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上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

MAJOR TRANSACTION

**IN RELATION TO
AN ASSET SWAP AGREEMENT
WITH**

SHANGHAI INDUSTRIAL UNITED HOLDINGS CO., LTD.

A letter from the board of directors of Shanghai Industrial Holdings Limited is set out on pages 5 to 25 of this circular.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

Term	Meaning
“Acquisition”	the acquisition of the Commercial Assets by a subsidiary of the Company pursuant to the Asset Swap Agreement
“Asset Swap”	the Disposal and the Acquisition
“Asset Swap Agreement”	the agreement between the Company and SI United in relation to the Acquisition and the Disposal dated 20th June 2005
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Century Lianhua”	Shanghai Century Lianhua Supermarket Development Co., Ltd. (上海世紀聯華超市發展有限公司), a limited liability company established under the laws of the PRC and owned by SI United as to 22.21% as at the Latest Practicable Date
“Company”	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Commercial Assets”	<p>(1) 131,683,000 domestic shares of RMB1 each in the capital of Lianhua Supermarket, representing 21.17% of the total issued share capital of Lianhua Supermarket; and</p> <p>(2) an amount of RMB53,625,594.52 in the registered capital of Century Lianhua, representing 25.54% of the total equity interest in Century Lianhua (after a capital injection by SIUC to Century Lianhua)</p> <p>to be acquired under the Acquisition</p>
“Completion”	completion of the transfer of equity interest or shares under each of the Share Transfer Agreements
“Completion Date”	the date of Completion
“Deloitte”	Deloitte Touche Tohmatsu
“Directors”	directors of the Company
“Disposal”	the disposal of the Pharmaceutical Assets by subsidiaries/associated company of the Company pursuant to the Asset Swap Agreement
“Group”	the Company and its subsidiaries
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huqingyutang Drugstore”	Hangzhou Huqingyutang Drugstore Co., Ltd. (杭州胡慶餘堂國藥號有限公司), a limited liability company established under the laws of the PRC and owned by the Company as to 24% as at the Latest Practicable Date
“Huqingyutang Pharmaceutical”	Hangzhou Huqingyutang Pharmaceutical Company Limited (杭州胡慶餘堂藥業有限公司), a limited liability company established under the laws of the PRC and owned by the Company as to 51%
“Independent Third Parties”	parties independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries and their respective associates
“Latest Practicable Date”	8th July 2005, being the latest practicable date for ascertaining certain information in this circular
“Lianhua Supermarket”	Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 980), and the total issued share capital of which is owned by SI United as to 21.17%
“Liaoning Herbapex”	Liaoning Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧好護士藥業(集團)有限責任公司), a limited liability company established under the laws of the PRC and owned by the Company as to 55%
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Medieval”	Medieval International Limited, a company incorporated under the laws of the British Virgin Islands and owned by the Company as to 47.96%
“Pharmaceutical Assets”	<p>(1) an amount of RMB29,175,000 in the registered capital of Xiamen TCM, representing 61% of the total equity interest in Xiamen TCM;</p> <p>(2) an amount of RMB28,050,000 in the registered capital of Liaoning Herbapex, representing 55% of the total equity interest in Liaoning Herbapex;</p> <p>(3) an amount of RMB27,115,292 in the registered capital of Huqingyutang Pharmaceutical, representing a 51% equity interest in Huqingyutang Pharmaceutical; and</p> <p>(4) an amount of RMB4,084,500 in the registered capital of Huqingyutang Drugstore, representing a 29% equity interest in Huqingyutang Drugstore (after a capital injection by World Honest to Huqingyutang Drugstore)</p> <p>to be disposed of under the Disposal</p>

DEFINITIONS

“PRC”	the People’s Republic of China (for the purposes of this circular, excluding Hong Kong, Macau and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shares”	shares of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the share(s) in the capital of the Company
“Share Transfer Agreements”	the agreements for the transfer of equity interest or shares in companies under the Pharmaceutical Assets and the Commercial Assets as referred to in the Assets Swap Agreement
“Shanghai City Construction”	Shanghai City Construction Investment Development General Corporation* (上海市城市建設投資開發總公司), a state-owned enterprise incorporated under the laws of the PRC
“Shanghai United”	Shanghai United International Limited, a company incorporated in Hong Kong with limited liability and owned by SI United as to 99.98%
“SI Commerce”	S.I. Commerce Holdings Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“SI Infrastructure”	S.I. Infrastructure Holdings Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“SIIC MedTech”	SIIC MedTech Health Products Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“SIUC”	Shanghai Industrial United (Group) Commercial Network Development Company Limited (上海實業聯合集團商務網絡發展有限公司), a limited liability company established under the laws of the PRC owned by SI United as to 72.62% and by SI United’s subsidiary, Shanghai Hua Rui Investment Co., Ltd.* (上海華瑞投資有限公司) as to 27.38%
“SI United”	Shanghai Industrial United Holdings Co., Ltd. (上海實業聯合集團股份有限公司), a joint stock limited liability company established under the laws of the PRC which is a subsidiary of the Company listed on the A Shares Market of the Shanghai Stock Exchange (stock code: 600607)
“SIH”	Shanghai Investment Holdings Limited, a limited liability company established under the laws of the British Virgin Islands

DEFINITIONS

“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability
“SIIC Capital”	SIIC Capital (B.V.I.) Limited, a limited liability company established under the laws of the British Virgin Islands
“SIIC CM Development”	SIIC CM Development Limited, a limited liability company established under the laws of the British Virgin Islands
“SMIC”	Semiconductor Manufacturing International Corporation, a limited liability company established under the laws of the Cayman Islands
“SPGC”	Shanghai Pharmaceutical (Group) Co. Ltd.* (上海醫藥(集團)有限公司), a limited liability company established under the laws of the PRC
“STC”	Shanghai Industrial Investment Treasury Company Limited, a limited liability company established under the laws of the British Virgin Islands
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“World Honest”	World Honest Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Xiamen TCM”	Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司), a limited liability company established under the laws of the PRC and owned by the Company as to 61%

In this circular, for reference purpose only and unless otherwise stated, the exchange rate at HK\$1 = RMB1.06 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at any particular rate on the date or dates in question or any other date.

** The English name is an informal English translation of the official Chinese name.*

LETTER FROM THE BOARD



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

Executive Directors:

Mr. Cai Lai Xing (*Chairman*)
Mr. Qu Ding (*Vice Chairman*)
Mr. Lu Ming Fang (*Chief Executive Officer*)
Mr. Lu Da Yong (*Executive Deputy CEO*)
Mr. Ding Zhong De
Mr. Lu Shen
Mr. Qian Shi Zheng
Mr. Yao Fang
Mr. Tang Jun

Registered office:

26th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

Independent Non-executive Directors:

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

13th July 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

IN RELATION TO AN ASSET SWAP AGREEMENT WITH

SHANGHAI INDUSTRIAL UNITED HOLDINGS CO., LTD.

1. INTRODUCTION

On 21st June 2005, the Board announced that on 20th June 2005 the Company entered into the Asset Swap Agreement with SI United, a subsidiary in which the Company owns approximately 56.63% of its total issued share capital.

Pursuant to the Asset Swap Agreement, the Company will procure that its relevant subsidiaries/ associated company transfer the Pharmaceutical Assets to SI United and its subsidiary Shanghai United (owned by SI United as to 99.98%) respectively, and SI United will procure that its subsidiary SIUC transfer the Commercial Assets to SI Commerce, a wholly-owned subsidiary of the Company.

The consideration for the Disposal under the Asset Swap is based on the sum of the carrying value of investments in the Pharmaceutical Assets as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 and committed capital injection to the Pharmaceutical Assets

LETTER FROM THE BOARD

before the Completion Date (which in aggregate amounts to approximately RMB445,000,000 (equivalent to approximately HK\$419,811,000)) as adjusted by any changes to such carrying value from 31st March 2005 up to the Completion Date.

The consideration for the Acquisition under the Asset Swap is based on the sum of the carrying value of investments in the Commercial Assets as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 and committed capital injection to the Commercial Assets before the Completion Date (which in aggregate amounts to approximately RMB433,180,000 (equivalent to approximately HK\$408,660,000)) as adjusted by any changes to such carrying value from 31st March 2005 up to the Completion Date.

The Asset Swap constitutes a major transaction for the Company under the Listing Rules, as the revenue ratio under Chapter 14 of the Listing Rules exceeds 25% and is subject to Shareholders' approval. In accordance with Rule 14.44 of the Listing Rules, the Asset Swap has been approved by the Shareholders by way of written shareholders' approval in lieu of holding a general meeting of the Company.

The purpose of this circular is to provide the Shareholders with further information on the Asset Swap and to give other information as required by the Listing Rules.

2. THE ASSET SWAP AGREEMENT

Date

20th June 2005

Parties

1. The Company
2. SI United, a subsidiary of the Company

The Disposal

Interests to be disposed of

Pursuant to the Asset Swap Agreement, the Company will procure the following transfers by its relevant subsidiaries/associated company to SI United or its subsidiary Shanghai United of the Pharmaceutical Assets comprising equity interests in the subsidiaries/associated company set out below:

- (a) the transfer by SIIC MedTech of an amount of RMB21,000,000 in the registered capital of Liaoning Herbapex, representing 41.1765% of the total equity interest in Liaoning Herbapex, to SI United;
- (b) the transfer by Medieval of an amount of RMB7,050,000 in the registered capital of Liaoning Herbapex, representing 13.8235% of the total equity interest in Liaoning Herbapex, to Shanghai United;

LETTER FROM THE BOARD

- (c) the transfer by SIIC MedTech of an amount of RMB27,115,292 in the registered capital of Huqingyutang Pharmaceutical, representing a 51% equity interest in Huqingyutang Pharmaceutical to Shanghai United;
- (d) the transfer by World Honest of an amount of RMB4,084,500 in the registered capital of Huqingyutang Drugstore, representing a 29% equity interest in Huqingyutang Drugstore (after a capital injection by World Honest to Huqingyutang Drugstore) to Shanghai United; and
- (e) the transfer by SIIC MedTech of an amount of RMB29,175,000 in the registered capital of Xiamen TCM, representing 61% of the total equity interest in Xiamen TCM, to SI United.

Consideration for the Disposal

The Pharmaceutical Assets shall be transferred at a consideration based on the sum of the carrying value of investments in the Pharmaceutical Assets as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 and the committed capital injection to the Pharmaceutical Assets before the Completion Date (which in aggregate amounts to approximately RMB445,000,000 (equivalent to approximately HK\$419,811,000)) as adjusted by any changes to such carrying value from 31st March 2005 up to the Completion Date (including those changes in the carrying value which arise as a result of profits or losses made by the companies under the Pharmaceutical Assets during such period).

The following are the respective carrying value of investments in each of the Pharmaceutical Assets (plus committed capital contribution where applicable) as shown in the unaudited consolidated accounts of the Group as at 31st March 2005:

Asset	Carrying value (plus committed capital contribution where applicable)
55% equity interest in Liaoning Herbapex	RMB94,950,000 (equivalent to approximately HK\$89,575,000)
51% equity interest in Huqingyutang Pharmaceutical (<i>Note 1</i>)	RMB236,180,000 (equivalent to approximately HK\$222,811,000)
29% equity interest in Huqingyutang Drugstore (<i>Note 2</i>)	RMB16,000,000 (equivalent to approximately HK\$15,095,000)
61% equity interest in Xiamen TCM	RMB97,870,000 (equivalent to approximately HK\$92,330,000)
Total	RMB445,000,000 (equivalent to approximately HK\$419,811,000)

LETTER FROM THE BOARD

Notes:

- (1) This includes a committed capital contribution to Huqingyutang Pharmaceutical by SIIC MedTech in the amount of RMB132,800,000 (equivalent to approximately HK\$125,283,000), further details of which are set out in the sub-section headed “Huqingyutang Pharmaceutical” under the section “Information on the Pharmaceutical Assets”.
- (2) This includes a committed capital contribution to Huqingyutang Drugstore by World Honest in the amount of RMB2,500,000 (equivalent to approximately HK\$2,359,000), further details of which are set out in the sub-section headed “Huqingyutang Drugstore” under the section “Information on the Pharmaceutical Assets”.

