上海實業控股有限公司
SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liabilities)

(Stock Code: 363)

Announcement of 2004 Annual Results

HIGHLIGHTS

- Consolidated profit amounted to HK$1,383.06 million, an increase of 9.8 percent over last year, which is the highest profit level since the Group was listed in May 1996. Earnings per share were HK$1.45.
- The Group secured a total of seven water services and toll road acquisition projects, involving a total investment of more than HK$1.6 billion
- The acquisition of a 56.63 percent controlling stake in SI United was completed. The Group's pharmaceutical acquisition projects during the year involved an investment of about HK$900 million.
- The success of the dual listings of SMIC on the United States and Hong Kong stock markets in March 2004 brought in significant exceptional profits for the Group.
- The Directors have recommended a final dividend of HK35 cents per share to shareholders. The total dividend for the year amountd to HK55 cents per share. The dividend payout ratio is 37.9 percent.

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 31st December 2004, together with comparative figures in 2003, as follows:

	Notes	**2004** *HK$'000*	2003 *HK$'000*
Turnover	*2*	**3,428,939**	2,825,978
Cost of sales		**(1,505,051)**	(1,194,490)
Gross profit		**1,923,888**	1,631,488
Investment income		**233,570**	309,113
Other operating income		**31,127**	58,870
Distribution costs		**(741,799)**	(530,178)
Administrative expenses		**(398,984)**	(301,561)
Other operating expenses		**(144,532)**	(34,971)
Profit from operations	*3*	**903,270**	1,132,761
Finance costs		**(19,317)**	(31,001)
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities		**698,523**	278,059
Share of results of jointly controlled entities		**94,451**	172,635
Share of results of associates		**284,729**	161,537
Allowance for amount due from a jointly controlled entity		**(33,376)**	(67,337)
Impairment losses recognised in respect of interests in an associate and jointly controlled entities and goodwill relating to a subsidiary		**(191,232)**	–
Profit from ordinary activities before taxation		**1,737,048**	1,646,654
Taxation	*4*	**(231,979)**	(241,904)
Profit before minority interests		**1,505,069**	1,404,750
Minority interests		**(122,009)**	(145,584)
Profit for the year		**1,383,060**	1,259,166
Dividends	*5*	**495,067**	451,112
Earnings per share	*6*		
– Basic		**HK$1.45**	HK$1.34
– Diluted		**HK$1.43**	HK$1.33

Notes:–

(1) PRINCIPAL ACCOUNTING POLICIES

The financial statements of the Group have been prepared in accordance with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Institute of Certified Public Accountants that are generally accepted in Hong Kong. The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

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 2003, except for the adoption of SSAP 36 "Agriculture", which came into effect on 1 January 2004.

SSAP 36 "Agriculture"

The adoption of SSAP 36 "Agriculture" represents a change in the accounting policy, it requires the measurement of biological assets and agricultural produce on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. Gains and losses arising on initial recognition and subsequent changes in fair values are included in the consolidated income statement.

The adoption of SSAP 36 has resulted in changing the Group's accounting policy on measuring a jointly controlled entity, Bright Dairy & Food Co., Ltd's dairy cattle (biological assets) and milk (agricultural produce), and should be applied retrospectively. The biological assets and agricultural produce are previously stated at the lower of cost and net realizable value, whereby under SSAP 36 they are measured at the balance sheet date at fair value less estimated point-of-sale costs. The adoption of SSAP 36 has had no material effect on the results for both financial years 2004 and 2003, and, accordingly, no prior period adjustment is required.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(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		**Profit from operations**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Business segment				
Infrastructure Facilities	**189,208**	283,019	**145,880**	281,299
Medicine	**1,283,622**	1,127,892	**253,986**	288,772
Consumer Products	**1,956,109**	1,415,067	**504,737**	336,843
Information Technology	**–**	–	**66,497**	179,586
	3,428,939	2,825,978	**971,100**	1,086,500
Net unallocated corporate (expenses) income			**(67,830)**	46,261
Profit from operations			**903,270**	1,132,761
Geographical region				
PRC	**1,943,374**	1,768,201	**573,620**	836,042
Asia	**1,259,255**	661,553	**283,039**	133,726
Hong Kong	**186,332**	169,343	**103,686**	68,450
Other areas	**39,978**	226,881	**10,755**	48,282
	3,428,939	2,825,978	**971,100**	1,086,500
Net unallocated corporate (expenses) income			**(67,830)**	46,261
Profit from operations			**903,270**	1,132,761

