1,500,000
		12,870,000	(8,820,000)	(1,000,000)	3,050,000

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	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
		57,580,000	(44,220,000)	(490,000)	12,870,000

Details of the share options held by the directors included in the above table are as follows:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Reclassified during the year	Exercised during the year	Outstanding at 31.12.2003
March 2001	10.496	2,050,000	(500,000)*	–	1,550,000
July 2001	10.432	1,500,000	–	–	1,500,000
		3,550,000	(500,000)	–	3,050,000

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Reclassified during the year	Exercised during the year	Outstanding at 31.12.2002
August 1998	10.432	4,000,000	–	(4,000,000)	–
January 1999	9.568	10,700,000	–	(10,700,000)	–
March 2001	10.496	2,050,000	–	–	2,050,000
July 2001	10.432	1,500,000	–	–	1,500,000
		18,250,000	–	(14,700,000)	3,550,000

* Mr. Gu Wen Xing resigned as a director of the Company on 25 April 2003 and accordingly, the share options were reclassified to share options held by employees.

Notes to the Financial Statements

For the year ended 31 December 2003

29. Share Option Schemes (continued)

(a) SIHL Old Scheme (continued)

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.

No options were granted under the SIHL Old Scheme during both years.

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options under SIHL Old Scheme were exercised was HK\$11.40 (2002: HK\$14.84).

Total consideration received for shares issued upon exercise of share options under the SIHL Old Scheme during the year was approximately HK\$92,319,000 (2002: HK\$442,975,000).

During the year ended 31 December 2002, 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.

(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 provide restrictions on the exercise of a share option during the period a share option may be exercised.

Notes to the Financial Statements

For the year ended 31 December 2003

29. Share Option Schemes (continued)

(b) SIHL New Scheme (continued)

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.

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.

At 31 December 2003, the number of shares in respect of which options had been granted under the SIHL New Scheme and remained outstanding was approximately 2.8% (2002: 2.9%) of the shares of the Company in issue at that date.

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 1.1.2003	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2003
September 2002	11.71	27,150,000	–	(630,000)	–	(400,000)	26,120,000
Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2002
September 2002	11.71	–	27,250,000	–	–	(100,000)	27,150,000

No options granted under the SIHL New Scheme were held by the directors in both years.

Options granted under the SIHL New 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 under SIHL New Scheme were exercised was HK\$14.79.

Notes to the Financial Statements

For the year ended 31 December 2003

29. Share Option Schemes (continued)

(b) SIHL New Scheme (continued)

The fair value of the options granted, derived using the Black-Scholes option pricing model, measured as at 10 September 2002, being the date of grant was HK\$73,707,000.

(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 were 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

29. Share Option Schemes (continued)

(c) SIIC MedTech Old Scheme (continued)

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 1.1.2003	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2003
January 2000	1.69	38,200,000	(400,000)	(37,800,000)	–	–

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2002
January 2000	1.69	38,700,000	–	–	(500,000)	38,200,000

Details of the share options held by the directors included in the above table are as follows:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Reclassified during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2003
January 2000	1.69	8,500,000	–	–	(8,500,000)	–	–

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2002	Reclassified during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2002
January 2000	1.69	16,500,000	(8,000,000)	–	–	–	8,500,000

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

Total consideration received for shares issued upon exercise of share options under the SIIC MedTech Old Scheme during the year was HK\$676,000 (2002: Nil).

The weighted average closing prices of SIIC MedTech's shares on the trading day immediately before the dates on which the options under SIIC MedTech Old Scheme were exercised was HK\$2.08.

Notes to the Financial Statements

For the year ended 31 December 2003

29. Share Option Schemes (continued)

(c) SIIC MedTech Old Scheme (continued)

On 15 July 2003, all holders of the options agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the SIIC MedTech Old Scheme and received HK\$0.46 for each option held in SIIC MedTech, except for Mr. Li Wei Da and Mr. Ge Wen Yao who consented to SIIC MedTech cancelling the share options granted to them at no consideration.

(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.

On 17 September 2003, the operation of the SIIC MedTech New Scheme was terminated. No further options will be offered by SIIC MedTech under the SIIC MedTech New Scheme.