Assuming no adjustment to the carrying value of investments in the Pharmaceutical Assets from 31st March 2005 up to the Completion Date, the consideration for the Disposal would be equal to the carrying value of investments in the Pharmaceutical Assets (plus committed capital contribution where applicable) as at 31st March 2005 in the aggregate amount of approximately RMB445,000,000 (equivalent to approximately HK\$419,811,000). Such consideration is however subject to adjustment by any increase or decrease in the carrying value of investments by the Group in the Pharmaceutical Assets from 31st March 2005 up to the Completion Date. The Directors expect that the adjustment to the consideration for the Disposal will not result in the consideration ratio exceeding the threshold for a very substantial disposal under Chapter 14 of the Listing Rules. In the event the adjustment to the consideration ratio for the Disposal results in such transaction constituting a very substantial disposal for the Company, the Company will take appropriate action as required under the Listing Rules.

As at 31st December 2004 according to the audited consolidated accounts of the Group, the carrying value of investments by the Group in the Pharmaceutical Assets amounted to HK\$274,953,000.

After the disposal of the Pharmaceutical Assets to SI United pursuant to the Disposal, the Company will still hold interests in other pharmaceutical business companies other than through SI United.

The Acquisition

Interests to be acquired

Pursuant to the Asset Swap Agreement, SI United shall procure that the following transfers by its subsidiary SIUC to SI Commerce (a subsidiary of the Company) the Commercial Assets comprising shareholding and/or equity interests in the following associated companies set out below:

- (a) the transfer by SIUC of 131,683,000 domestic shares of RMB1 each in the capital of Lianhua Supermarket, representing 21.17% of the total issued share capital of Lianhua Supermarket, to SI Commerce; and
- (b) the transfer by SIUC to SI Commerce of an amount of RMB53,625,594.52 in the registered capital of Century Lianhua, representing 25.54% of the total equity interest in Century Lianhua after a capital injection by SIUC to Century Lianhua.

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Consideration for the Acquisition

The Commercial Assets shall be transferred at a consideration based on the sum of the carrying value of investments in the Commercial Assets as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 and the committed capital injection to the Commercial Assets before the Completion Date (which in aggregate amounts to approximately RMB433,180,000 (equivalent to approximately HK\$408,660,000)) as adjusted by any changes to such value from 31st March 2005 up to the Completion Date (including those changes in the carrying value which arise as a result of profits or losses made by the companies under the Commercial Assets during such period).

The following are the respective carrying value of investments in each of the Commercial Assets (plus committed capital contribution where applicable) as shown in the unaudited consolidated accounts of SI United as at 31st March 2005:

Asset	Carrying value (plus committed capital contribution where applicable)
21.17% shareholding in Lianhua Supermarket	RMB376,160,000 (equivalent to approximately HK\$354,868,000)
25.54% equity interests in Century Lianhua (<i>Note</i>)	RMB57,020,000 (equivalent to approximately HK\$53,792,000)
Total	RMB433,180,000 (equivalent to approximately HK\$408,660,000)

Note: This includes a committed capital contribution to Century Lianhua by SIUC in the amount of RMB31,410,000 (equivalent to approximately HK\$29,632,000), further details of which are set out in the sub-section headed “Century Lianhua” under the section “Information on the Commercial Assets”.

Assuming no adjustment to the carrying value of investments in the Commercial Assets from 31st March 2005 up to the Completion Date, the consideration for the Acquisition would be equal to the carrying value of investments in the Commercial Assets (plus committed capital contribution to Century Lianhua) as at 31st March 2005 in the aggregate amount of approximately RMB433,180,000 (equivalent to approximately HK\$408,660,000). Such consideration is however subject to adjustment by any increase or decrease in the carrying value of investments by SI United in the Commercial Assets from 31st March 2005 up to the Completion Date. The Directors expect that the adjustment to the consideration for the Acquisition will not result in the consideration ratio exceeding the threshold for a very substantial acquisition under Chapter 14 of the Listing Rules. In the event the adjustment to the consideration ratio for the Acquisition results in such transaction constituting a very substantial acquisition for the Company, the Company will take appropriate action as required under the Listing Rules.

As at 31st December 2004 according to the audited consolidated accounts of SI United, the carrying value of investments in the Commercial Assets amounted to HK\$367,265,000.

LETTER FROM THE BOARD

3. CONDITIONS

The Asset Swap Agreement shall take effect subject to:

- (1) approval by the shareholders of each of the Company and SI United at a general meeting or, in the case of the Company, written approval being obtained from its shareholders holding more than 50% of the total nominal value of Shares giving the right to vote at a general meeting; and
- (2) the obtaining or waiver of all relevant approvals by the government administration departments or bodies with competent authority in respect of all transactions contemplated under the Asset Swap Agreement.

The Asset Swap has been approved by the Shareholders by way of written shareholders' approval in lieu of holding a general meeting of the Company pursuant to Rule 14.44 of the Listing Rules.

Upon the above shareholders' approvals being obtained, the following Share Transfer Agreements for the transfer of equity interest or shareholding comprising the Pharmaceutical Assets and the Commercial Assets as referred to above will be entered into:

- (a) an agreement between SIIC MedTech and SI United for the transfer of equity interest in Liaoning Herbapex;
- (b) an agreement between Medieval and Shanghai United for the transfer of equity interest in Liaoning Herbapex;
- (c) an agreement between SIIC MedTech and Shanghai United for the transfer of equity interest in Huqingyutang Pharmaceutical;
- (d) an agreement between World Honest and Shanghai United for the transfer of equity interest in Huqingyutang Drugstore;
- (e) an agreement between SIIC MedTech and SI United for the transfer of equity interest in Xiamen TCM;
- (f) an agreement between SIUC and SI Commerce for the transfer of shares in Lianhua Supermarket; and
- (g) an agreement between SIUC and SI Commerce for the transfer of equity interest in Century Lianhua.

Each of the Share Transfer Agreements shall take effect subject to the obtaining or waiver of all relevant approvals by the government administration departments or bodies with competent authority and other necessary approvals and subject to the other Share Transfer Agreements taking effect. If the condition for any one of the Share Transfer Agreements is not fulfilled, then all other Share Transfer Agreements shall not take effect.

4. COMPLETION

Completion of each of the Share Transfer Agreements shall take place after all relevant approvals by the government administration departments or bodies with competent authority have been obtained or otherwise waived, on a date as agreed between the parties to the relevant Share

LETTER FROM THE BOARD

Transfer Agreement. The Completion Date is expected to be within twelve (12) months after the approvals by the shareholders of both the Company and SI United of the Asset Swap having been obtained. The approval by the shareholders of the Company in respect of the Asset Swap has been obtained by way of written shareholders’ approval in lieu of the holding of a general meeting of the Company pursuant to Rule 14.44 of the Listing Rules. SI United will convene a shareholders’ meeting for the purpose of considering and approving the Asset Swap on 22nd July 2005. The Directors thus expect that the Completion Date will be not later than 22nd July 2006.

At the Completion Date, the parties to each of the Share Transfer Agreements shall settle in full the amount of consideration payable for the equity interest or shares being transferred in cash, with the payments to be made out of internal resources of the Group.

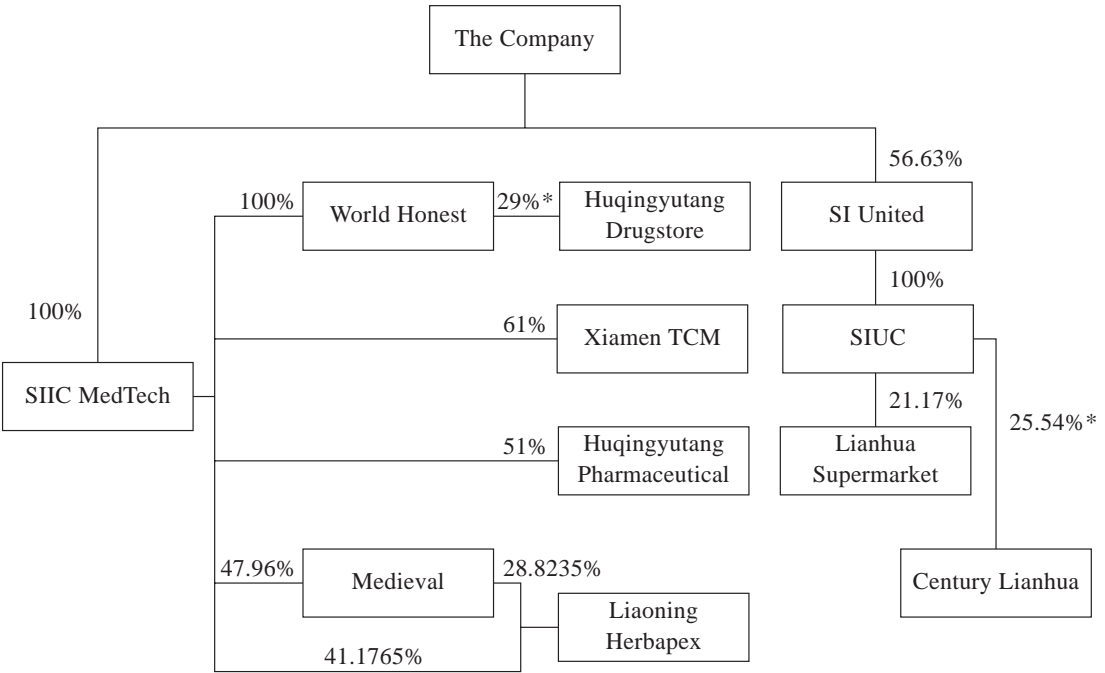
The full proceeds from the disposal of the Pharmaceutical Assets are intended to be used to settle the payment for acquisition of the Commercial Assets. Any amount of such proceeds in excess will be used as working capital of the Group.

5. TERMINATION

If the procedures for transfer of equity interest or shares and all the formalities for change in business registration in relation to the Asset Swap are not completed within twelve (12) months after the approval of the Asset Swap Agreement and the Share Transfer Agreements by the shareholders of the Company and SI United, the Asset Swap Agreement and the Share Transfer Agreements shall be terminated.