(3) PROFIT FROM OPERATIONS

	2004	2003
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging :		
Amortisation of goodwill (included in administrative expenses)	**15,462**	6,412
Amortisation of toll road operating right (included in cost of sales)	**41,626**	–
Depreciation and amortisation of property, plant and equipment	**122,039**	109,071
Research and development costs	**15,468**	8,043
Loss on disposal of property, plant and equipment	**4,434**	6,266

(4) TAXATION

	2004 *HK$'000*	2003 *HK$'000*
The charge comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax		
– current year	**66,633**	57,703
– underprovision in prior years	**30,704**	21,164
– PRC income tax		
– current year	**66,437**	87,841
– underprovision in prior years	**2,342**	3,114
	166,116	169,822
Deferred taxation		
– current year	**20,036**	(11,492)
– effect of change in tax rate	**–**	7,174
	20,036	(4,318)
Taxation attributable to the Company and its subsidiaries	**186,152**	165,504
Share of PRC income tax of jointly controlled entities	**15,230**	31,679
Share of PRC income tax of associates	**30,597**	44,721
	45,827	76,400
	231,979	241,904

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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

	2004 *HK$'000*	2003 *HK$'000*
Interim dividend of HK20 cents per share (2003: HK18 cents per share)	**191,602**	170,205
2003 final dividend of HK32 cents per share (2002 final dividend: HK30 cents per share)	**303,465**	280,907
	495,067	451,112

A final dividend of HK35 cents (2003: HK32 cents) per share has been proposed by the 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:

	2004 *HK$'000*	2003 *HK$'000*
Earnings:		
Profit for the year and earnings for the purpose of basic earnings per share	**1,383,060**	1,259,166
Effect of dilutive potential ordinary shares		
– adjustment to the share of results of an associate based on potential dilution of its earnings per share	**(15,753)**	–
Earnings for the purpose of diluted earnings per share	**1,367,307**	1,259,166

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**952,088,546**	940,604,493
Effect of dilutive potential ordinary shares		
– share options	**6,159,364**	3,354,778
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**958,247,910**	943,959,271

(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$67,282,000 out of profit for the year to the PRC statutory reserves.

(8) RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (collectively referred to as "new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The Group did not apply early adoption of these new HKFRSs to its financial statements for the year ended 31 December 2004. However, the Group has been carrying out an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the new HKFRSs may have the following impact:

HKASs 32 & 39 on "Financial Instruments"

The adoption of HKASs 32 and 39 would require all financial instruments which the Group is using to hedge the interest rate and currency risks of its borrowings to be marked to market, with change in their fair values recognised in the Income Statement directly. The standard allows the application of hedge accounting, that is, to use the change in fair value of the underlying hedged items to offset this impact. Should there be inefficiency in the hedging relationship to the extent that the opposing impacts do not cancel each other out, there will be a net residual impact to the Income Statement. Given that hedge efficiency is affected by a number of factors including the nature of the hedge relationship, direction of interest rates and changes in foreign exchange rates, it is difficult to forecast and control this residual impact.

HKAS 40 on "Investment Property"

The adoption of HKAS 40 would require all revaluation gains or losses of investment properties to be taken directly to the Income Statement, whereas under the old standards such changes are generally taken to the revaluation reserve account.

HKFRS 2 on "Share-based Payment"

Before the adoption of HKFRS 2, the Group does not expense the share options issued by the Company, however the adoption of HKFRS 2 would require the fair value of share options be measured at the grant date, the fair value of share options should be amortised and charged to the Income Statement over the options' life.

HKFRS 3 on "Business Combinations"

The goodwill is not amortised and instead must be tested for impairment after the adoption of HKFRS 3. Negative goodwill acquired in a business combination has to be taken directly to the Income Statement.

It should be noted, however, that the four accounting changes mentioned above are non-cash items and hence do not affect cash flow. The Group will continue to assess the impact of other new HKFRSs and other changes may be identified as a result. However, it is not expected that these will have a significant impact on the Group's consolidated accounts.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

The audited consolidated profit of the Group for the year ended 31st December 2004 amounted to HK$1,383.06 million, an increase of 9.8 percent over 2003. This represents the highest profit level achieved by the Group since its listing in May 1996. The healthy financial position of the Group has presented excellent potential for its future development. As at 31st December 2004, total net asset value amounted to HK$15,617.46 million, and net cash in hand was HK$3,709.55 million.