No option has been granted under the SIIC MedTech New Scheme since its adoption.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Financial Statements

For the year ended 31 December 2003

30. 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 2002	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
Premium arising on issue of shares	98,751	—	—	—	98,751
Expenses incurred in connection with the issue of shares	(88)	—	—	—	(88)
Profit for the year	—	—	—	293,364	293,364
Dividends paid (note 10)	—	—	—	(451,112)	(451,112)
At 31 December 2003	9,886,904	1,071	1,137,728	2,836,253	13,861,956

The Company's reserve available for distribution to shareholders as at 31 December 2003 represents the accumulated profits of approximately HK\$2,836.3 million (2002: HK\$2,994.0 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.

31. Amounts due to Subsidiaries

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. The subsidiaries have confirmed that they do not intend to demand repayment within one year of the balance sheet date. Accordingly, such amounts have been classified as non-current.

Notes to the Financial Statements

For the year ended 31 December 2003

32. Long-term Bank Loan

The Group and the Company

The bank loan is unsecured, interest-bearing and repayable in 2007.

33. Deferred Taxation

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Other deferred tax liabilities HK\$'000	Other deferred tax assets HK\$'000	Total HK\$'000
At 1 January 2002	81,315	(5,550)	3,959	4,300	84,024
(Credit) charge to income for the year (note 9)	(852)	550	(3,803)	(3,700)	(7,805)
At 31 December 2002	80,463	(5,000)	156	600	76,219
(Credit) charge to income for the year (note 9)	(6,847)	369	1,118	(6,132)	(11,492)
Effect of change in tax rate	7,571	(469)	16	56	7,174
At 31 December 2003	81,187	(5,100)	1,290	(5,476)	71,901

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2003 HK\$'000	2002 HK\$'000
Deferred tax liabilities	82,477	81,219
Deferred tax assets	(10,576)	(5,000)
	71,901	76,219

At 31 December 2003, the Group had unused tax losses of HK\$1,275.8 million (2002: HK\$1,231.4 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$5.1 million (2002: HK\$5 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$1,246.7 million (2002: HK\$1,200.1 million) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 December 2003

34. Acquisition of Subsidiaries

During the year, the Group acquired the following subsidiaries:

- (a) the entire issued share capital of Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited, a wholly foreign owned enterprise established in the PRC, for a consideration of RMB2 billion (equivalent to HK\$1,884,763,000). This acquisition has been accounted for using the acquisition method of accounting; and
- (b) the entire issued share capital of Mergen Biotech Limited and Mergen BioMedicine Limited from a jointly controlled entity of the Group for a total consideration of HK\$27,300,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of these acquisitions were HK\$37,076,000.

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	38,798	22,984
Toll road operating right	1,841,082	–
Interest in an associate	–	31,081
Investments in securities	2,422	–
Inventories	3,304	6,624
Trade and other receivables	82,811	17,242
Amounts due from shareholders	–	9,708
Bank balances and cash	9,028	51,186
Trade and other payables	(89,502)	(44,229)
Short-term bank loan	–	(5,234)
Taxation payable	(12,956)	(1,460)
Minority interests	–	(25,001)
	1,874,987	62,901
Goodwill arising on the acquisition of subsidiaries	37,076	29,586
	1,912,063	92,487
Satisfied by:		
Cash consideration paid	1,906,323	92,487
Other payables	5,740	–
	1,912,063	92,487
Net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash paid	(1,906,323)	(92,487)
Bank balances and cash acquired	9,028	51,186
	(1,897,295)	(41,301)

Notes to the Financial Statements

For the year ended 31 December 2003

34. Acquisition of Subsidiaries (continued)

The subsidiaries acquired during the year contributed approximately HK\$2.1 million (2002: HK\$26 million) and approximately HK\$8.4 million (2002 profit from operations: HK\$5.2 million) to the Group's turnover and loss from operations respectively.

35. Disposal of Subsidiaries

During the year, the Group disposed of its 51% interest in Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") and all its interest in Bardsey Group Limited ("Bardsey"). The net assets of Orient Shopping and Bardsey at the date of disposal were as follows:

	HK\$'000
Net assets disposed of:	
Property, plant and equipment	29,086
Interest in associates	58,343
Investments in securities	534
Inventories	34,349
Trade and other receivables	6,984
Bank balances and cash	171,648
Trade and other payables	(184,911)
Taxation payable	(5,815)
Short-term borrowings	(3,271)
Minority interests	(20,205)
	86,742
Goodwill previously written off against reserves	56,428
Translation reserve realised	(38)
	143,132
Gain on disposal of interest in subsidiaries	29,869
	173,001
Satisfied by:	
Cash consideration received	173,001
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:	
Cash received	173,001
Bank balances and cash disposed of	(171,648)
	1,353

The subsidiaries disposed of during the year did not have any significant contribution to the Group's turnover and results for the year.