6. CORPORATE STRUCTURE OF THE PHARMACEUTICAL ASSETS AND THE COMMERCIAL ASSETS BEFORE AND AFTER THE COMPLETION

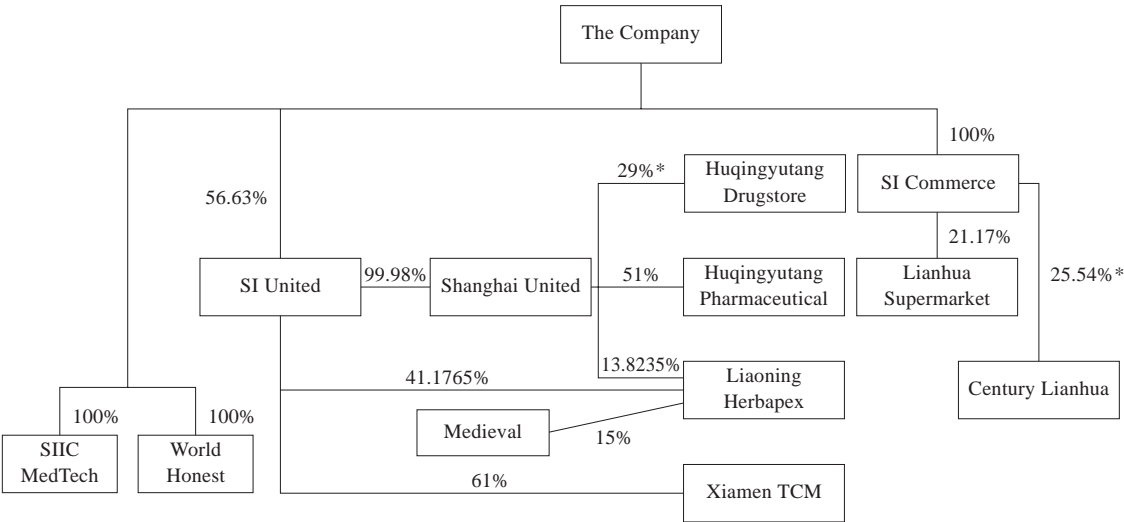
Corporate Structure immediately before the Completion



* Assuming completion of the increase in registered capital.

LETTER FROM THE BOARD

Corporate Structure immediately after the Completion



* Assuming completion of the increase in registered capital.

7. INFORMATION ON THE PHARMACEUTICAL ASSETS

Liaoning Herbapex

Liaoning Herbapex is principally engaged in the manufacture and sale of Chinese medicine.

Share capital

Liaoning Herbapex has a total registered capital of RMB51,000,000. The total equity interest in Liaoning Herbapex is held by the following shareholders before completion of the Disposal in the following manner:

Name of shareholder	Amount of registered capital	Percentage shareholding
SIIC MedTech (wholly-owned subsidiary of the Company)	21,000,000	41.1765%
Medieval (47.96% owned by the Company)	14,700,000	28.8235%
Hu Lu Dao Jing Xin Investment Group Co., Ltd.* (葫蘆島金鑫投資集團有限公司)	1,000,000	1.9608%
Zheng Ji Yu* (鄭繼宇)	8,400,000	16.4706%
Qu Wen Ge* (曲文閣)	4,100,000	8.0392%
Lu Xi Wei* (呂錫偉)	1,800,000	3.5294%

* The English name is an informal English translation of the official Chinese name.

LETTER FROM THE BOARD

The shareholding structure of Liaoning Herbapex immediately after completion of the Disposal will be as follows:

Name of shareholder	Amount of registered capital	Percentage shareholding
SI United	21,000,000	41.1765%
Medieval	7,650,000	15.0000%
Shanghai United	7,050,000	13.8235%
Hu Lu Dao Jing Xin Investment Group Co., Ltd.* (葫蘆島金鑫投資集團有限公司)	1,000,000	1.9608%
Zheng Ji Yu* (鄭繼宇)	8,400,000	16.4706%
Qu Wen Ge* (曲文閣)	4,100,000	8.0392%
Lu Xi Wei* (呂錫偉)	1,800,000	3.5294%

The total issued share capital in Medieval is owned by SIIC MedTech as to 47.96% and by an individual (who is an Independent Third Party) as to 52.04%. Regarding the 13.8235% equity interest in Liaoning Herbapex held by Medieval to be transferred to Shanghai United under the Disposal, it has been agreed between SIIC MedTech and the other individual shareholder that he shall acquire from SIIC MedTech the 47.96% shareholding in Medieval held by SIIC MedTech at a consideration equal to the dividend he receives from Medieval to be distributed by Medieval out of the proceeds of sale of the 13.8235% equity interest in Liaoning Herbapex or out of its share premium in the event of insufficient distributable profits. Based on the carrying value of the Group's investment in 13.8235% equity interest in Liaoning Herbapex as shown in its unaudited consolidated accounts as at 31st March 2005, the amount of the consideration for the 47.96% shareholding in Medieval to be transferred by SIIC MedTech is estimated to be RMB12,422,000 (equivalent to approximately HK\$11,719,000).

Other than SIIC MedTech, Medieval and Zheng Ji Yu, Qu Wen Ge and Lu Xi Wei, who are the directors of Liaoning Herbapex, the other shareholder of Liaoning Herbapex is an Independent Third Party.

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Liaoning Herbapex for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Year ended 31st December	
	2004	2003
	RMB'000	RMB'000
Consolidated profit before taxation and minority interests	23,952	12,003
Consolidated profit after taxation and minority interests	23,717	8,183

* The English name is an informal English translation of the official Chinese name.

LETTER FROM THE BOARD

The audited consolidated net asset value and the audited consolidated total asset value of Liaoning Herbapex as at 31st December 2004 amounted to approximately RMB128,556,000 (equivalent to approximately HK\$121,279,000) and approximately RMB209,953,000 (equivalent to approximately HK\$198,069,000) respectively.

The audited consolidated turnover of Liaoning Herbapex for the year ended 31st December 2004 amounted to approximately RMB134,001,000 (equivalent to approximately HK\$126,416,000).

The carrying value of investment in Liaoning Herbapex as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB94,950,000 (equivalent to approximately HK\$89,575,000).

Huqingyutang Pharmaceutical

Huqingyutang Pharmaceutical is principally engaged in the manufacture and sale of Chinese medicine and health food.

Share capital

Following a recent increase in its registered capital, Huqingyutang Pharmaceutical has a total registered capital of RMB53,160,000. The total equity interest in Huqingyutang Pharmaceutical is held by the following shareholders before completion of the Disposal as follows:

Name of shareholder	Amount of registered capital	Percentage shareholding
SIIC MedTech (wholly-owned subsidiary of the Company)	27,115,292	51.0069%
Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司)	23,898,952	44.9566%
Enhanced Assets Management Limited	1,594,800	3.0000%
China (Hangzhou) Qingchunbao Group Co., Ltd.* (中國(杭州)青春寶集團有限公司)	550,956	1.0364%

The shareholding structure of Huqingyutang Pharmaceutical immediately after completion of the Disposal will be as follows:

Name of shareholder	Amount of registered capital	Percentage shareholding
Shanghai United	27,115,292	51.0069%
Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司)	23,898,952	44.9566%
Enhanced Assets Management Limited	1,594,800	3.0000%
China (Hangzhou) Qingchunbao Group Co., Ltd.* (中國(杭州)青春寶集團有限公司)	550,956	1.0364%

* The English name is an informal English translation of the official Chinese name.

LETTER FROM THE BOARD

Other than SIIC MedTech and Hangzhou Huqingyutang Investment Co., Ltd., the other shareholders of Huqingyutang Pharmaceutical are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Huqingyutang Pharmaceutical for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Year ended 31st December	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	43,183	40,755
Profit after taxation	43,183	36,644

The audited net asset value and the audited total asset value of Huqingyutang Pharmaceutical as at 31st December 2004 amounted to approximately RMB139,639,000 (equivalent to approximately HK\$131,735,000) and approximately RMB183,188,000 (equivalent to approximately HK\$172,819,000) respectively.

The audited turnover of Huqingyutang Pharmaceutical for the year ended 31st December 2004 amounted to approximately RMB196,979,000 (equivalent to approximately HK\$185,829,000).

The carrying value of investment in Huqingyutang Pharmaceutical as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB103,380,000 (equivalent to approximately HK\$97,528,000). The committed capital injection by SIIC MedTech to Huqingyutang Pharmaceutical up to the Completion Date amounts to RMB132,800,000 (equivalent to approximately HK\$125,283,000).

Huqingyutang Drugstore

Huqingyutang Drugstore is principally engaged in the operation of about 30 drugstores for sale of Chinese medicine and health food.

LETTER FROM THE BOARD

Share capital

As at the Latest Practicable Date, Huqingyutang Drugstore had a total registered capital of RMB13,157,900 and was in the process of increasing its registered capital to RMB14,084,500 with the increased amount of registered capital contributed by World Honest. Such increase in registered capital was in the process of obtaining approval by the PRC administration department on foreign investment. The increase in registered capital of Huqingyutang Drugstore is expected to be completed before the Completed Date. Subject to and upon completion of such increase in registered capital and immediately before completion of the Disposal, the total equity interest in Huqingyutang Drugstore will be held by the following shareholders in the following manner:

Name of shareholder	Amount of registered capital	Percentage shareholding
Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司)	5,100,000	36.21%
World Honest (wholly-owned subsidiary of the Company)	4,084,500	29.00%
39 Individual Shareholders	4,900,000	34.79%

On the basis that the increase in registered capital of Huqingyutang Drugstore will be completed, the shareholding structure of Huqingyutang Drugstore immediately after completion of the Disposal will be as follows:

Name of shareholder	Amount of registered capital	Percentage shareholding
Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司)	5,100,000	36.21%
Shanghai United	4,084,500	29.00%
39 Individual Shareholders	4,900,000	34.79%

Prior to completion of the increase in the registered capital of Huqingyutang Drugstore, World Honest held a 24% equity interest in Huqingyutang Drugstore as at the Latest Practicable Date. In the event the increase in the registered capital of Huqingyutang Drugstore is not completed, World Honest will transfer its 24% equity interest in Huqingyutang Drugstore to Shanghai United pursuant to the Disposal and the shareholding structure of Huqingyutang Drugstore immediately after completion of the Disposal will be as follows:

Name of shareholder	Amount of registered capital	Percentage shareholding
Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司)	5,100,000	38.76%
Shanghai United	3,150,790	24%
39 Individual Shareholders	4,900,000	37.24%

* The English name is an informal English translation of the official Chinese name.

LETTER FROM THE BOARD

Other than Hangzhou Huqingyutang Investment Co., Ltd., World Honest and 6 out of the 39 Individual Shareholders of Huqingyutang Drugstore, namely Feng Gen Sheng* (馮根生), Yang Zhong Ying* (楊仲英), Li Yu Hang* (黎豫杭), Feng He* (馮鶴), Fan Yun Hua* (范韻華) and Liu Jun* (劉俊), who are directors of certain subsidiaries of the Company, the other shareholders of Huqingyutang Drugstore are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Huqingyutang Drugstore for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Year ended 31st December	
	2004	2003
	RMB'000	RMB'000
Profit before taxation	5,985	5,016
Profit after taxation	3,783	3,419

The audited net asset value and the audited total asset value of Huqingyutang Drugstore as at 31st December 2004 amounted to approximately RMB27,564,000 (equivalent to approximately HK\$26,004,000) and approximately RMB42,274,000 (equivalent to approximately HK\$39,881,000) respectively.

The audited turnover of Huqingyutang Drugstore for the year ended 31st December 2004 amounted to approximately RMB51,063,000 (equivalent to approximately HK\$48,173,000).

The carrying value of investment in Huqingyutang Drugstore (including a committed capital injection) as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB16,000,000 (equivalent to approximately HK\$15,095,000). The committed capital injection by World Honest to Huqingyutang Drugstore up to the Completion Date amounts to RMB2,500,000 (equivalent to approximately HK\$2,359,000).

Xiamen TCM

Xiamen TCM is principally engaged in the manufacture and sale of Chinese medicine and health food.

* The English name is an informal English translation of the official Chinese name.