During the year, the Group faced enormous difficulties and challenges. As a result of the disposal of its entire investment in fixed-return elevated highway projects, the Group came short of HK$700 million in fixed income, putting immense pressure on the Group's profit structure for the year. However, with continued efforts by the management and all staff members as well as strategic operations from each business unit, the Group achieved encouraging results during the year. Steady growth in the consumer products segment has provided strong financial support for the Group and to the continued development of the Group's infrastructure and medicine business segments. The success of the dual listings of Semiconductor Manufacturing International Corporation ("SMIC") on the United States and Hong Kong stock markets in March 2004 also brought in significant exceptional profits for the Group.

To focus on the development of the Group's core segments and businesses, the following measures were implemented during the year:

- Increasing the scale of investments in, and operation of, water services and establishing a strong foundation for the Group's earning potential.

During the year, maximizing on the excellent opportunities offered by the opening of water services to the market in Mainland China, the Group focused on the expansion of its water services business. Despite strong competitions, the Group won contracts for water supply and sewage treatment services in five mainland cities. These projects will generate a capacity of approximately 2.8 million tonnes of water supply and sewage treatment with a total investment of RMB1.435 billion. General Water of China Co., Ltd. ("GWC") is one of the fastest-growing enterprises of its kind in Mainland China. With the substantial growth of China's economy and the unprecedented pace of urban development in the mainland, demand for water supplies and sewage treatment has been rising sharply. Combined with resultant price increases across the country, prospects for the water services market are bright.

- Accelerating the development of toll road business in the Yangtze River Delta and improving operation to generate higher profits

  The Group allocated a total of RMB2 billion for the acquisition of the franchise for the Shanghai-Nanjing Expressway (Shanghai Section). Our management team stepped in the business operations of the project, resulting in a steady improvement of its performance. The company has further been granted with tax incentives of full waiver and 50 percent deduction in two successive five-year periods respectively which also contributed to a positive operating environment. In November 2004, the Group invested RMB283 million to purchase a 30 percent stake in the Yongjin Expressway (Jinhua Section) in the Zhejiang province. The Yongjin Expressway is part of the national highway network and a major transport channel, linking the port of Ningbo with the road networks of central and western Zhejiang, and the Anhui and Jiangxi provinces. With its strategic geographical position, we are confident that the project will generate a favourable return on investment and become a new and reliable source of profit for the Group.

- Restructuring the medical platform to enable further mergers and acquisitions in the pharmaceutical industry

  Over a period of 17 months, the Group successfully developed financing channels in the mainland capital market. First, it privatized SIIC Medical Science and Technology (Group) Limited, formerly listed in the Growth Enterprise Market in Hong Kong; then it acquired a 56.63 percent share of Shanghai Industrial United Holding Co., Ltd. ("SI United"), listed in the A-share market of Shanghai Stock Exchange, with the permission of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Commerce and the China Securities Regulatory Commission. This restructuring enabled the consolidation of the Group's and our parent group's medicine businesses into a single investment and operations platform. This further improved the structure of the business, creating a favourable environment for the next round of enterprise restructuring, acquisitions and mergers.

- Effectively pursuing a strategy of asset operation to boost profit growth

  During the year, the Group effectively pursued a strategy of asset operation, achieving remarkable results. SMIC was listed in March 2004 and provided the Group with exceptional profits of approximately HK$632 million for the financial year. Meanwhile, our asset operation strategy has enabled other strategic investments, including Ctrip.com International Ltd. and China Netcom Corporation Ltd., increasing the Group's capital value and driving profit growth.

- Divesting non-core business projects and improving the Group's business structure

  The Group divested its department retail business in 2003, followed by an orderly retreat from investments in logistics and related businesses during the year releasing a cash income of approximately HK$275.61 million. While maintaining overall profit levels, we will continue to divest non-core investments and focus our resources on improving business structure.

In recent years, the Group has been able to pursue its strategy of combining business and asset operations in a more effective manner. This has contributed to our strong results, further boosting our market value and profits.