Notes to the Financial Statements

For the year ended 31 December 2003

36. 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	25,758	51,126	2,155	4,083
In the second to fifth year inclusive	83,835	177,834	10	46
After five years	170,000	306,877	–	–
	279,593	535,837	2,165	4,129

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\$276 million (2002: HK\$531 million) and approximately HK\$2.2 million (2002: HK\$4.1 million) payable by the Group and the Company respectively to the ultimate holding company and fellow subsidiaries.

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	693	685	2,151	2,131
In the second to fifth year inclusive	725	1,212	2,151	4,262
	1,418	1,897	4,302	6,393

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

Notes to the Financial Statements

For the year ended 31 December 2003

37. Capital Commitments

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– investment in Shanghai Industrial United Holdings Co., Ltd. ("SI United")	817,416	–
– investment in EAS International	56,604	196,262
– investments in securities	312	177,570
– investments in the PRC subsidiaries, jointly controlled entities and associates	129,358	93,242
– acquisition of property, plant and equipment	255,364	36,398
– additions in construction in progress	16,074	7,275
	1,275,128	510,747
Capital expenditure authorised but not contracted for in respect of		
– investments in the PRC subsidiaries and jointly controlled entities	–	8,025

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

	THE GROUP	
	2003 HK\$'000	2002 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	8,369	8,045
– acquisition of property, plant and equipment	14,984	7,546
– additions in construction in progress	–	2,804
	23,353	18,395
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.

Notes to the Financial Statements

For the year ended 31 December 2003

38. Contingent Liabilities

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by				
– associates	78,038	77,421	47,170	46,729
– a supplier	1,887	–	–	–
	79,925	77,421	47,170	46,729

Details of contingent liabilities given by the Group and the Company to connected persons are set out in note 41 (I)(c).

39. Pledge of Assets

At 31 December 2003, 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\$6.4 million (2002: HK\$12.1 million);
- (ii) leasehold land and buildings with a net book value of approximately HK\$8.9 million (2002: HK\$9.3 million); and
- (iii) bank deposits of approximately HK\$2.7 million (2002: HK\$4.2 million).

In addition, certain of the Group's plant and machinery with a net book value of HK\$2,600,000 (2002: HK\$3,782,000) 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 2003, the Group had bank deposits of approximately HK\$28.8 million (2002: HK\$28.5 million) and approximately HK\$10.3 million (2002: HK\$10.2 million) pledged to banks in respect of banking facilities granted to an associate and a jointly controlled entity respectively.

Notes to the Financial Statements

For the year ended 31 December 2003

40. 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.

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.

41. 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	
		2003	2002
		HK\$'000	HK\$'000
Transactions			
Ultimate holding company:			
Shanghai Industrial Investment (Holdings) Company Limited	Rentals paid on land and buildings (note (i))	6,301	5,884

Notes to the Financial Statements

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41. Connected and Related Party Transactions and Balances (continued)

(I) Connected Persons (continued)

Connected persons	Nature of transaction	THE GROUP	
		2003	2002
		HK\$'000	HK\$'000
Fellow subsidiaries:			
City Note Holdings Limited ("City Note")	Proposed acquisition of interest in a subsidiary (note (ii))	277,970	—
Nanyang Enterprises Limited ("NEL")	Acquisition of interest in a subsidiary (note (iii))	17,389	—
Nanyang Enterprises Properties Limited ("NPL")	Rentals paid on land and buildings (note (i)) Acquisition of interest in a subsidiary (note (iii))	13,800 2,096	15,600 —
SIIC Estate Company Limited	Rentals paid on land and buildings (note (i))	—	535
The Tien Chu (HK) Co. Ltd.	Rentals paid on land and buildings (note (i))	140	—
	Purchase of materials (note (iv))	145	—
	Printing services income (note (iv))	284	—
上海實業發展有限公司 (Shanghai SIIC Development Ltd.)	Rentals paid on land and buildings (note (i))	—	21,375
上海上實(集團)有限公司 (SIIC Shanghai Holdings Co., Ltd.) ("SIIC Shanghai")	Rentals paid on land and buildings (note (i))	2,974	6,841
	Proposed acquisition of interest in a subsidiary (note (ii))	322,445	—
上海上實資產經營有限公司	Consultancy fee (note (iv))	4,103	—
Non-wholly owned subsidiaries:			
SIMST eMedical Network Limited ("SIMST")	Disposal of interest in an investment (note (v))	—	8,953
寧夏上實保健品有限公司 (Ningxia SIIC Viopes Nutraceuticals Company Limited) ("Ningxia SIIC")	Interest income received (note (vi))	421	103