LETTER FROM THE BOARD

Share capital

Xiamen TCM has a total registered capital of RMB47,830,000. The total equity interest in Xiamen TCM is held by the following shareholders before completion of the Disposal in the following manner:

Name of shareholder	Amount of registered capital	Percentage shareholding
SIIC MedTech (wholly-owned subsidiary of the Company)	29,175,000	61%
Xiamen Dinglu Industrial Co.* (廈門鼎爐實業總公司)	14,350,000	30%
Rocal Health Limited	4,305,000	9%

The shareholding structure of Xiamen TCM immediately after completion of the Disposal will be as follows:

Name of shareholder	Amount of registered capital	Percentage shareholding
SI United	29,175,000	61%
Xiamen Dinglu Industrial Co.* (廈門鼎爐實業總公司)	14,350,000	30%
Rocal Health Limited	4,305,000	9%

Other than SIIC MedTech, the other shareholders of Xiamen TCM are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Xiamen TCM for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Year ended 31st December	
	2004	2003
	RMB'000	RMB'000
Profit before taxation	48,229	22,571
Profit after taxation	48,229	22,571

The audited net asset value and the audited total asset value of Xiamen TCM as at 31st December 2004 amounted to approximately RMB108,807,000 (equivalent to approximately HK\$102,648,000) and approximately RMB120,305,000 (equivalent to approximately HK\$113,495,000) respectively.

The audited turnover of Xiamen TCM for the year ended 31st December 2004 amounted to approximately RMB124,301,000 (equivalent to approximately HK\$117,265,000).

* The English name is an informal English translation of the official Chinese name.

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The carrying value of investment by the Group in Xiamen TCM as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB97,870,000 (equivalent to approximately HK\$92,330,000).

8. INFORMATION ON THE COMMERCIAL ASSETS

Lianhua Supermarket

Lianhua Supermarket, whose H Shares are listed on the Main Board of the Stock Exchange, is principally engaged in the operation of about 3,123 supermarkets and convenience stores in the PRC under the trade names of “世紀聯華”, “聯華超市” and “快客便利”.

Share capital

Lianhua Supermarket has a total issued share capital of RMB622,000,000. The shareholding structure of Lianhua Supermarket before completion of the Acquisition is as follows:

Name of shareholder	No. of shares held	Percentage shareholding
Shanghai Friendship (Group) Joint Stock Co., Ltd.* (上海友誼集團股份有限公司)	211,640,000	34.03%
SIUC	131,683,000	21.17%
Mitsubishi Corporation* (日本三菱商事株式會社)	41,900,000	6.74%
Wong Sun Hing (Hong Kong) Investment Co., Ltd.* (香港王新興投資有限公司)	17,557,000	2.82%
Shanghai Liding Investment Co., Ltd.* (上海立鼎投資有限公司)	12,220,000	1.96%
Holders of H Shares	207,000,000	33.28%

The shareholding structure of Lianhua Supermarket immediately after completion of the Acquisition will be as follows:

Name of shareholder	No. of shares held	Percentage shareholding
Shanghai Friendship (Group) Joint Stock Co., Ltd.* (上海友誼集團股份有限公司)	211,640,000	34.03%
SI Commerce (wholly-owned subsidiary of the Company)	131,683,000	21.17%
Mitsubishi Corporation* (日本三菱商事株式會社)	41,900,000	6.74%
Wong Sun Hing (Hong Kong) Investment Co., Ltd.* (香港王新興投資有限公司)	17,557,000	2.82%
Shanghai Liding Investment Co., Ltd.* (上海立鼎投資有限公司)	12,220,000	1.96%
Holders of H Shares	207,000,000	33.28%

Other than SIUC (and the holders of H Shares of Lianhua Supermarket who cannot be ascertained by the Company), the other shareholders of Lianhua Supermarket are Independent Third Parties.

* The English name is an informal English translation of the official Chinese name.

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Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Lianhua Supermarket for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in Hong Kong, were as follows:

	Year ended 31st December	
	2004	2003
	RMB'000	RMB'000
Consolidated profit before taxation and minority interests	348,809	294,097
Consolidated profit after taxation and minority interests	215,540	163,623

The audited consolidated net asset value and the audited consolidated total asset value of Lianhua Supermarket as at 31st December 2004 amounted to approximately RMB1,728,349,000 (equivalent to approximately HK\$1,630,518,000) and approximately RMB4,810,711,000 (equivalent to approximately HK\$4,538,407,000) respectively.

The audited consolidated turnover of Lianhua Supermarket for the year ended 31st December 2004 amounted to approximately RMB10,854,967,000 (equivalent to approximately HK\$10,240,535,000).

The carrying value of investment by SI United in Lianhua Supermarket as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 was RMB376,160,000 (equivalent to approximately HK\$354,868,000).

Century Lianhua

Details of the business of Century Lianhua are more particularly set out in Section 4 of Appendix II to this circular.

Share capital

As at the Latest Practicable Date, Century Lianhua had a total registered capital of RMB100,000,000 and the total equity interest in Century Lianhua was held by the following shareholders in the following manner:

Name of shareholder	Amount of registered capital	Percentage shareholding
Shanghai Friendship (Group) Joint Stock Co, Ltd.* (上海友誼集團股份有限公司)	35,700,000.00	35.70%
SIUC	22,211,784.71	22.21%
Lianhua Supermarket	20,000,000.00	20.00%
Shanghai Liding Investment Co., Ltd.* (上海立鼎投資有限公司)	22,088,215.29	22.09%

* The English name is an informal English translation of the official Chinese name.

LETTER FROM THE BOARD

The shareholders of Century Lianhua are carrying out an increase in the registered capital of Century Lianhua and the amount of increase in registered capital contributed by SIUC is RMB31,410,000 (equivalent to approximately HK\$29,632,000). Subject to and upon completion of the increase in registered capital, SIUC will hold a 25.54% equity interest in Century Lianhua, which will be transferred to SI Commerce under the Acquisition.

In the event the increase in the registered capital of Century Lianhua is not completed, SIUC will transfer its 22.21% equity interest in Century Lianhua to SI Commerce pursuant to the Acquisition, and the shareholding structure of Century Lianhua immediately after completion of the Acquisition will be as follows:

Name of shareholder	Amount of registered capital	Percentage Shareholding
Shanghai Friendship (Group) Joint Stock Co, Ltd. (上海友誼集團股份有限公司)	35,700,000.00	35.70%
SI Commerce	22,211,784.71	22.21%
Lianhua Supermarket	20,000,000.00	20.00%
Shanghai Liding Investment Co., Ltd (上海立鼎投資有限公司)	22,088,215.29	22.09%

Apart from SIUC, the other shareholders of Century Lianhua are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Century Lianhua for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Year ended 31st December	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	6,855	538
Profit after taxation	6,747	483

The audited net asset value and the audited total asset value of Century Lianhua as at 31st December 2004 amounted to approximately RMB112,470,000 (equivalent to approximately HK\$106,104,000) and approximately RMB579,443,000 (equivalent to approximately HK\$546,644,000) respectively.

The audited turnover of Century Lianhua for the year ended 31st December 2004 amounted to approximately RMB1,059,369,000 (equivalent to approximately HK\$999,405,000).

The carrying value of investment in Century Lianhua (including a committed capital injection) as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 was RMB57,020,000 (equivalent to approximately HK\$53,792,000). The committed capital injection by SIUC to Century Lianhua up to the Completion Date amounts to RMB31,410,000 (equivalent to approximately HK\$29,632,000).

LETTER FROM THE BOARD

9. REASONS FOR AND THE BENEFITS OF THE DISPOSAL AND THE ACQUISITION

The Disposal and the Acquisition under the Asset Swap Agreement signify the implementation of the reorganisation of the pharmaceutical businesses of the Company and SI United across different regions. By exchanging non-controlling stakes in companies carrying on non-pharmaceutical businesses for controlling shareholdings in pharmaceutical business companies, SI United will become a specialist listed company in pharmaceutical products, thus enhancing its market niche, brand building capabilities and long term profitability. With the proposed restructuring, the future development of the Group's medicine business will benefit from the effective integration of its medicine business, leading to creation of greater shareholder value to the Shareholders.

The Directors (including the independent non-executive Directors) consider that the Asset Swap Agreement together with the Share Transfer Agreements are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. By consolidating interests of the Group in pharmaceutical business companies under SI United pursuant to the Asset Swap which may result in an increase in the revenue and profitability of SI United, with a reasonable basis for the considerations for the Acquisition and the Disposal according to the up-to-date carrying value of investments in the Pharmaceutical Assets and the Commercial Assets as at the Completion Date, the value to holders of shares of both SI United and the Company (being the holding company of SI United) will be enhanced.

10. FINANCIAL EFFECTS OF THE DISPOSAL AND THE ACQUISITION

Under the Disposal, the Company will transfer all the equity interests held in the companies under the Pharmaceutical Assets to SI United and its subsidiary. Each of Xiamen TCM, Liaoning Herbapex and Huqingyutang Pharmaceutical, being subsidiaries of the Company, will continue to be subsidiaries of the Group after completion of the Disposal as they will be held by SI United, another subsidiary of the Company. These subsidiaries will also continue to be treated as subsidiaries of the Group in the audited consolidated accounts of the Company after the Completion. Although the effective interest in the companies under the Pharmaceutical Assets held by the Company will decrease while the effective interest in the companies under the Commercial Assets held by the Company will increase (due to the transfer of the Pharmaceutical Assets by the Company from its wholly-owned subsidiaries/associated company to its 56.63% owned subsidiary SI United, and vice versa in respect of the Commercial Assets), the Directors consider that there is no material financial impact on the Group as a result of the Asset Swap. After the Completion, the Company will hold interests in other pharmaceutical business companies other than through SI United.

Although there will be changes in the effective interest in the companies under the Pharmaceutical Assets and the Commercial Assets held by the Company pursuant to the Asset Swap, all of the transfers in the interests in these companies under the Disposal and the Acquisition will take place within the Group as a whole. As the considerations under the Disposal and the Acquisition are based on the carrying value as of the Completion Date of the Pharmaceutical Assets and of the Commercial Assets respectively, there will be no material gain or loss expected to accrue to the Group under the Asset Swap.

11. PROSPECTS

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% 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 2004, 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 contributed to the continued development of the Group's infrastructure and medicine business segments. The success of the dual listings of SMIC on the United States and Hong Kong stock markets in March 2004 also brought in significant exceptional profits for the Group.

Infrastructure

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.

The infrastructure facilities business is capital-intensive. During the year 2004, 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, which together offer a significant opportunity for profit growth. In 2004, the infrastructure facilities business recorded a net profit of around HK\$156.13 million, representing 18.1% of the Group's net profit, excluding the exceptional profit from the listing of SMIC and net corporate administrative expenses.

Medicine

In 2004, various new policies were implemented to regulate the pharmaceutical industry in China. A series of reforms, including changes to the tendering system, retail price caps for medicines, retail sector gradually opening up to foreign investment and a new policy for sale of OTC medicines, have brought new opportunities and challenges to the Group's medicine business. Nevertheless, during the year the Group's medicine and biotechnology 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% increase over the previous year. Net profit reached HK\$154.92 million, a 17.5% increase over the previous year, representing 17.9% of the Group's net profit, excluding exceptional profit from the listing of SMIC and net corporate administrative expenses.

The acquisition of a 56.63% 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. In the year to 31st December 2004, SI United recorded an audited consolidated turnover of RMB2,238.65 million, and a net profit of RMB104.90 million. SI United is a pharmaceutical company listed on the A-Share market of the Shanghai Stock Exchange, and has already developed a product range of Chinese and Western medicines, biomedicines and medical equipment.

LETTER FROM THE BOARD

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.

As China undergoes a process of accelerated urbanization, consumers are broadening their horizons. The growing urban population is constantly creating new spending areas and markets. These conditions will be favourable to the Group's consumer product and information technology businesses. 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 HK\$1,185.93 million, a 34.1% increase over the previous year, representing 64% of the Group's net profit, (excluding exceptional profit from the listing of SMIC and net corporate administrative expenses), and providing a solid foundation for profit growth.