Infrastructure facilities

The Group's infrastructure facilities business was established in 1996. Over these years, the focus has expanded from toll roads to water services and port facilities, and infrastructure has become one of the Group's core businesses. In 2004, the infrastructure facilities business recorded a net profit of around HK$156.13 million, representing 18.1 percent of the Group's net profit, excluding the exceptional profit from the listing of SMIC and net corporate expenses.

At the end of 2003, the Group formed a joint venture, GWC, with China Energy Conservation Investment Corporation ("CECIC"), thereby entering the water services market on the mainland. During the past year, GWC has rapidly secured a total of six water services projects, in Xiangtan, Hunan Province; Bengbu, Anhui Province; Xiamen, Chongqing and Huzhou, Zhejiang Province, representing a total investment of RMB1,435 million with a daily capacity of 2.07 million tonnes of water supply and 700,000 tonnes of sewage treatment. Among these, the two joint venture formed by GWC and Xiamen Water Services Group Limited 廈門水務集團有限公司 at the end of last year are regarded as the most significant water asset acquisition projects on the mainland in 2004. Xiamen GWC Water Supply Limited 廈門水務中環製水有限公司 has total assets of around RMB340 million, and net assets of RMB270 million, with a daily water supply capacity of 995,000 tonnes. Xiamen GWC Sewage Treatment Limited 廈門水務中環污水處理有限公司 has total assets of around RMB850 million, and net assets of around RMB830 million, with a daily sewage treatment capacity of 559,000 tonnes.

The Group aims to become one of the most important providers of water services in China. We will fully explore development opportunities and take advantage of government policies that promote this market. By demonstrating the Group's and CECIC's competitive advantages in capital, technology and management, we can further expand the scale of our water supply, sewage treatment and pipeline network.

The Shanghai-Nanjing Expressway (Shanghai Section) Project is a toll road business wholly owned by the Group. The Shanghai-Nanjing Expressway is divided into two sections (Shanghai and Jiangsu).The Shanghai section, 26 kilometres long, has some of the heaviest traffic in the Yangtze River Delta. During the year, despite expansion works and restricted truck entry on the Jiangsu section, the Shanghai section maintained a good rate of growth. Toll revenue reached RMB210 million, representing a 16 percent increase over the previous year. Daily exit traffic reached 42,677 vehicles. The tax incentive of full waiver and 50 percent reduction in two successive five-year periods respectively also contributed to a positive operating environment. As rapid economic development of the Yangtze Delta region and the spread of conurbations have led to a continuous increase in traffic volume, two lanes in each direction on the Shanghai section are no longer adequate. To meet the higher demand, the Group has carried out full preliminary work on expanding the section to four lanes in the latter half of 2004. Construction is expected to begin in the latter half of 2005. Both vehicle flow and toll revenue are expected to improve on completion of the project.

Jinhua Jinyong Expressway Construction & Investment Co., Ltd. 金華市金甬高速公路建設投資有限公司 ("Jinyong Construction") enjoys operating rights for Jinyong Expressway (Jinhua section). The expressway, 185 kilometres long, is divided into the Jinhua, Shaoxing and Ningbo sections. The Jinhua section is approximately 70 kilometres in length. Construction started in 2002, involving a total investment of around RMB2.86 billion. Foundation work has been completed, and road surface paving has been underway.

Medicine Business

During the year the Group's medicine business saw good performance overall. Sales during the year (not taken into account of the results of SI United amounted to around HK$1,283.62 million, a 13.8 percent increase over the previous year. Net profit reached HK$154.92 million, a 17.5 percent increase over the previous year, representing 17.9 percent of the Group's net profit, excluding exceptional profit from the listing of SMIC and net corporate expenses.

The acquisition of a 56.63 percent stake in SI United was completed in December 2004. The company's business performance was included in the Group's accounts from the beginning of 2005. During the year, SI United pursued an aggressive expansion policy and spent RMB127.52 million in August to acquire a 51-percent stake in Guangdong Techpool Biochem. Pharma. Co. Ltd. ("Guangdong Techpool"). Guangdong Techpool is one of the largest mainland manufacturers of urine protein products, and one of the leading Heparin manufacturers in China. Its major product Ulinastatin earned sales of RMB104 million in 2004 and is now the Group's five leading products.