Notes to the Financial Statements

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41. Connected and Related Party Transactions and Balances (continued)

(I) Connected Persons (continued)

Connected persons	Nature of transaction	THE GROUP	
		2003	2002
		HK\$'000	HK\$'000
<i>Joint venture partner of a PRC subsidiary:</i>			
中國(杭州)青春寶集團有限公司(China (Hangzhou) Qingchunbao Group Co. Ltd.)	Sales of finished medicine and health products (note (vii))	62	50
Qingchunbao Group Co. Ltd. ("China Qingchunbao") and its subsidiaries	Purchase of raw materials (note (iv))	213	358
<i>Directors of subsidiaries:</i>			
Chen Shu Zi	Acquisition of interest in a subsidiary (note (iii))	1,840	—
Feng Gen Sheng	Acquisition of interest in a subsidiary (note (iii))	2,760	—
Mo Guo Ping	Partial disposal of interest in a subsidiary (note (iv))	—	2,280
	Interest paid (note (viii))	—	202
Shen Wei Jia	Acquisition of interest in a subsidiary (note (iii))	484	—
Wu Jian Zhuang	Acquisition of interest in a subsidiary (note (iii))	1,150	—
<i>Minority shareholders of subsidiaries:</i>			
Shanghai Yibai (Holdings) Company Ltd. ("Shanghai Yibai")	Disposal of interest in a subsidiary (note (ix))	119,941	—
鼎爐實業總公司(「鼎爐」)(Dinglu Industrial Co.) ("Dinglu") and its subsidiaries	Sales of finished medicine and health product (note (vii))	—	1,112
寧夏農林科學院	Interest paid (note (vi))	127	—

Notes to the Financial Statements

For the year ended 31 December 2003

41. Connected and Related Party Transactions and Balances (continued)

(I) Connected Persons (continued)

Connected persons	Nature of transaction	THE GROUP	
		2003 HK\$'000	2002 HK\$'000
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 (x))	–	1,495
<i>Non-wholly owned subsidiary:</i>			
Ningxia SIIC	Balance at 31 December – loan receivable (note (vi))	6,604	4,673
<i>Joint venture partner of a PRC subsidiary:</i>			
China Qingchunbao and its subsidiaries	Balance at 31 December – trade receivables – trade payables – dividend payable	249 750 1,203	99 37 1,549
<i>Director of subsidiaries:</i>			
Mo Guo Ping	Balance at 31 December – loan payable (note (viii))	–	2,803
<i>Minority shareholders of subsidiaries:</i>			
寧夏農林科學院	Balance at 31 December – loan payable (note (vi))	1,887	1,869
Cyber Care Inc.	Balance at 31 December – non-trade receivables (note (xi))	1,328	–
Dinglu and its subsidiaries	Balance at 31 December – trade receivables – non-trade receivables (note (x)) – non-trade payables (note (xi)) – dividend payable	– – 1,608 –	35 63 14,963 3,228