Business Outlook

With access to local and overseas financing channels, its Shanghai background and competitive advantage on the mainland, as well as its 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, the aim of the Group is to strengthen its infrastructure and medical businesses, to enhance their competitive positions and to achieve major breakthroughs. Water services are the major components of its infrastructure segment. The Group will continue to increase its 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 its 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. The Group will also step up the restructuring of our internal resources in order to maintain its leading position in the pharmaceutical industry in Mainland China.

With full confidence in our development prospects, the Group will continue to consolidate its high-performing business units, establishing a solid foundation for future growth. Meanwhile, the Group 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 its major businesses. The Group will take full advantage of its parent company's competitive position in the Shanghai area to create greater value for the Shareholders, and to enjoy the impressive results brought about by the healthy development of the Group.

LETTER FROM THE BOARD

12. GENERAL

The Company and its subsidiaries are principally engaged in the business of infrastructure facilities, medicine, consumer products and information technology.

SI United is a subsidiary owned by the Company as to approximately 56.63%, the A shares of which are listed on the Shanghai Stock Exchange. SI United and its subsidiaries are principally engaged in the manufacture and sale of biomedicine and commercial network operations. As at the Latest Practicable Date, Mr. Lu Ming Fang, Mr. Ding Zhong De and Mr. Lu Shen, all being Directors, beneficially owned 15,000 shares, 15,000 shares and 12,000 shares respectively in the capital of SI United, representing 0.005%, 0.005% and 0.004% of the total issued share capital of SI United. To the best of the Directors' knowledge and information, there were no connected persons of the Company interested in 10% or more of the total issued share capital of SI United as at the Latest Practicable Date.

The Asset Swap constitutes a major transaction for the Company under the Listing Rules, as the revenue ratio under Chapter 14 of the Listing Rules exceeds 25%, and is subject to approval by the Shareholders. The Directors expect that the adjustment to the consideration for the Asset Swap as referred to above will not result in the consideration ratio exceeding the threshold for a very substantial acquisition under Chapter 14 of the Listing Rules. In the event the adjustment to the consideration for the Asset Swap results in such transaction constituting a very substantial acquisition for the Company, the Company will take appropriate action as required under the Listing Rules.

The Company has obtained from the companies controlled by SIIC which together hold approximately 56.67% in nominal value of the securities giving the right to attend and vote at any general meeting of the Company written approvals of the Asset Swap. These companies, namely SIH (holding 468,066,000 Shares as at the Latest Practicable Date), SIIC Capital (holding 80,000,000 Shares as at the Latest Practicable Date) and SIIC CM Development (holding 10,000 Shares as at the Latest Practicable Date) are all wholly-owned subsidiaries of SIIC and constitute a closely allied group of shareholders under Rule 14.45 of the Listing Rules. Apart from SIIC, no connected person of the Company hold any shares in any of these three shareholding companies. None of the Shareholders is materially interested in the Asset Swap and, as such, none of them is required to abstain from voting if a general meeting of the Company is convened to approve the transactions contemplated under the Asset Swap Agreement. Pursuant to Rule 14.44 of the Listing Rules, the Asset Swap which constitutes a major transaction has been approved by way of written shareholders' approval in lieu of holding a general meeting of the Company.

13. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
CAI LAI XING
Chairman

FINANCIAL SUMMARY

The following is a summary of the audited consolidated income statement and consolidated balance sheet of the Group for the three years ended 31st December 2004 as extracted from the relevant annual reports of the Group for the years presented.

	Year ended 31st December		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
RESULTS			
Turnover	<u>3,428,939</u>	<u>2,825,978</u>	<u>3,380,037</u>
Profit from operations	903,270	1,132,761	1,172,109
Finance costs	(19,317)	(31,001)	(63,745)
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities	698,523	278,059	222,864
Share of results of jointly controlled entities	94,451	172,635	141,849
Share of results of associates	284,729	161,537	7,032
Allowance for amount due from a jointly controlled entity	(33,376)	(67,337)	(12,987)
Impairment losses recognised in respect of interests in an associate and jointly controlled entities and goodwill relating to a subsidiary	<u>(191,232)</u>	<u>—</u>	<u>(15,300)</u>
Profit from ordinary activities before taxation	1,737,048	1,646,654	1,451,822
Taxation	<u>(231,979)</u>	<u>(241,904)</u>	<u>(182,376)</u>
Profit before minority interests	1,505,069	1,404,750	1,269,446
Minority interests	<u>(122,009)</u>	<u>(145,584)</u>	<u>(143,103)</u>
Profit for the year	<u>1,383,060</u>	<u>1,259,166</u>	<u>1,126,343</u>
Earnings per share — basic	<u>HK\$1.45</u>	<u>HK\$1.34</u>	<u>HK\$1.22</u>
	As at 31st December		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Total assets	20,609,881	17,075,454	16,462,662
Total liabilities	(3,515,634)	(2,203,680)	(2,346,307)
Minority interests	<u>(1,476,786)</u>	<u>(380,934)</u>	<u>(618,549)</u>
Shareholders' funds	<u>15,617,461</u>	<u>14,490,840</u>	<u>13,497,806</u>
Shareholders' equity per share	<u>HK\$16.29</u>	<u>HK\$15.32</u>	<u>HK\$14.42</u>

Consolidated Income Statement*For the year ended 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	5	3,428,939	2,825,978
Cost of sales		<u>(1,505,051)</u>	<u>(1,194,490)</u>
Gross profit		1,923,888	1,631,488
Investment income	6	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		<u>(144,532)</u>	<u>(34,971)</u>
Profit from operations	7	903,270	1,132,761
Finance costs	8	(19,317)	(31,001)
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities	10	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		<u>(191,232)</u>	<u>—</u>
Profit from ordinary activities before taxation		1,737,048	1,646,654
Taxation	11	<u>(231,979)</u>	<u>(241,904)</u>
Profit before minority interests		1,505,069	1,404,750
Minority interests		<u>(122,009)</u>	<u>(145,584)</u>
Profit for the year		<u><u>1,383,060</u></u>	<u><u>1,259,166</u></u>
Dividends	12	<u><u>495,067</u></u>	<u><u>451,112</u></u>
Earnings per share	13		
— Basic		<u><u>HK\$1.45</u></u>	<u><u>HK\$1.34</u></u>
— Diluted		<u><u>HK\$1.43</u></u>	<u><u>HK\$1.33</u></u>

Consolidated Balance Sheet*At 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-Current Assets			
Investment properties	14	45,672	3,690
Property, plant and equipment	15	2,080,378	1,198,019
Toll road operating right	16	1,784,651	1,841,082
Intangible assets	17	39,206	—
Goodwill	18	346,204	256,736
Negative goodwill	19	(2,203)	—
Interest in jointly controlled entities	21	2,142,809	2,133,351
Interest in associates	22	4,367,157	3,210,651
Investments in other projects	23	51,032	87,709
Investments in securities	24	245,512	584,971
Loan receivable	25	2,748	5,043
Deposits paid on acquisition of property, plant and equipment	26	25,821	29,014
Deferred tax assets	37	33,232	—
		<u>11,162,219</u>	<u>9,350,266</u>
Current Assets			
Inventories	27	877,785	303,500
Trade and other receivables	28	1,487,294	898,144
Investments in securities	24	1,084,036	1,168,741
Placement of deposits with financial institutions		188,962	—
Pledged bank deposits	29	43,121	41,762
Bank balances and cash		<u>5,766,464</u>	<u>5,313,041</u>
		<u>9,447,662</u>	<u>7,725,188</u>
Current Liabilities			
Trade and other payables	30	1,226,846	395,594
Taxation payable		96,816	116,240
Short-term bank and other borrowings	31	<u>1,240,645</u>	<u>819,945</u>
		<u>2,564,307</u>	<u>1,331,779</u>
Net Current Assets		<u>6,883,355</u>	<u>6,393,409</u>
		<u>18,045,574</u>	<u>15,743,675</u>

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and Reserves			
Share capital	32	95,864	94,575
Reserves		<u>15,521,597</u>	<u>14,396,265</u>
		<u>15,617,461</u>	<u>14,490,840</u>
Minority interests		<u>1,476,786</u>	<u>380,934</u>
Non-Current Liabilities			
Long-term bank and other borrowings	36	859,390	800,000
Deferred tax liabilities	37	<u>91,937</u>	<u>71,901</u>
		<u>951,327</u>	<u>871,901</u>
		<u>18,045,574</u>	<u>15,743,675</u>

Balance Sheet*At 31st December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipment	15	5,462	5,993
Interest in subsidiaries	20	13,393,063	12,762,134
Interest in a jointly controlled entity	21	<u>141,673</u>	<u>164,045</u>
		<u>13,540,198</u>	<u>12,932,172</u>
Current Assets			
Deposits, prepayments and other receivables		18,735	19,494
Dividend receivable		763,000	310,000
Bank balances and cash		<u>2,127,892</u>	<u>2,600,688</u>
		<u>2,909,627</u>	<u>2,930,182</u>
Current Liabilities			
Other payables and accrued charges		46,929	46,190
Short-term bank borrowings	31	<u>800,000</u>	<u>800,000</u>
		<u>846,929</u>	<u>846,190</u>
Net Current Assets		<u>2,062,698</u>	<u>2,083,992</u>
		<u><u>15,602,896</u></u>	<u><u>15,016,164</u></u>
Capital and Reserves			
Share capital	32	95,864	94,575
Reserves	34	<u>14,206,837</u>	<u>13,861,956</u>
		<u>14,302,701</u>	<u>13,956,531</u>
Non-Current Liabilities			
Amounts due to subsidiaries	35	500,195	259,633
Long-term bank borrowings	36	<u>800,000</u>	<u>800,000</u>
		<u>1,300,195</u>	<u>1,059,633</u>
		<u><u>15,602,896</u></u>	<u><u>15,016,164</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31st December 2004*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	PRC statutory reserves <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2003	93,630	9,788,241	1,071	299	7,795	(986,414)	266,642	4,326,542	13,497,806
Surplus arising on revaluation of investment property	—	—	—	215	—	—	—	—	215
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	—	26,066	—	—	—	26,066
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	—	—	—	—	72	—	—	—	72
Share of exchange difference arising from translation of financial statements of PRC operations of an associate	—	—	—	—	(65)	—	—	—	(65)
Net gain not recognised in the income statement	—	—	—	215	26,073	—	—	—	26,288
Exercise of share options	945	—	—	—	—	—	—	—	945
Premium arising on issue of shares	—	98,751	—	—	—	—	—	—	98,751
Expenses incurred in connection with the issue of shares	—	(88)	—	—	—	—	—	—	(88)
Realised on partial disposal of interest in a subsidiary	—	—	—	—	—	1,082	—	—	1,082
Realised on disposal of interest in subsidiaries	—	—	—	—	(38)	56,428	(4,491)	4,491	56,390
Realised on disposal of interest in an associate	—	—	—	—	(10)	1,622	—	—	1,612
Profit for the year	—	—	—	—	—	—	—	1,259,166	1,259,166
Transfers, net of minority interests' share	—	—	—	—	—	—	55,641	(55,641)	—
Dividends paid (<i>Note 12</i>)	—	—	—	—	—	—	—	(451,112)	(451,112)
At 31st December 2003	94,575	9,886,904	1,071	514	33,820	(927,282)	317,792	5,083,446	14,490,840

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	PRC statutory reserves <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2004	94,575	9,886,904	1,071	514	33,820	(927,282)	317,792	5,083,446	14,490,840
Exchange difference arising from translation of financial statements of PRC operations	—	—	—	—	2,119	—	—	—	2,119
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	—	—	—	—	106	—	—	—	106
Share of exchange difference arising from translation of financial statements of PRC operations of an associate	—	—	—	—	6	—	—	—	6
Net gain not recognised in the income statement	—	—	—	—	2,231	—	—	—	2,231
Exercise of share options	1,289	—	—	—	—	—	—	—	1,289
Premium arising on issue of shares	—	145,854	—	—	—	—	—	—	145,854
Expenses incurred in connection with the issue of shares	—	(127)	—	—	—	—	—	—	(127)
Realised on disposal of interest in a subsidiary	—	—	—	—	(286)	—	(736)	736	(286)
Realised on deemed disposal of interest in a subsidiary	—	—	—	—	—	1,140	—	—	1,140
Impairment loss recognised in respect of goodwill relating to jointly controlled entities	—	—	—	—	—	88,637	—	—	88,637
Impairment loss recognised in respect of interest in an associate	—	—	—	—	(110)	—	—	—	(110)
Profit for the year	—	—	—	—	—	—	—	1,383,060	1,383,060
Transfers, net of minority interests' share	—	—	—	—	—	—	68,018	(68,018)	—
Dividends paid (<i>Note 12</i>)	—	—	—	—	—	—	—	(495,067)	(495,067)
At 31st December 2004	95,864	10,032,631	1,071	514	35,655	(837,505)	385,074	5,904,157	15,617,461

The accumulated profits of the Group include approximately HK\$10.5 million (2003: HK\$35.3 million) retained by jointly controlled entities and approximately HK\$229.4 million (2003: HK\$49.6 million) retained by associates.