The mainland pharmaceutical industry is experiencing an intensive period of mergers, acquisitions and reorganization. During the year, the Group's pharmaceutical acquisition projects (including SI United) involved an investment of about RMB1 billion. To accelerate development of its pharmaceutical business, the Group is committed to acquire projects whose strength lies in the areas of scale, brand strength and competitiveness.

The Group's Chinese medicine products saw good overall sales. "Dengfeng" Shen Mai Injection and "Dengfeng" Dan Shen Injection, prescription medicines for cardiovascular diseases, and "Dinglu" Xinhuang Tablets, an anti-bacterial, anti-inflammatory and pain control medicine, recorded sales growth over the previous year of 11.8 percent, 12.8 percent and 23 percent respectively. The newly acquired "Cang Song" Rupixiao Tablets, a major product by Liaoning Herbapex Pharmaceutical (Group) Company Limited, used for cystic hyperplasia of the breast, recorded sales of RMB109 million at year-end, an increase of 31.3 percent over the previous period.

In the health food category, "Qingchunbao" Beauty Capsules and "Qingchunbao" Yong Zhen Tablets have seen a continuous increase in sales since their market launch. Revenue reached RMB90.68 million and RMB20.69 million respectively, representing increases of 27.8 percent and 133.6 percent over the previous year.

Apart from Chinese medicines, producing and marketing biomedicine captures competitive edge in China's pharmaceutical industry as well. The Group also makes it a major development focus of its pharmaceutical business. H101, a new drug for treating head and neck tumours, has completed Phase III clinical trials. In November 2004, it was certified by the State Food and Drug Administration panel, and is currently awaiting approval for State Category I New Drug Certification. Last year, Shanghai Alliance Investment Ltd. acquired an 18.6 percent stake in Shanghai Sunway Biotech Co., Ltd. for US$10.8 million, adding to the Group's capital growth.

"Kai Li Kang", a State Category I New Drug owned by Guangdong Techpool, mainly used to treat hypertension and occlusion of cerebral and surrounding blood vessels, has completed Phase III clinical trials and is expected to be on the market by the second half of 2005.

Recombinant Mutant Human Tumor Necrosis Factor for Injection "注射用重組結構人腫瘤壞死因子" (TNF), jointly developed by Changzhou Pharmaceutical Company Limited常州藥業股份有限公司with the PLA Second Military Medical University, is a State Category I New Drug. This is a complementary drug for clinical treatment of malicious tumours, and has now gone into the commercialization stage.

Consumer Products and Information Technology

The Group's consumer-related business covers a number of industry sectors. Among them, finished products mainly include tobacco, dairy and personal care products. Complementary products include printed materials, automobile parts, and semiconductors, which are complementary to high-tech electronic products. Besides consumer products, the Group also invests in information technology networks, providing information services to the public.

Last year, rapid growth of the mainland consumer market and Hong Kong's economic revival helped boost the Group's consumer product and information technology businesses, with a continuous healthy overall development trend. Net profit was RMB1,185.93 million, a 34.1 percent increase over the previous year, representing 64 percent of the Group's net profit, excluding exceptional profit from the listing of SMIC and net corporate expenses, and providing a solid foundation for profit growth.

The Group's tobacco business maintained high growth in 2004, with revenue of HK$1,726.58 million, a 44.1 percent increase over the previous year, and net profit of around HK$286.6 million, up 49 percent on the previous period.

In April 2004, expansion work began on Tuen Mun Warehouse Phase II in Hong Kong. Estimated total cost is around HK$130 million, and the cost of additional production facilities around HK$33.58 million. The project is expected to be completed and begin operation in 2005. This year marks the centenary of Nanyang Brothers Tobacco Company, Limited. The company has experienced continuous growth in the century with remarkable results since it was established.

Revenue generated by the core business of Bright Dairy and Food Co., Ltd. for the year 2004 was RMB6,785.68 million, an increase of 13.45 percent over the previous period, and net profit of RMB317.97 million, an increase of 12.6 percent. At year-end, sales outside Shanghai accounted for 71.5 percent of total dairy product sales, giving the company a firm base as a nationwide enterprise.