Notes to the Financial Statements

For the year ended 31 December 2003

41. 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 21 May 2003, Shanghai Industrial YKB Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement with a number of vendors to acquire the non-publicly tradable shares of SI United, representing an aggregate of approximately 56.63% of the issued share capital of SI United, as to which 19.26% and 22.34% is to be acquired from City Note and SIIC Shanghai respectively. The consideration payable to City Note and SIIC Shanghai amounted to approximately HK\$277,970,000 and HK\$322,445,000 respectively. The acquisition has not been completed at the report date as it is pending for the approval from respective government authorities. Details of this acquisition were included in a published announcement of the Company on the same date.
 - (iii) During the year, the Group completed the privatisation of SIIC MedTech. The payments to NEL, NPL and certain directors of SIIC MedTech, in consideration for the cancellation of their interests in SIIC MedTech, were in accordance with the price as stated in the document issued by the Company on 18 July 2003.
 - (iv) The terms of these transactions were determined and agreed by both parties.
 - (v) 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.
 - (vi) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (vii) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
 - (viii) The loan was unsecured, borne interest at 5% per annum and fully repaid during the year.
 - (ix) On 7 May 2003, S.I. Commerce Holdings Limited ("SI Commerce"), a wholly-owned subsidiary of the Group entered into an agreement, with Shanghai Yibai to dispose of all its 51% interest in Orient Shopping to Shanghai Yibai, at a cash consideration of RMB127,137,000 (approximately HK\$119,941,000). Details of this disposal were included in a published announcement of the Company on 9 May 2003.
 - (x) The amount was unsecured, non-interest bearing and fully repaid during the year.
 - (xi) 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 36.
- (c) As at 31 December 2003, the Company had given guarantees amounting to approximately HK\$22 million (2002: HK\$22 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 2003, the Group had advanced approximately HK\$58 million (2002: HK\$109 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.

Notes to the Financial Statements

For the year ended 31 December 2003

41. 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	
		2003 HK\$'000	2002 HK\$'000
Transactions			
Jointly controlled entities:			
Dragon Wealth Assets Limited	Promotional expenses paid (note (i))	–	1,894
	Service income (note (i))	415	1,170
Daily Wealth Investments Limited	Purchase of finished goods (note (ii))	216	220
	Material cost received (note (ii))	94	70
E-COM Technology Limited	Sales of finished goods (note (ii))	12,502	9,201
Mergen Holdings Ltd.	Acquisition of interest in subsidiaries (note (iii))	27,300	–
Associates:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Collection on behalf	17,608	–
	Payment on behalf	17,452	–
	Repayment of advance	9,434	–
	Purchase of materials (note (ii))	5,274	1,506
	Interest paid (note (iv))	354	402
	Repayments received	–	18,956
	Advance received	–	9,346
浙江天外印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Printing services income (note (ii))	6,719	7,983
四川科美紙業有限公司	Printing services income (note (ii))	2,784	612
西安環球印務有限公司	Proceeds from disposal of interest in an associate (note (i))	7,475	–
廣西甲天下水松紙有限公司	Sales of materials (note (ii))	2,051	–
EAS International	Interest income received (note (v))	1,003	1,601

Notes to the Financial Statements

For the year ended 31 December 2003

41. Connected and Related Party Transactions and Balances (continued)

(II) Related Parties, Other Than Connected Persons (continued)

Related parties	Nature of transaction	THE GROUP	
		2003	2002
		HK\$'000	HK\$'000
Balances			
Jointly controlled entities:			
珠海友通科技有限公司 (E-COM Technology Limited)	Balance at 31 December – trade receivable	13,860	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))	2,358	2,336
	– non-trade payable (note (vi))	649	–
Mergen Holdings Ltd.	Balance at 31 December – long-term receivable (note (vii))	33,375	208,564
廣東寶萊特醫用科技股份 有限公司 (Guong Dong Biolight Medical Technology Co. Ltd.)	Balance at 31 December – non-trade payable (note (vi))	102	–
Dragon Wealth Assets Limited	Balance at 31 December – long-term receivable (note (v))	–	3,120
上海三維製藥有限公司 (Shanghai Sunve Pharmaceutical Co., Ltd.)	Balance at 31 December – non-trade receivable (note (v))	–	8,131

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For the year ended 31 December 2003

41. Connected and Related Party Transactions and Balances (continued)

(II) Related Parties, Other Than Connected Persons (continued)

