上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

ANNOUNCEMENT OF 2003 ANNUAL RESULTS

HIGHLIGHTS

- Profit for the year amounted to HK$1,259.17 million, representing an increase of approximately 11.8% over last year.
- Earnings per share were approximately HK$1.34, rose by approximately 9.8% compared with the previous year.
- The Board recommended a final dividend of HK32 cents per share. Together with the interim dividend of HK18 cents per share, the total annual dividend per share rose about 11.1% over the previous year with a dividend payout ratio of approximately 37.3%
- The Group implemented two major reorganisations in the medical business segment worth approximately HK$1,335 million:
  - acquiring an approximate 56.63% interest in the PRC A-share listed company SI United. The acquisition is still awaiting final approval by the relevant government authorities in China
  - privatising SIIC MedTech, which was listed on the GEM Board of the Hong Kong Stock Exchange. The company was officially withdrawn from listing on 17 September 2003
- The Group disposed of its entire interests in elevated highway projects in Shanghai, and received full reimbursement of the carrying value of the investments plus after-tax compensation, totalling approximately HK$5,762.33 million. The issue of guaranteed fixed-return projects was fully settled.
- The Group seized the opportunity to restructure its infrastructure business portfolio, enabling more growth with potential for further development by:
  - acquiring the right to operate the Shanghai-Nanjing Expressway (Shanghai section) for 25 years for a consideration of RMB2 billion
  - forming the China Water & Sewage Treatment Company Limited joint venture with a State-level integrated environmental protection company to invest in and operate water-related businesses in China. The company commenced operations in October, and its business has been growing rapidly.
- SMIC started to record profit from the last quarter of 2003 with a substantial decrease in operating loss for the year. SMIC issued additional preference shares at a premium twice in the year, bringing an exceptional profit of approximately HK$239.15 million to the Group for 2003. The company was subsequently listed simultaneously in the United States and Hong Kong in March 2004.
- The medicine, consumer products and automobiles and parts businesses of the Group recorded satisfactory performances and continued to make profit contributions to the Group.

CONSOLIDATED INCOME STATEMENT

The Board of Directors of Shanghai Industrial Holdings Limited ("the Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2003, together with comparative figures in 2002, as follows:

	Notes	2003 HK$'000	2002 HK$'000
Turnover		**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		**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	3	**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		**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	4	**(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	5	**451,112**	454,020
Earnings per share	6		
– Basic		**HK$1.34**	HK$1.22
– Diluted		**HK$1.33**	HK$1.21

Notes:–

(1) **PRINCIPAL 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.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December, 2002, except as described below.

In the current year, the Group has adopted for the first time the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

Income Taxes (Revised)

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 years and, accordingly, no prior year adjustment is required.

(2) **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to operating profit by principal activity and geographical region is as follows:

	Turnover 2003 HK$'000	Turnover 2002 HK$'000	Profit from operations 2003 HK$'000	Profit from operations 2002 HK$'000
Business segment				
Consumer Products and Automobiles and Parts	**1,415,067**	1,832,933	**332,007**	260,695
Medicine and Biotechnology	**1,127,892**	842,386	**282,583**	225,055
Infrastructure Facilities	**283,019**	704,718	**281,299**	701,926
Information Technology	**–**	–	**179,586**	–
	2,825,978	3,380,037	**1,075,475**	1,187,676
Less: Net corporate administrative expenses			**(58,292)**	(79,400)
Add: Interest income			**48,241**	50,846
Profit from operations			**1,065,424**	1,159,122
Geographical region				
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 corporate administrative expenses			**(58,292)**	(79,400)
Add: Interest income			**48,241**	50,846
Profit from operations			**1,065,424**	1,159,122

(3) **PROFIT FROM OPERATIONS**

	2003 HK$'000	2002 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (included in administrative expenses)	**6,412**	1,869
Depreciation and amortisation of property, plant and equipment	**109,071**	105,947
Loss (gain) on disposal of property, plant and equipment	**6,266**	(855)

(4) **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		
– 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.

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%.

(5) **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.

(6) **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 Number of shares	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

(7) **TRANSFER TO AND FROM RESERVES**

During the year, the Group's subsidiaries, jointly controlled entities and associates in the PRC appropriated, net of minority interests' share, approximately HK$55,641,000 out of profit for the year to the PRC statutory reserves. Also, approximately HK$4,491,000 was transferred out of the PRC statutory reserves to the accumulated profits on disposal of interest in a subsidiary.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK32 cents per share for the year ended 31 December 2003. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 28 May 2004, the final dividend will be paid on 8 June 2004 to shareholders whose names appear on the register of members of the Company on 28 May 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of members of the Company will be closed from 25 May 2004, Tuesday to 28 May 2004, Friday, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the dividend to be approved at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Secretaries Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai,Hong Kong by 4:00 p.m. on 24 May 2004, Monday.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

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 guaranteed fixed return projects in China, resulting in the market's concern over our future profits. The management team reacted positively and determinedly followed through 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 capitalization 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.