The goodwill reserve comprises approximately HK\$2,027 million (2003: HK\$2,117 million) in respect of goodwill, approximately HK\$52 million (2003: HK\$52 million) in respect of negative goodwill and approximately HK\$1,138 million (2003: HK\$1,138 million) in respect of capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong.

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

Consolidated Cash Flow Statement*For the year ended 31st December 2004*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operations	903,270	1,132,761
Adjustments for:		
Dividend income from listed investments	(5,529)	(3,583)
Dividend income from unlisted investments	(23,408)	—
Income from investments in other projects	(4,058)	(8,254)
Interest income	(95,216)	(48,241)
Rental income	(2,838)	(2,959)
Amortisation of goodwill	15,462	6,412
Amortisation of toll road operating right	41,626	—
Release of negative goodwill	(9)	—
Depreciation and amortisation of property, plant and equipment	122,039	109,071
Allowance on doubtful debts and bad debts written off	19,135	10,326
Net unrealised holding gain on investments in securities	(85,928)	(167,528)
Gain on disposal of investments in securities	(16,593)	(78,548)
Loss on disposal of property, plant and equipment	4,434	6,266
Impairment loss recognised in respect of investments in other projects	36,677	3,231
Impairment loss recognised in respect of investments in securities	<u>35,855</u>	<u>31,740</u>
Operating cash flows before movements in working capital	944,919	990,694
(Increase) decrease in inventories	(226,227)	67,026
Decrease (increase) in trade and other receivables	8,832	(14,899)
Increase (decrease) in trade and other payables	<u>218,378</u>	<u>(9,324)</u>
Cash generated from operations	945,902	1,033,497
PRC income tax paid	(65,978)	(86,362)
Hong Kong Profits Tax paid	(114,672)	(48,243)
Hong Kong Profits Tax refunded	<u>21</u>	<u>—</u>
NET CASH FROM OPERATING ACTIVITIES	<u>765,273</u>	<u>898,892</u>

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
INVESTING ACTIVITIES			
Purchase of investments in securities		(2,478,720)	(1,888,900)
Purchase of property, plant and equipment		(391,114)	(139,008)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	38	(390,815)	(1,897,295)
Increase in placement of deposits with financial institutions		(188,962)	—
Capital contributions to jointly controlled entities		(144,300)	(321,018)
Purchase of additional interest in subsidiaries		(7,063)	(500,491)
Proceeds from disposal of investments in securities		3,069,902	1,131,489
Decrease (increase) in bank deposits		692,215	(1,135,396)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	39	198,396	1,353
Dividends received from jointly controlled entities		103,474	29,280
Interest received		95,216	48,241
Dividends received from associates		79,631	85,405
Dividends received from unlisted investments		23,408	—
Dividends received from listed investments		5,524	3,583
Government grants received		5,321	14,151
Income received from investments in other projects		4,058	8,254
Decrease (increase) in deposits paid on acquisition of property, plant and equipment		3,193	(22,382)
Proceeds from disposal of property, plant and equipment		3,028	12,576
Rental income received		2,838	2,959
Repayment from a minority shareholder of a subsidiary		2,295	3,660
Proceeds from disposal of interest in jointly controlled entities		104	—
Repayment from an associate		3	102,604
Capital contributions to associates		—	(497,336)
Advance to an associate		—	(1,006)
Proceeds from disposal of investments in infrastructure projects		—	5,456,448
Capital distributions from jointly controlled entities		—	42,070
Proceeds from partial disposal of interest in a subsidiary		—	27,300
Proceeds from partial disposal of interest in an associate		—	7,475
Repayment from a jointly controlled entity		—	3,510
NET CASH FROM INVESTING ACTIVITIES		687,632	577,526

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
FINANCING ACTIVITIES		
Dividends paid	(495,067)	(451,112)
Dividends paid to minority shareholders of subsidiaries	(101,561)	(102,942)
Repayment of borrowings	(26,981)	(29,502)
Interest paid on bank and other borrowings	(19,486)	(31,001)
Expenses incurred in connection with the issue of shares	(127)	(88)
Proceeds from issue of shares	147,143	99,696
Borrowings raised	105,778	8,915
Capital contributions by minority shareholders of subsidiaries	<u>84,393</u>	<u>3,622</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(305,908)</u>	<u>(502,412)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,146,997	974,006
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,038,696</u>	<u>3,064,690</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>5,185,693</u></u>	<u><u>4,038,696</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	5,766,464	5,313,041
Less: Bank deposits held for investment purpose	(505,299)	(1,274,345)
Bank deposit held as a security deposit for investment	<u>(75,472)</u>	<u>—</u>
	<u><u>5,185,693</u></u>	<u><u>4,038,696</u></u>

Notes to the Financial Statements*For the year ended 31st December 2004***1. GENERAL**

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 47.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

SSAP 36 Agriculture**Agriculture**

In the current year, an associate of the Group has adopted SSAP 36 “Agriculture”. The principal effect of the implementation of SSAP 36 is in relation to the accounting treatment, financial statement presentation and disclosure of agricultural activity. In previous years, biological assets and agricultural produce are stated at the lower of cost and net realisable value under the historical cost model. SSAP 36 requires the adoption of a fair value model, whereby all biological assets are measured at the balance sheet date at fair value less estimated point-of-sale costs. The fair value of biological assets is determined based on market prices of the biological assets of similar age, breed, and genetic merit. Agricultural produce is initially measured at its fair value less estimated point-of-sale costs at the time of harvest.

The adoption of SSAP 36 has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards (“HKAS”) and HKFRSs (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004.

The Group has considered these new HKFRSs and identified a number of these HKFRSs that may have a material effect on how the results of operations and financial positions are prepared and presented as described below:

HKFRS 2 “Share-based Payment”

HKFRS 2 requires recognition of equity-settled share-based payments at fair value at the date of grant and recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of share-based payments until such time as the share-based payments are settled.

In accordance with the transitional provisions of HKFRS 2, the standard has been applied retrospectively to all grants of equity instruments after 7th November 2002 that were unvested as of 1st January 2005 and liabilities for share-based transactions existing at 1st January 2005. The share options granted on or before 7th November 2002 are not applied to this HKFRS2. The Company’s share options outstanding at 31st December 2004 were granted in September 2002 and accordingly the Company does not require to recognise and expense those share options. However, in relation to share options granted after 7th November 2002 and vested on or after 1st January 2005, such share options should be accounted for retrospectively in accordance with HKFRS 2.

HKFRS 3 “Business Combinations”

HKFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Currently, the Group amortises the goodwill capitalised on a straight line basis over its useful economic life.

HKFRS 3 also requires negative goodwill to be recognised in the profit or loss immediately on acquisition. Currently, the Group presented the negative goodwill as deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted.

The Group estimates that the adoption of HKFRS 3 in the annual period beginning on 1st January 2005 in relation to the discontinued goodwill amortisation would result in an increase in the net profit for the year ending 31st December 2005 of approximately HK\$23.8 million.

The carrying amount of negative goodwill as at 31st December 2004, including that credited to the goodwill reserve, amounted to approximately HK\$54.3 million. Accordingly, the Group estimates that the adoption of HKFRS 3 in the annual period beginning on 1st January 2005 in relation to negative goodwill, would result in an increase in the opening balance of accumulated profits by approximately HK\$54.3 million, with the corresponding decrease in the goodwill reserve and negative goodwill of approximately HK\$52.1 million and HK\$2.2 million respectively.

HKAS 32 “Financial Instruments: Disclosure and Presentation”**HKAS 39 “Financial Instruments: Recognition and Measurement”**

HKAS 39 requires all investments to be reclassified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. It also requires all financial instruments which the Group is using to hedge the interest rate risk of its borrowings to be recognised at fair value. Currently, the interest rate swap entered by the Group is not recognised and is only disclosed as an off-balance sheet item.

HKAS 40 “Investment Properties”

HKAS 40 requires all revaluation gains or losses of investment properties to be taken directly to the income statement. Currently, such changes are generally taken to the investment property revaluation reserve by the Group.

In relation to other new HKFRSs, the Group does not expect that the adoption will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill

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

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

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

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

Negative goodwill

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

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

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

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

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

Toll road operating right

Toll road operating right is stated at cost less amortisation and any accumulated impairment losses. Amortisation is provided to write off the cost of toll road operating right on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll road.

Interest in subsidiaries

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

Interest in jointly controlled entities

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

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

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

Interest in associates

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

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

Investments in other projects

The Group's investments in other projects are recorded at cost, as reduced by any identified impairment loss.

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

Investments in securities

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

Investments are classified as investment securities and other investments.

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

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

Revenue recognition

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

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

Toll fee income from the operation of toll road, net of business tax payable in the PRC, is recognised at the time of usage and when the toll fee is received.

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

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

Dividend and interest income from investments in securities other than investments in other projects is recognised when the Group's right to receive payment has been established.

Investment properties

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Impairment

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

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

Borrowing costs

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

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

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

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

Patents and trademarks

Patents and trademarks are measured initially at cost and amortised on a straight line basis over their estimated useful lives.