Related parties	Nature of transaction	THE GROUP	
		2003	2002
		HK\$'000	HK\$'000
<i>Associates:</i>			
上海家化聯合股份有限公司	Balance at 31 December		
Shanghai Jahwa United Co. Ltd.	– short-term loan receivable (note (vii))	3,000	8,120
(“Shanghai Jahwa”)	– non-trade receivable (note (vi))	2,264	–
上海申永燙金材料有限公司	Balance at 31 December		
(Shanghai Shen Yong	– short-term loan payable (note (iv))	–	9,346
Stamping Foil Co., Ltd.)	– trade payable	1,025	699
浙江天外印刷股份	Balance at 31 December		
有限公司	– trade receivable	2,476	7,547
(Zhejiang Tianwai			
Printing Co., Ltd.)			
四川科美紙業有限公司	Balance at 31 December		
	– trade receivable	429	370
成都九興印刷包裝有限公司	Balance at 31 December		
	– short-term loan receivable (note (viii))	9,434	–
河北永新紙業有限公司	Balance at 31 December		
	– short-term loan receivable (note (ix))	9,434	–
廣西甲天下水松紙有限公司	Balance at 31 December		
	– trade receivable	1,814	–
EAS International	Balance at 31 December		
	– loan receivable (note (v))	–	100,000
西安永發醫葯有限公司	Balance at 31 December		
	– non-trade receivable (note (vi))	7,477	–
西安環球印務有限公司	Balance at 31 December		
	– non-trade receivable (note (vi))	990	990

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For the year ended 31 December 2003

41. 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) On 14 October 2003, S.I. Pharmaceutical Holdings Limited, a wholly-owned subsidiary of the Group, agreed to purchase from Mergen Holdings Limited all the issued share capital of Mergen Biotech Limited and Mergen BioMedicine Limited at a total consideration of HK\$27,300,000.
 - (iv) The loan was unsecured, borne interest at 5% per annum and fully repaid during the year.
 - (v) The loan was unsecured, borne interest at commercial rates and fully repaid during the year.
 - (vi) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
 - (vii) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (viii) The loan is unsecured, bears interest at 5.31% per annum and has no fixed repayment terms.
 - (ix) The loan bears interest at 5% per annum and has no fixed repayment terms. An amount of HK\$5,755,000 is secured by the equity interest in the associate held by the remaining shareholders.
- (b) Detail of guarantees and pledged assets given by the Group to related parties are set out in notes 38 and 39 respectively.

42. Government Grants

During the year, the Group received a government subsidy of approximately HK\$14,151,000 towards the cost of acquisition of plant and machinery. The amount has been deducted from the carrying amount of the relevant assets. The amount is transferred to income in the form of reduced depreciation charges over useful lives of the relevant assets. This policy has reduced the depreciation charges in the current year of approximately HK\$755,000 (2002: Nil).

Notes to the Financial Statements

For the year ended 31 December 2003

43. Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2003 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 Company/ subsidiaries	Principal activities
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) (note (i))	PRC	RMB128,500,000	55%	Manufacture and sale of Chinese medicine and health food
上海滬寧高速公路(上海段)發展有限公司 (Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited) (note (ii))	PRC	RMB2,000,000,000	100%	Holding of a right to operate a toll road
S.I. Infrastructure Holdings Limited	British Virgin Islands/Hong Kong	US\$1	100%	Investment holding
SIHL Treasury Limited	Hong Kong	Ordinary shares – HK\$2	100%	Investment
SIIC MedTech	Cayman Islands/ Hong Kong	Ordinary shares – HK\$40,893,400	100%	Investment holding
Nanyang Tobacco (Marketing) Company, Limited	British Virgin Islands/PRC and Macau	Ordinary shares – US\$1 – HK\$100,000,400	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares – HK\$2 Non-voting deferred shares – HK\$8,000,000	100% –	Manufacture of cigarettes
Wing Fat	Hong Kong	Ordinary shares – HK\$2,000,000 Non-voting deferred shares – HK\$1,829,510	93.3% –	Manufacture and sale of packaging materials and printed products

Notes to the Financial Statements

For the year ended 31 December 2003

43. Principal Subsidiaries (continued)

Notes:

- (i) The company was established in the PRC as a sino-foreign equity joint venture company.
- (ii) The company was established in the PRC as a wholly foreign owned enterprise.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

44. Principal Jointly Controlled Entities

Particulars of the Group's principal jointly controlled entities at 31 December 2003 are as follows:

Name of jointly controlled entity	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
上海匯眾汽車製造有限公司 (Shanghai Huizhong Automotive Manufacturing Company Limited) ("Shanghai Huizhong")	PRC	50%	Manufacture and sale of vehicles, 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
上海三維製藥有限公司 (Shanghai Sunve Pharmaceutical Co., Ltd.)	PRC	48%	Manufacture and sale of pharmaceutical products
上海萬眾汽車零部件有限公司 (Shanghai Wanzhong Automotive Components Co., Ltd.)	PRC	50%	Manufacture and sale of automobile components and spare parts
中環保水務投資有限公司 (China Water & Sewage Treatment Company Limited)	PRC	50%	Joint investment and operation of water-related and environment protection business in the PRC
中環水務建設有限公司	PRC	40%	Construction of water supply and sewage treatment projects in the PRC

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 45.

Notes to the Financial Statements

For the year ended 31 December 2003

45. 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 2003:

Consolidated Results

for the year ended 31 December:

	2003 HK\$'000	2002 HK\$'000
Turnover	5,624,644	3,891,040
Profit from ordinary activities before taxation	246,444	169,475
Profit from ordinary activities before taxation attributable to the Group	123,222	84,738

Consolidated Financial Position

as at 31 December:

	2003 HK\$'000	2002 HK\$'000
Non-current assets	1,201,861	1,241,037
Current assets	2,066,652	1,488,793
Current liabilities	(1,071,971)	(747,087)
Net assets	2,196,542	1,982,743
Net assets attributable to the Group	1,098,271	991,372

Notes to the Financial Statements

For the year ended 31 December 2003

46. Principal Associates

Particulars of the Group's principal associates at 31 December 2003 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	50%	50%	Provision of freight forwarding and logistics services
SMIC	13.4%	13.4%	Investment holding and manufacture and marketing of advanced technology semiconductors
Shanghai Jahwa	28.2%	28.2%	Manufacture, distribution and sale of personal care and cosmetics products
光明乳業股份有限公司 (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 SIIC Transportation Electric Co., Ltd.)	30%	30%	Manufacture, distribution and sale of automobile components
浙江天外煙草印刷有限公司 (Zhejiang Tianwai Tobaccos Printing Co., Ltd.)	30%	28%	Provision of printing services

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.

Notes to the Financial Statements

For the year ended 31 December 2003

47. Post Balance Sheet Events

The following significant events occurred after the balance sheet date:

- (a) In March 2004, Shanghai Industrial Investment Treasury Company Limited, an intermediate holding company, proposed to issue HK\$2,330,000,000 Zero Coupon Guaranteed Exchangeable Bonds expected to mature in March 2009, unconditionally and irrevocably guaranteed by Shanghai Industrial Investment (Holdings) Company Limited, the ultimate holding company, exchangeable into existing shares of the Company at an exchange price of HK\$26.381 per share (subject to adjustment) at the option of the bondholders, with an option granted to HSBC Bank Plc., the lead manager, to subscribe up to an additional HK\$389,000,000 Zero Coupon Guaranteed Exchangeable Bonds at the same terms.
- (b) In March 2004, the shares of SMIC were listed on the Stock Exchange of Hong Kong and NASDAQ in the United States by way of a global offering. Following the listing of SMIC, the Group's equity interest in SMIC was diluted from 13.4% to approximately 10%.

48. Segment Information

For management purposes, the Group is currently organised into four operating businesses – consumer products and automobiles and parts, infrastructure facilities, medicine and biotechnology, and information technology. These businesses are the basis on which the Group reports its primary segment information.

Principal businesses are as follows:

Consumer Products and Automobiles and Parts	– manufacture and sale of cigarettes, packaging materials, printed products, dairy products, vehicles, automobile components and spare parts
Infrastructure Facilities	– investment in elevated road projects and modern logistic projects and water-related business
Medicine and Biotechnology	– manufacture and sale of Chinese medicine and health food; biotechnology development
Information Technology	– development of communication infrastructure and information technology business

Notes to the Financial Statements

For the year ended 31 December 2003

48. Segment Information (continued)

Segment information about these businesses is presented below:

2003	Consumer Products and Automobiles and Parts HK\$'000	Infrastructure Facilities HK\$'000	Medicine and Biotechnology HK\$'000	Information Technology HK\$'000	Consolidated HK\$'000
Income statement:					
External sales	1,415,067	283,019	1,127,892	–	2,825,978
Segment results	332,007	281,299	282,583	179,586	1,075,475
Less: Net headquarters administrative expenses					(58,292)
Add: Interest income	4,836	–	6,190	37,215	48,241
Profit from operations					1,065,424
Interest on bank and other borrowings wholly repayable within five years					(31,001)
Gain on disposal of interests in subsidiaries, associates and jointly controlled entities					278,059
Share of results of jointly controlled entities	124,580	444	35,804	11,807	172,635
Share of results of associates	217,215	26,295	7,184	(89,157)	161,537
Profit from ordinary activities before taxation					1,646,654
Taxation					(241,904)
Profit from ordinary activities after taxation					1,404,750

Notes to the Financial Statements

For the year ended 31 December 2003

48. Segment Information (continued)

2003	Consumer Products and Automobiles and Parts HK\$'000	Infrastructure Facilities HK\$'000	Medicine and Biotechnology HK\$'000	Information Technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:						
ASSETS						
Segment assets	2,421,178	2,516,851	1,249,788	436,911	–	6,624,728
Interest in jointly controlled entities	1,200,651	300,929	180,195	451,576	–	2,133,351
Interest in associates	1,173,738	209,905	88,467	1,738,541	–	3,210,651
Unallocated corporate assets						5,106,724
Consolidated total assets						17,075,454
LIABILITIES						
Segment liabilities	124,414	15,017	166,011	5,726	–	311,168
Unallocated corporate liabilities						1,892,512
Consolidated total liabilities						2,203,680
Other information:						
Capital additions	98,495	1,841,082	319,182	31	1,090	2,259,880
Depreciation and amortisation	87,714	1,927	21,893	343	3,606	115,483
Impairment losses	–	–	–	31,740	3,231	34,971
Allowance on amount due from a jointly controlled entity	–	–	67,337	–	–	67,337

Notes to the Financial Statements

For the year ended 31 December 2003

48. Segment Information (continued)

2002	Consumer Products and Automobiles and Parts HK\$'000	Infrastructure Facilities HK\$'000	Medicine and Biotechnology 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	9,089	–	5,702	36,055	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	171,122	756	3,474	(33,503)	141,849
Share of results of associates	123,914	7,355	–	(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

Notes to the Financial Statements

For the year ended 31 December 2003

48. Segment Information (continued)

2002	Consumer Products and Automobiles and Parts HK\$'000	Infrastructure Facilities HK\$'000	Medicine and Biotechnology HK\$'000	Information Technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:						
ASSETS						
Segment assets	2,607,228	5,942,015	920,941	263,041	–	9,733,225
Interest in jointly controlled entities	1,097,168	61,614	288,136	430,715	–	1,877,633
Interest in associates	1,103,078	141,618	–	1,338,412	–	2,583,108
Unallocated corporate assets						2,268,696
Consolidated total assets						16,462,662
LIABILITIES						
Segment liabilities	257,703	–	195,177	1,125	–	454,005
Unallocated corporate liabilities						1,892,302
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	1,927	13,374	301	3,882	107,816
Impairment losses	–	–	15,300	14,456	3,231	32,987
Allowance on amount due from a jointly controlled entity	–	–	12,987	–	–	12,987

Notes to the Financial Statements

For the year ended 31 December 2003

48. Segment Information (continued)

Geographical segments

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

	Sales revenue by geographical market		Contribution to profit from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC	1,768,201	2,620,785	829,853	1,039,145
South-East Asia	424,135	329,863	75,473	43,245
Other Asian countries	237,418	147,705	58,253	31,288
Hong Kong	169,343	137,671	63,614	54,600
Other areas	226,881	144,013	48,282	19,398
	2,825,978	3,380,037	1,075,475	1,187,676
Less: Net headquarters administrative expenses			(58,292)	(79,400)
Add: Interest income			48,241	50,846
Profit from operations			1,065,424	1,159,122

The Group's consumer products and automobiles and parts business is located in the PRC and Hong Kong while the infrastructure facilities business, medicine and biotechnology 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC	9,981,894	12,049,034	2,210,084	166,660
South-East Asia	22,991	29,050	—	—
Hong Kong	6,285,946	4,354,966	49,796	20,533
Other areas	784,623	29,612	—	—
	17,075,454	16,462,662	2,259,880	187,193