In 2004, China implemented macroeconomic regulations, while banks tightened automotive consumption credit. To a certain extent, these two factors curbed automobile demand. Consequently, inventory levels rose and price competition remained intense. In the face of market uncertainty, the Group's two associated companies engaged in the automobile and parts businesses both recorded negative growth. Sales for the year amounted to RMB6,378 million, and they contributed a net profit of RMB106.7 million to the Group, a drop of 28.8 percent compared with last year.

The printing business grew steadily in 2004. With a substantial increase in total sales, turnover for the year was HK$465.57 million, with a net profit of approximately HK$113.82 million, representing rises of 23.2 percent and 19.2 percent respectively over the previous year. The new 32,000-square-metre factory in Dongguan, Guangdong Province, with a total investment of HK$200 million, formally began operation during the year. The development in the mainland market has been highly successful, extending to the provincial capitals of Zhejiang, Henan, Sichuan, Hebei, Shanghai, Shandong, Guangxi and Shanxi. Several joint-venture plants have already been established in China.

The Group currently is the single largest shareholder in SMIC. In 2004, SMIC recorded a net profit of US$89.75 million, with sales volume of US$974.67 million, a surge of 166.4 percent over the previous year.

Prospects

With access to local and overseas financing channels, our Shanghai background and competitive advantage on the mainland, as well as our solid business foundation, the Group has been able to serve as a bridge between markets in Mainland China, Hong Kong and overseas. It has further positioned itself to capitalize on a diverse array of opportunities by promoting cooperation between enterprises in China and abroad, developing overseas markets, and leveraging our advantages to attract foreign capital.

Looking forward, our aim is to strengthen our infrastructure and medical businesses, to enhance their competitive positions and to achieve major breakthroughs. Water services are the major components of our infrastructure segment. We will continue to increase our investment in this area and to create a favourable environment for the rapid development of the business. In the toll road business, the Group will strive to acquire more highway projects in the Yangtze Delta area, strengthening our profit base in infrastructure facilities. In the medical arena, the Group's medical and pharmaceutical enterprises have maintained a leading position in the mainland, in particular, in the Chinese medicine sector. The Group is committed to acquiring enterprises whose core competitiveness lies in branded herbal and biotech medicines. We will also step up the restructuring of our internal resources in order to maintain our leading position in the pharmaceutical industry in Mainland China.

With full confidence in our development prospects, we will continue to consolidate our high-performing business units, establishing a solid foundation for our future growth. Meanwhile, we will capitalize on opportunities brought about by the restructuring of state-owned enterprises in the mainland, and will actively identify and acquire high growth potential companies that are compatible with our major businesses. We will take full advantage of our parent company's competitive position in the Shanghai area to create greater value for our shareholders, and to enjoy the impressive results brought about by the healthy development of the Group.

Cai Lai Xing
Chairman

Hong Kong, 21st April 2005

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK35 cents per share for the year ended 31st December 2004. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 26th May 2005, the final dividend will be paid on 6th June 2004 to shareholders whose names appear on the register of members of the Company on 26th May 2005. Together with the interim dividend of HK20 cents per share, the total dividend for the year amounted to HK55 cents per share, representing an increase of 10 percent over last year. The dividend payout ratio is 37.9 percent.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 23rd May 2005 to Thursday, 26th May 2005, 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 Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on Friday, 20th May 2005.

FINANCIAL REVIEW

A) FINANCIAL RESULTS OF THE GROUP

1. Turnover

The Group recorded a rise in turnover during the 2004 financial year of 21.3% over the previous year. The consumer products and information technology business accounted for the greatest proportion, representing an increase of 38.2% over last year. This increase was mainly driven by growth in the tobacco and printing businesses.

Turnover in the pharmaceutical business recorded a 13.8% increase over 2003. This growth was partly due to additional turnover brought in by the acquisition of Liaoning Herbapex, completed in March 2004. The Group's existing pharmaceutical businesses also grew fast.

Following restructuring of the infrastructure facilities business, the year's turnover mainly reflected toll revenue brought by the newly acquired Shanghai-Nanjing Expressway (Shanghai Section). Turnover for the same period last year consisted of the RMB300 million after-tax compensation included in turnover generated from the disposal of the fixed return elevated highway projects.