Retirement benefits costs

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

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

Government grants

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

Foreign currencies

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

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

Operating leases

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

5. TURNOVER

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales of goods	3,239,731	2,542,959
Income from infrastructure facilities	<u>189,208</u>	<u>283,019</u>
	<u><u>3,428,939</u></u>	<u><u>2,825,978</u></u>

6. INVESTMENT INCOME

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net unrealised holding gain on investments in securities	85,928	167,528
Interest on bank deposits	71,947	40,589
Dividend income from unlisted investments	23,408	—
Interest from investments in securities	21,475	6,410
Gain on disposal of investments in securities	16,593	78,548
Dividend income from listed investments	5,529	3,583
Income from investments in other projects	4,058	8,254
Rental income from property, plant and equipment	2,838	2,959
Other interest income	<u>1,794</u>	<u>1,242</u>
	<u><u>233,570</u></u>	<u><u>309,113</u></u>

7. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Basic salaries and allowances	274,966	236,798
Bonuses	65,450	69,029
Retirement benefits scheme contributions, net of forfeited contributions of HK\$2,418,000 (2003: HK\$1,247,000)	24,212	20,398
	364,628	326,225
Allowance on doubtful debts and bad debts written off	19,135	10,326
Amortisation of goodwill (included in administrative expenses)	15,462	6,412
Amortisation of toll road operating right (included in cost of sales)	41,626	—
Auditors' remuneration	6,353	5,500
Depreciation and amortisation of property, plant and equipment	122,039	109,071
Exchange losses (gains)	2,182	(35,868)
Impairment loss recognised in respect of investments in other projects (included in other operating expenses)	36,677	3,231
Impairment loss recognised in respect of investments in securities (included in other operating expenses)	35,855	31,740
Operating lease rentals in respect of equipment and motor vehicles	—	441
Operating lease rentals in respect of land and buildings to		
— ultimate holding company	5,174	6,301
— fellow subsidiaries	16,857	16,914
— others	13,587	9,356
Research and development costs	15,468	8,043
Loss on disposal of property, plant and equipment	4,434	6,266
Release of negative goodwill (included in other operating income)	(9)	—

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable		
— within five years	19,414	31,001
— over five years	72	—
Total borrowing costs	19,486	31,001
Less: amounts capitalised in construction in progress	(169)	—
	19,317	31,001

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Independent non-executive	619	776
Other emoluments of executive directors:		
Basic salaries and allowances	12,925	20,167
Bonuses	9,093	13,047
Retirement benefits scheme contributions	<u>1,103</u>	<u>1,906</u>
Total directors' emoluments	<u><u>23,740</u></u>	<u><u>35,896</u></u>

The emoluments of the directors were within the following bands:

	2004 <i>Number of directors</i>	2003 <i>Number of directors</i>
Up to HK\$1,000,000	12	10
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	2	1
HK\$3,500,001 to HK\$4,000,000	—	2
HK\$4,000,001 to HK\$4,500,000	—	2
HK\$5,000,001 to HK\$5,500,000	1	2
HK\$6,500,001 to HK\$7,000,000	<u>1</u>	<u>—</u>

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

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

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Gain on deemed disposal of interest in an associate	631,998	239,151
Gain on deemed disposal of interest in a subsidiary	52,737	—
Gain on deemed disposal of interest in a jointly controlled entity	10,155	—
Gain on disposal of interest in subsidiaries	3,603	29,869
Gain on disposal of interest in jointly controlled entities	30	—
Gain on partial disposal of interest in a subsidiary	—	12,064
Loss on disposal of interest in an associate	<u>—</u>	<u>(3,025)</u>
	<u><u>698,523</u></u>	<u><u>278,059</u></u>

11. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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	<u>2,342</u>	<u>3,114</u>
	<u>166,116</u>	<u>169,822</u>
Deferred taxation (<i>note 37</i>)		
— current year	20,036	(11,492)
— effect of change in tax rate	<u>—</u>	<u>7,174</u>
	<u>20,036</u>	<u>(4,318)</u>
Taxation attributable to the Company and its subsidiaries	<u>186,152</u>	<u>165,504</u>
Share of PRC income tax of jointly controlled entities	15,230	31,679
Share of PRC income tax of associates	<u>30,597</u>	<u>44,721</u>
	<u>45,827</u>	<u>76,400</u>
	<u><u>231,979</u></u>	<u><u>241,904</u></u>

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 associates are also entitled to reduced tax rates because they are classified as "high technology entities" under relevant rules. The current year's PRC income tax charges are arrived at after taking into account these various tax incentives, ranging from 10% to 33%.

Details of deferred taxation are set out in note 37.

The tax charge for the year can be reconciled to the profit from ordinary activities before taxation per the income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from ordinary activities before taxation	<u>1,737,048</u>	<u>1,646,654</u>
Tax at PRC Statutory Tax rate of 33% (2003: 33%)	573,226	543,396
Tax effect of expenses not deductible for tax purpose	146,807	55,324
Tax effect of income not taxable for tax purpose	(302,791)	(312,224)
Underprovision in respect of prior years	33,046	24,278
Tax effect of tax losses not recognised	8,691	30,922
Utilisation of tax losses previously not recognised	—	(15,566)
Increase in opening deferred tax balance resulting from an increase in the Hong Kong tax rate	—	7,174
Effect of tax exemption and tax reliefs granted to PRC subsidiaries	(69,451)	(17,733)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(77,952)	(36,350)
Effect of different tax rates of jointly controlled entities and associates operating in other jurisdictions	(79,303)	(33,876)
Others	<u>(294)</u>	<u>(3,441)</u>
Tax charge for the year	<u>231,979</u>	<u>241,904</u>

12. DIVIDENDS

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

A final dividend of HK35 cents (2003: HK32 cents) per share has been proposed by the board of directors and is subject to approval by the shareholders in annual general meeting.

13. EARNINGS PER SHARE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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	<u>(15,753)</u>	<u>—</u>
Earnings for the purpose of diluted earnings per share	<u>1,367,307</u>	<u>1,259,166</u>

	2004	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	<u>6,159,364</u>	<u>3,354,778</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>958,247,910</u>	<u>943,959,271</u>

14. INVESTMENT PROPERTIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
VALUATION		
Balance brought forward	3,690	3,300
Acquired on acquisition of subsidiaries	41,982	—
Surplus on revaluation	<u>—</u>	<u>390</u>
Balance carried forward	<u>45,672</u>	<u>3,690</u>

The investment properties were revalued at 31st December 2004 by Debenham Tie Leung Limited, an independent firm of property valuers, on an open market value existing use basis. The revaluation did not give rise to any surplus or deficit for the year (2003: surplus of HK\$390,000).

The Group's investment properties are rented out under operating leases.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST OR VALUATION						
At 1st January 2004	510,629	258,430	56,012	1,078,431	79,521	1,983,023
Acquired on acquisition of subsidiaries	144,209	28,665	20,074	403,477	29,473	625,898
Additions	7,693	17,448	13,454	207,375	145,313	391,283
Transfers/reclassifications	34,561	9,110	4,780	25,849	(74,300)	—
Disposals	(2,812)	(2,476)	(5,276)	(27,840)	—	(38,404)
Government grants received	—	—	—	(5,321)	—	(5,321)
At 31st December 2004	<u>694,280</u>	<u>311,177</u>	<u>89,044</u>	<u>1,681,971</u>	<u>180,007</u>	<u>2,956,479</u>
Comprising:						
At cost	684,580	311,177	89,044	1,681,971	180,007	2,946,779
At valuation — 1996	1,000	—	—	—	—	1,000
At valuation — 2001	<u>8,700</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,700</u>
	<u>694,280</u>	<u>311,177</u>	<u>89,044</u>	<u>1,681,971</u>	<u>180,007</u>	<u>2,956,479</u>
DEPRECIATION AND AMORTISATION						
At 1st January 2004	87,245	119,242	36,138	542,379	—	785,004
Provided for the year	19,068	26,066	8,404	68,501	—	122,039
Eliminated on disposals	<u>(1,132)</u>	<u>(1,547)</u>	<u>(4,167)</u>	<u>(24,096)</u>	<u>—</u>	<u>(30,942)</u>
At 31st December 2004	<u>105,181</u>	<u>143,761</u>	<u>40,375</u>	<u>586,784</u>	<u>—</u>	<u>876,101</u>
NET BOOK VALUE						
At 31st December 2004	<u>589,099</u>	<u>167,416</u>	<u>48,669</u>	<u>1,095,187</u>	<u>180,007</u>	<u>2,080,378</u>
At 31st December 2003	<u>423,384</u>	<u>139,188</u>	<u>19,874</u>	<u>536,052</u>	<u>79,521</u>	<u>1,198,019</u>

In the current year, land and buildings include certain assets carried at cost or revaluation of HK\$9,361,000 (2003: HK\$9,361,000) in aggregate with accumulated depreciation of HK\$2,558,000 (2003: HK\$2,285,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$273,000 (2003: HK\$273,000).

In the current year, plant and machinery includes certain assets carried at cost of HK\$20,629,000 (2003: HK\$15,751,000) in aggregate with accumulated depreciation of HK\$14,377,000 (2003: HK\$12,802,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$1,575,000 (2003: HK\$1,575,000).

The cost of certain plant and machinery, before deduction of government subsidy of HK\$5,321,000 (2003: HK\$14,151,000) is HK\$71,651,000 (2003: HK\$71,348,000).

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
COST				
At 1st January 2004	2,803	24,460	6,809	34,072
Additions	<u>—</u>	<u>646</u>	<u>1,353</u>	<u>1,999</u>
At 31st December 2004	<u>2,803</u>	<u>25,106</u>	<u>8,162</u>	<u>36,071</u>
DEPRECIATION				
At 1st January 2004	261	21,498	6,320	28,079
Provided for the year	<u>112</u>	<u>1,908</u>	<u>510</u>	<u>2,530</u>
At 31st December 2004	<u>373</u>	<u>23,406</u>	<u>6,830</u>	<u>30,609</u>
NET BOOK VALUE				
At 31st December 2004	<u>2,430</u>	<u>1,700</u>	<u>1,332</u>	<u>5,462</u>
At 31st December 2003	<u>2,542</u>	<u>2,962</u>	<u>489</u>	<u>5,993</u>
	THE GROUP	THE COMPANY		
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

The net book value of property interests comprises:

Properties held under

— short-term land use rights in the PRC	349	—	—	—
— medium-term leases in Macau	1,179	1,227	—	—
— medium-term leases in Hong Kong	265,007	272,911	—	—
— medium-term land use rights in the PRC	<u>322,564</u>	<u>149,246</u>	<u>2,430</u>	<u>2,542</u>
	<u>589,099</u>	<u>423,384</u>	<u>2,430</u>	<u>2,542</u>

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

Included in construction in progress is net interest capitalised of HK\$169,000 (2003: nil).

16. TOLL ROAD OPERATING RIGHT

THE GROUP
HK\$'000

COST

At 1st January 2004 — as originally stated

1,841,082

Change in fair value (*note*)(14,805)

At 31st December 2004

1,826,277

AMORTISATION

Charge for the year and balance at 31st December 2004

41,626

NET BOOK VALUE

At 31st December 2004

1,784,651

At 31st December 2003

1,841,082

Note: The Group's toll road operating right was acquired upon the completion of the acquisition of a subsidiary in December 2003. During the year, as additional evidence was available to assist the determination of the fair values of the toll road operating right and certain payables on the date of acquisition, the change in fair values were therefore adjusted in the current year and the cost of the asset and certain payables were restated accordingly.

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

The Group's right to operate the toll road is amortised on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the period for which the Group is granted the rights to operate the toll road which is 25 years.

17. INTANGIBLE ASSETS

THE GROUP
HK\$'000

COST AND NET BOOK VALUE

Arising on acquisition of a subsidiary and balance at 31st December 2004

39,206

The amount represents the patents and trademarks held to produce pharmaceutical products for a period of 10 years.

The amortisation period adopted for patents and trademarks is 10 years. No amortisation was charged for the year as the acquisition was completed in December 2004.

18. GOODWILL

THE GROUP
HK\$'000

COST

At 1st January 2004	266,175
Arising on acquisition of subsidiaries	130,369
Eliminated on disposal/deemed disposal of interest in subsidiaries	<u>(28,035)</u>

At 31st December 2004	<u>368,509</u>
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AMORTISATION AND IMPAIRMENT

At 1st January 2004	9,439
Charge for the year	15,462
Impairment loss recognised	2,003
Eliminated on disposal/deemed disposal of interest in subsidiaries	<u>(4,599)</u>

At 31st December 2004	<u>22,305</u>
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NET BOOK VALUE

At 31st December 2004	<u>346,204</u>
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At 31st December 2003	<u>256,736</u>
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The amortisation period adopted for goodwill ranges from 5 to 20 years.