(1) **Infrastructure Facilities**

During the year, 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.

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.

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. 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 commenced operations in October and its business has been growing rapidly. It was even elected as one of the 'Ten Most Influential Enterprises' by the water services 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 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.

The Group's logistics business continued to make progress in business realignment. EAS International Limited'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. 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.

(2) **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 was 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 under review. 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

Chia Tai Qingchunbao Pharmaceutical Co., Ltd. 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 Traditional Chinese Medicine Co., Ltd.'s ("Xiamen TCM") turnover for the year reached RMB 99.87 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. 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.

During the year, the Group acquired a 30% interest in 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. Turnover of the flagship product, "Stomach Rejuvenation Tablets", exceeded RMB79.10 million for the last year. 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.

Research and development of new products continued apace, 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.

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. 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. As a result of the transaction, the Group will own an approximate 70.4% interest in Sunway Biotech.

Synthetic chemicals

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. 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

Sales revenue of MicroPort Medical (Shanghai) Co. Ltd. ("MicroPort") for the year 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. Guangdong Biolight Medical Technology Co. Ltd. recorded an increase in total sales of 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 pharmaceutical 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 pharmaceutical 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 medical business to the Group's profit to over 30% in the next three years.

(3) **Consumer Products and Automobiles and Parts**

Consumer Products

The average income of Chinese citizens has been rising in recent years and has stimulated 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 from the disposal of Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") during the year and the exceptional profit of HK$218 million generated 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*. When the above extraordinary 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 "WINNER" brand cigarettes boosted sales further. The number of tourists from the Mainland increased significantly, pushing total sales 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 consolidated 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, and will begin operations by mid 2004. Printing enterprises 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 nationwide dairy enterprise in China. By 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. By developing high value-added products and regional differentiation and setting up a comprehensive distribution network and assessment system of service standards and customer satisfaction, Bright Dairy further enhanced brand awareness and customer confidence. To ensure a continuous supply of milk, Bright Dairy formed Shanghai Bright Holstein Co. Ltd. to supervise 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 that comprised six product categories and made up some 20% of total sales. In 2004, Bright Dairy will boost its growth with profits and will also formulate development plans that will take into account market conditions in various locations, thus enhancing fast growth in these areas.

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 stabilise sales of its key products.

Withdrawal from department retail business

During the year, the management followed through on its strategy of driving business transformation and further streamlined 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 approximately 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 minimise the impact of external factors such as price cuts. 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. During the year, sedan chassis system accessories recorded total sales of over 610,000 sets. Commercial vehicle projects also made good progress, with the manufacture and sale of heavy 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. 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.

Information Technology

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. 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 listing 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 about HK$5 billion. 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. The Group posted an exceptional profit of approximately HK$239.15 million in 2003 arising from these two placings. SMIC has become one of the leading semiconductor foundries in the world, and was ranked the fourth leading seimiconductor foundry in the world by IC Insight in 2003. 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. 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 company heavily promoted its value-added broadband service. The number of "Cableplus" subscribers reached remistate the figure, 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. Net profit for 2003 was approximately RMB8.08 million, a drop of some 14.4% from the previous year. Shanghai Communication Technology Centre 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. 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.

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

PROSPECTS

The PRC economy achieved a sustained growth. GNP and the economic growth have reached a new level. 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 background and advantage in Shanghai and has been investing in the major areas of Shanghai and 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 build itself up as 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. We have already shown good result and see a clearer picture for the Group's development. There are four main business segments within the Group, namely: (1) infrastructure facilities; (2) medicine and biotechnology; (3) consumer products and automobiles and parts; (4) 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.

FINANCIAL REVIEW

A) FINANCIAL RESULTS OF THE GROUP

1. 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. Excluding the effect on turnover of Orient Shopping, the turnover for the consumer products and automobile and parts business actually increased by approximately 33.0% over the previous year.

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.

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 TCM 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 Houttyuniae Injection" of the "Dengfeng" injection product series also increased by 15.5% and 35.5% respectively.

2. 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% 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 segment.

(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 Sunway Biotech. In addition, the issue and placement of Series C and Series D preference shares at a premium by SMIC in 2003 contributed a dilution gain of approximately HK$239.15 million to the Group.

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 driven by the soaring automobile market in Mainland China and an increase in investment income of Sunve Pharmaceutical. 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.

B) 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 loans 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 US$702 million from the disposal of the elevated highway projects.

C) 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 centralized 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 US$, HK$ 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 minimizing 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.

AUDIT COMMITTEE

The Audit Committee together with the Company's management and external auditors have reviewed the financial statements for the year 2003 and recommended the Board to adopt the financial statements.

CODE OF BEST PRACTICE

Throughout the year ended 31 December 2003, the Company has complied with the Code of Best Practice contained in Appendix 14 of the Rules Governing The Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

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.

RELEASE OF ANNUAL RESULTS INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Group will release the annual results information for the year ended 31 December 2003 as pursuant to Paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules on the Stock Exchange's website at a later time.