2. Profit Contribution from Each Business

A comparison of the Group's profit contributed by each business for 2004 and 2003 is as follows:

	2004	2003	Increase (Decrease)
	HK$'000	*HK$'000*	*%*
Infrastructure Facilities	**156,131**	301,630	(48.2)
Medicine	**154,922**	131,847	17.5
Consumer Products and Information Technology	**1,185,931**	884,655	34.1

Since its disposal of its entire investment in fixed return elevated highway projects in 2003, the Group has strived to restructure its infrastructure facilities business, and the results of this were discernible in 2004. Shanghai-Nanjing Expressway (Shanghai Section) and Shanghai Waigaoqiao Container Terminal Co., Ltd both contributed to the Group's profits during the year. While GWC, engaged in water services business, is still in the initial investment stage, its contribution to the Group's profits was minimal.

The Group's pharmaceutical business was still undergoing reorganisation. The acquisition of SI United was completed at the end of 2004, hence its profit was not yet reflected in the Group's accounts. On the other hand, the completed acquisition of a 55 percent stake in Liaoning Herbapex, combined with operational growth in the Group's other pharmaceutical business entities, brought overall profit growth of 17.5% to the sector.

The austerity measures implemented in the mainland have caused a decline in the business performance of Shanghai Huizhong Automotive Manufacturing Co., Ltd ("Shanghai Huizhong") and Shanghai SIIC Transportation Electric Co., Ltd, which form part of the Group's consumer product and information technology business. However, growth in its tobacco and printing businesses helped boost the Group's consumer product business. In addition, SMIC recorded an operational profit in the first year after its establishment, and completed both its issue of Series D preference shares at a premium and its initial public offering, contributing substantial operational and exceptional income to the Group's information technology sector.

3. Profit from Ordinary Activities before Taxation

(1) Gross profit margin

Gross profit margin for 2004 was approximately 56.1%. Gross profit margin in 2003 was around 53.0%, excluding after-tax compensation of RMB300 million included in turnover arising from the cancellation of fixed return elevated highway projects. The higher gross profit margin was mainly due to an increase in consumer products sales, which were able to optimize economies of scale in production.

(2) *Investment income*

Investment income for the year decreased from around HK$309.11 million in the previous year to HK$233.57 million, representing a decrease of HK$75.54 million. This year's investment income consisted of treasury income and unrealised profit of HK$66.91 million, generated by the Hong Kong and US public listing of an indirect investment in China Netcom Group Corporation (Hong Kong) Limited. On the other hand, last year's investment income consisted of realised and unrealised investment income totalling HK$179.59 million and treasury income, the former was generated from the US Nasdaq public listing of the Group's investment in Ctrip.com International, Ltd.

(3) *Administrative expenses*

Administrative expenses in 2004 saw an increase of HK$97.42 million over the previous year. This was mainly due to the increase in number of subsidiaries and a provision of HK$24.23 million for receivables and bank guarantees of a jointly controlled entity in the Group's medicine business.

(4) *Other operating expenses*

Other operating expenses for the year were HK$109.56 million higher than in the last year, which can largely be attributed to the Group's prudent principle of making provisions against risks and for impairment of certain long-term investments in the consumer products and medicine businesses.

(5) *Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities*

Net gain for the year, derived mainly from completion of SMIC's issue of Series D preference shares at a premium and its public share offering during the first half of 2004, as well as the introduction of new investors to Shanghai Sunway Biotech Co., Ltd ("Sunway Biotech") and MicroPort Medical (Shanghai) Co. Ltd., was much greater than profit in the previous year, which was realised mainly through SMIC's issue and placement of Series C and D preference shares at a premium, the disposal of the Group's 51% interest in Shanghai Orient Shopping Centre Ltd., and the indirect disposal of the Group's 13.5% in Sunway Biotech.

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

The share of results of jointly controlled entities during the year decreased to HK$94.45 million from approximately HK$172.64 million in the previous year. This was mainly due to a considerable decline in Shanghai Huizhong's profit as a result of the implementation of austerity measures and price competition in the mainland automobile market.

(7) *Share of results of associates*

The share of results of associates during the year increased substantially to HK$284.73 million, from approximately HK$161.54 million in the previous year. This represents an increase of around HK$123.19 million, largely attributable to a strong improvement in SMIC's business performance. The Group recorded a share of profits of HK$75.64 million in 2004, in contrast to a share of losses of HK$85.58 million in the previous year. EAS International Transportation Ltd, which provided profit contribution in the previous year, was disposed of, partly offsetting growth in the share of results of associates.

(8) *Impairment losses recognised in respect of interests in an associate and jointly controlled entities and goodwill relating to a subsidiary*

The Group recognised an impairment loss in respect of interests in a jointly controlled entity and an associate, both of which were engaged in the information technology business. The Group also recognised the goodwill impairment losses of a subsidiary engaged in the pharmaceutical business and jointly controlled entities engaged in the pharmaceutical and information technology business.

B) FINANCIAL POSITION OF THE GROUP

1. Capital

As at 31 December 2004, the Group had issued a total of 958,638,000 shares of par value HK$0.1 each. The number of shares in issue was increased by 12,890,000 shares over the end of 2003, as a result of the exercise of share options by the staff members of the Group. Based on a market price of HK$16.60 per share as at 31 December 2004, the market capitalisation of the Group was HK$15,913.39 million.

2. Loans

As at 31 December 2004, the Group had total loans of approximately HK$2.1 billion, representing an increase of HK$480.09 million over the previous year. The increase was mainly due to completed acquisition of the Group's subsidiaries, namely SI United and Liaoning Herbapex, consolidating their Renminbi loans equivalent to the amount of HK$366.40 million and HK$18.92 million respectively.

The Group's total loans mainly consisted of a five-year term syndication loan of HK$1.6 billion, which was signed in April 2002 and will become due in April 2007. The long-term portion of HK$800 million and the revolving portion of HK$800 million contained in the syndication loan have been dealt with in the financial statements under long-term and short-term bank and other borrowings respectively.

3. **Liquidity**

At the end of 2004, cash held by the Group was approximately HK$5,809.59 million, of which the proportions of US dollars, Hong Kong dollars and Renminbi were approximately 65%, 11% and 24% respectively. The total amount of cash held by the Group increased by HK$454.78 million over the previous year.

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. 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 the Hong Kong SAR. Since the exchange rate risk mainly arises from fluctuations of the Hong Kong dollar against US dollars and Renminbi, the Group closely monitors any movement in these currencies, as well as 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 is a syndication loan of HK$1.6 billion. To exercise prudent management against interest rate risks, the Group entered into a structured interest rate hedging arrangement against the long-term portion of this loan.

EMPLOYEES

During the year, the Group completed the acquisition of a controlling stake in Shanghai Industrial United Holdings Co., Ltd. and Liaoning Herbapex Pharmaceutical (Group) Company Limited, which are primarily engaged in the medicines business. Consequently, the total number of employees rose markedly over the previous year, to 7,409 (2003: 3,700), of whom 6,823 were stationed in mainland China (2003: 3,109). This year, staff salaries, allowances and bonuses (including directors) totalled HK$364.63 million (2003: HK$326.23 million). In addition, the Company offers staff a compensation package that includes a pension scheme, cash allowances, and medical and personal accident insurance.

AUDIT COMMITTEE

The Audit Committee together with the Company's management and external auditors have reviewed the financial results for the year ended 31st December 2004.

CORPORATE GOVERNANCE

Throughout the year ended 31st December 2004, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), the said code has been replaced by the Code on Corporate Governance Practices which came into effect on 1st January 2005, 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. In January 2005, the Company signed service contracts with three independent non-executive directors, specifying their terms of office.

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.

ANNUAL GENERAL MEETING

The 2005 Annual General Meeting of the Company will be held at the Conference Room of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Thursday, 26th May 2005 at 3:00 p.m. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting, which is expected to be published on or about 29th April 2005.

PUBLICATION OF DETAILED ANNUAL RESULTS INFORMATION ON THE STOCK EXCHANGE WEBSTIE

A detailed results announcement containing all information required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules, which in force prior to 31st March 2004 and remain applicable to results announcements in respect of accounting periods commencing before 1st July 2004 under the transitional arrangements, will be published on the website of the Stock Exchange as soon as practicable.

As at the date of this notice, the Board of the Company is comprised of:

Executive Directors:
Mr. Cai Lai Xing, Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Lu Da Yong, Mr. Ding Zhong De, Mr. Lu Shen, Mr. Qian Shi Zheng, Mr. Yao Fang and Mr. Tang Jun

Independent Non-Executive Directors:
Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis

Please also refer to the published version of this announcement in South China Morning Post.