Cai Lai Xing
Chairman

Hong Kong, 16 April 2004

NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of Shanghai Industrial Holdings Limited ("the Company") will be held at the Conference Room of the Company at 26/F., Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on 28 May 2004 (Friday) at 3:00 p.m. for the following purposes:–

1. To receive and consider the audited Consolidated Financial Statements of the Company and the Reports of the Directors and the Auditors for the year ended 31 December 2003.
2. To declare final dividend for the year ended 31 December 2003.
3. (a) To re-elect retiring Directors.
   (b) To authorise the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and to authorise the Board of Directors to fix their remuneration .
5. To grant a general mandate to the directors to issue additional shares not exceeding 20 per cent. of the issued share capital of the Company.
6. To grant a general mandate to the directors to repurchase shares not exceeding 10 per cent. of the issued share capital of the Company.
7. To extend the general mandate referred to in item 5 above by increasing the number of shares permitted to be issued by the number of shares repurchased under the general mandate referred to in item 6 above.
8. To amend the existing Articles 2, 15, 42, 73, 82, 93, 100, 105, 107, 163, 167, 168, 169, 170, 172, 173 and 178 and to add new Article 179 to the articles of association of the Company (the "Articles") to reflect the coming into effect of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and to reflect the recent amendments to the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and to bring the Articles up to date and in line with current practice in Hong Kong. A brief background to the proposed amendments to the Articles is set out as follows:

(a)	Article 2	To amend the definitions of "clearing house" and "associate" in line with the Securities and Futures Ordinance and the Listing Rules respectively, and to provide additional definitions for certain terms given the coming into effect of the amended Companies Ordinance.
(b)	Articles 15 and 42	To stipulate the time limit for issuance of share certificates in accordance with the Listing Rules and the Companies Ordinance and to revise those provisions on the amount payable for new share certificates, replacement of share certificates and registration of instruments of transfer to the effect that such sum shall not exceed the maximum amount as may from time to time be prescribed by the Listing Rules.
(c)	Article 73	To reflect the requirement of voting by poll under the Listing Rules.
(d)	Article 82	To reflect the restriction on voting by shareholders whom the Company has knowledge is restricted from voting, as required by the amended Appendix 3 of the Listing Rules.
(e)	Article 93	To clarify the liability of alternate director and his relationship with his appointing director in the light of the amended Companies Ordinance.
(f)	Article 100	To be consistent with the provisions of the amended Appendix 3 of the Listing Rules so that subject to certain exceptions, a Director shall abstain from voting at the board meeting on any contract, arrangement or proposal in which he or any of his associates has a material interest nor shall he be counted towards the quorum of the relevant board meeting.
(g)	Article 105	To be consistent with the amended Appendix 3 of the Listing Rules which stipulates the minimum seven-day period for lodgment by a member of the notice to nominate a director and the nomination shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.
(h)	Article 107	To reflect the change of the method on removal of directors by means of a special resolution and to substitute therefor an ordinary resolution in the light of the amended Companies Ordinance.
(i)	Article 163	To permit the Company to deliver the relevant financial documents and summary financial report to entitled persons in accordance with the Companies Ordinance and other applicable laws, rules and regulations.
(j)	Articles 167, 168, 169, 170, 172 and 173	To permit the Company to serve notice or document, in the English language only, in the Chinese language only or in both, to entitled persons personally, through the post or by means of advertisement in newspapers, electronic communication or publication on the Company's computer network and to add a provision for deemed service of such notice or document.
(k)	Article 178	To amend the provision for indemnity on the liability of the directors or other officer or auditors in the light of the amended Companies Ordinance.
(l)	New Article 179	To permit the Company to purchase liability insurance for directors or other officer or auditors in the light of the amended Companies Ordinance.

The above summary of the purposes of the Annual General Meeting is set out only for information of the shareholders of the Company, and is subject to the notice of the Annual General Meeting which will be despatched as soon as practicable to the shareholders of the Company and to which the shareholders of the Company should refer. With regard to items 5 to 8 set out above, a circular giving details of the general mandates to issue and repurchase shares and amendments to the Articles will be despatched to shareholders together with Annual Report 2003 of the Company. The notice of the Annual General Meeting of the Company will be set out in the aforesaid circular and is also available for viewing on the website of each of The Stock Exchange of Hong Kong Limited at *http://www.hkex.com.hk* and the Company at *http://www.sihl.com.hk*.

By order of the Board
Roger L. C. Leung
Company Secretary

Hong Kong, 16 April, 2004

As at the date hereof, the board of directors of the Company is comprised of 12 Directors, of which 9 are Executive Directors, namely Messrs. Cai Lai Xing, Lu Ming Fang, Lu Da Yong, Ding Zhong De, Lu Shen, Qian Shi Zheng, Lu Yu Ping, Yao Fang and Ge Wen Yao and 3 are Independent Non-Executive Directors, namely Messrs. Lo Ka Shui, Woo Chia-Wei and Leung Pak To, Francis .