During the year, the directors reviewed the carrying amounts of the unamortised goodwill in light of the current market condition with reference to the financial results and business operated by the subsidiaries. The directors identified an impairment loss of HK\$2,003,000 (2003: nil) on the unamortised goodwill of a subsidiary and was recognised in the income statement for the year.

19. NEGATIVE GOODWILL

THE GROUP
HK\$'000

GROSS AMOUNT

Arising on acquisition of a subsidiary and balance at 31st December 2004	2,212
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RELEASED TO INCOME

Released for the year and balance at 31st December 2004	<u>(9)</u>
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NET BOOK VALUE

At 31st December 2004	<u>2,203</u>
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At 31st December 2003	<u>—</u>
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The amortisation period adopted for negative goodwill is 20 years.

20. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	772,897	772,897
Amounts due from subsidiaries	<u>12,620,166</u>	<u>11,989,237</u>
	<u><u>13,393,063</u></u>	<u><u>12,762,134</u></u>

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. Except for an amount of approximately HK\$50 million (2003: HK\$50 million) which bears interest at commercial rates, the balances are non-interest bearing. In the opinion of the directors, the amounts will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current.

Details of the Company's principal subsidiaries at 31st December 2004 are set out in note 47.

21. INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	—	—	166,790	164,045
Share of net assets of jointly controlled entities	2,150,991	2,015,276	—	—
Goodwill on acquisition of jointly controlled entities/additional interest in a jointly controlled entity less amortisation and impairment	18,067	87,145	—	—
Amount due from a jointly controlled entity	<u>—</u>	<u>33,375</u>	<u>—</u>	<u>—</u>
	2,169,058	2,135,796	166,790	164,045
Less: Impairment loss recognised	<u>(26,249)</u>	<u>(2,445)</u>	<u>(25,117)</u>	<u>—</u>
	<u><u>2,142,809</u></u>	<u><u>2,133,351</u></u>	<u><u>141,673</u></u>	<u><u>164,045</u></u>

The amount due from a jointly controlled entity is unsecured, bears interest at commercial rates and repayable after one year.

THE GROUP

HK\$'000

Goodwill arising on acquisition of jointly controlled entities/additional interest in jointly controlled entities

COST

At 1st January 2004 and 31st December 2004	92,677
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AMORTISATION AND IMPAIRMENT

At 1st January 2004	5,532
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Charge for the year	1,709
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Impairment loss recognised	67,369
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At 31st December 2004	74,610
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NET BOOK VALUE

At 31st December 2004	18,067
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At 31st December 2003	87,145
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The amortisation period adopted for the above goodwill ranges from 10 to 20 years and such amortisation was included in share of results of jointly controlled entities.

The directors considered that in the light of the recurring operating losses of certain jointly controlled entities and the unfavorable market conditions, the interest in these jointly controlled entities are considered to be irrecoverable. Accordingly, impairment losses in respect of interests in these jointly controlled entities of HK\$23,804,000 (2003: nil), and goodwill and goodwill reserve of HK\$156,006,000 (2003: nil) were recognised in the income statement for the year.

Details of the Group's principal jointly controlled entities at 31st December 2004 are set out in note 48.

22. INTEREST IN ASSOCIATES

THE GROUP

2004

HK\$'000

2003

HK\$'000

Share of net assets of associates	4,304,285	3,095,868
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Goodwill on acquisition of associates/additional interest in associates less amortisation	72,291	114,780
---	--------	---------

Amount due from an associate	—	3
------------------------------	---	---

	4,376,576	3,210,651
--	-----------	-----------

Less: Impairment loss recognised	(9,419)	—
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	4,367,157	3,210,651
--	-----------	-----------

Market value of listed shares	3,103,635	—
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THE GROUP
HK\$'000

Goodwill arising on acquisition of associates/additional interest in associates

COST

At 1st January 2004	123,812
Eliminated on disposal/deemed disposal of interest in associates	<u>(41,260)</u>
At 31st December 2004	<u>82,552</u>

AMORTISATION

At 1st January 2004	9,032
Charge for the year	6,636
Eliminated on disposal/deemed disposal of interest in associates	<u>(5,407)</u>
At 31st December 2004	<u>10,261</u>

NET BOOK VALUE

At 31st December 2004	<u>72,291</u>
At 31st December 2003	<u>114,780</u>

During the year, the Group's equity interest in Semiconductor Manufacturing International Corporation ("SMIC") was diluted from 13.4% to 9.95% followed by the private placements by SMIC and the listing of SMIC in Hong Kong and the United States, resulting in a gain on deemed disposal of HK\$631,998,000.

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

The amortisation period adopted for goodwill ranges from 5 to 20 years and such amortisation was included in share of results of associates.

The directors considered that in the light of the recurring operating losses of an associate and the unfavorable market conditions, the interest in this associate is considered to be irrecoverable. Accordingly, an impairment loss of HK\$9,419,000 (2003: nil) in respect of the interest in this associate was recognised in the income statement for the year.

Details of the Group's principal associates at 31st December 2004 are set out in note 50.

23. INVESTMENTS IN OTHER PROJECTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Unlisted investments in other projects, at cost in		
— the PRC	113,763	113,763
— Hong Kong	5	5
Less: Impairment loss recognised	<u>(62,739)</u>	<u>(26,062)</u>
	51,029	87,706
Amounts due from investees, net of allowance	<u>3</u>	<u>3</u>
	<u>51,032</u>	<u>87,709</u>

During the year, the directors reviewed the carrying amount of the investments in other projects in light of the current market condition with reference to the financial results and business operated by certain investees. The directors identified an impairment loss of HK\$36,677,000 (2003: HK\$3,231,000) on the investments, estimated by reference to the net recoverable amount of the investments and the amount has been recognised in the income statement accordingly.

The Group's unlisted investments include principally interests in various companies established in the PRC which are engaged in the provision of printing services, manufacture of paper products, manufacture and sale of packaging materials and operation of a training centre. Pursuant to various addendums to the joint venture agreements with the respective PRC joint venture partners, the Group has forfeited its economic interests in connection with the operation and management of these companies in return for the receipt of contracted annual payments. Accordingly, these joint ventures are not regarded as the Group's subsidiaries, jointly controlled entities or associates. The results, assets and liabilities of these investee companies are insignificant to the Group.

The amounts due from investees are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current.

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

24. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
Equity securities:						
Listed						
Hong Kong	21,169	57,024	384,321	9,094	405,490	66,118
PRC	—	—	—	4,295	—	4,295
United States of America	—	—	37,907	168,614	37,907	168,614
Others	—	—	6,300	4,900	6,300	4,900
	<u>21,169</u>	<u>57,024</u>	<u>428,528</u>	<u>186,903</u>	<u>449,697</u>	<u>243,927</u>
Unlisted						
PRC	224,295	182,212	48	316,680	224,343	498,892
United States of America	—	1,950	—	—	—	1,950
	<u>224,295</u>	<u>184,162</u>	<u>48</u>	<u>316,680</u>	<u>224,343</u>	<u>500,842</u>
Unlisted debt securities:						
Hong Kong	—	—	288,881	211,903	288,881	211,903
PRC	—	—	63,117	—	63,117	—
United States of America	—	—	286,089	780,176	286,089	780,176
Others	—	—	17,421	16,864	17,421	16,864
	<u>—</u>	<u>—</u>	<u>655,508</u>	<u>1,008,943</u>	<u>655,508</u>	<u>1,008,943</u>
Total	<u>245,464</u>	<u>241,186</u>	<u>1,084,084</u>	<u>1,512,526</u>	<u>1,329,548</u>	<u>1,753,712</u>
Market value of listed securities	<u>21,169</u>	<u>38,810</u>	<u>428,528</u>	<u>186,903</u>	<u>449,697</u>	<u>225,713</u>
Carrying amount of investments in securities analysed for reporting purposes as:						
Current	—	—	1,084,036	1,168,741	1,084,036	1,168,741
Non-current	<u>245,464</u>	<u>241,186</u>	<u>48</u>	<u>343,785</u>	<u>245,512</u>	<u>584,971</u>
	<u>245,464</u>	<u>241,186</u>	<u>1,084,084</u>	<u>1,512,526</u>	<u>1,329,548</u>	<u>1,753,712</u>

During the year, the directors reviewed the carrying amount of the investments in securities in light of the current market condition with reference to the financial results and business operated by certain investees. The directors identified an impairment loss of HK\$35,855,000 (2003: HK\$31,740,000) on the investments, estimated by reference to the market values of the investments and the amount has been recognised in the income statement accordingly.

25. LOAN RECEIVABLE**The Group**

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

26. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT**The Group**

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

27. INVENTORIES

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	458,346	184,655
Work in progress	84,230	30,485
Finished goods	202,042	88,360
Merchandise held for resale	133,167	—
	<u>877,785</u>	<u>303,500</u>

The inventories are stated at cost.

During the year, cost of inventories recognised in consolidated income statement amounted to HK\$940 million (2003: HK\$738 million).

28. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$694,669,000 (2003: HK\$405,350,000) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables:		
Within 30 days	330,531	279,082
Within 31–60 days	162,563	46,529
Within 61–90 days	82,419	25,215
Within 91–180 days	56,385	34,795
Within 181–360 days	43,321	17,007
Over 360 days	19,450	2,722
	<u>694,669</u>	<u>405,350</u>

29. PLEDGED BANK DEPOSITS**THE GROUP**

At 31st December 2004, bank deposits of HK\$43,121,000 (2003: HK\$41,762,000) were pledged to banks to secure general banking facilities granted to the Group, an associate and a jointly controlled entity.

30. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$505,911,000 (2003: HK\$85,178,000) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables:		
Within 30 days	318,942	59,976
Within 31–60 days	85,854	11,442
Within 61–90 days	35,779	5,105
Within 91–180 days	29,036	6,413
Within 181–360 days	25,093	486
Over 360 days	<u>11,207</u>	<u>1,756</u>
	<u>505,911</u>	<u>85,178</u>

31. SHORT-TERM BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term bank loans	1,190,057	808,868	800,000	800,000
Other short-term loans	25,228	11,077	—	—
Current portion of long-term bank and other borrowings	<u>25,360</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,240,645</u>	<u>819,945</u>	<u>800,000</u>	<u>800,000</u>
Analysed as:				
Secured	106,105	8,868	—	—
Unsecured	<u>1,134,540</u>	<u>811,077</u>	<u>800,000</u>	<u>800,000</u>
	<u>1,240,645</u>	<u>819,945</u>	<u>800,000</u>	<u>800,000</u>

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

32. SHARE CAPITAL

	Number of ordinary shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
— at 1st January 2003, 31st December 2003 and 31st December 2004	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
— balance at 1st January 2003	936,298,000	93,630
— exercise of share options	<u>9,450,000</u>	<u>945</u>
— balance at 31st December 2003	945,748,000	94,575
— exercise of share options	<u>12,890,000</u>	<u>1,289</u>
— balance at 31st December 2004	<u>958,638,000</u>	<u>95,864</u>

33. SHARE OPTION SCHEMES

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

(a) SIHL Old Scheme

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

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

Options were exercisable during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options. Under the SIHL Old Scheme, the exercise price was determined by the directors of the Company, and was not to be less than the higher of the nominal value of the Company’s shares and 80% of the average closing price of the Company’s shares for the five business days immediately preceding the date of grant.

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

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

During the year, all options granted under the SIHL Old Scheme were fully exercised.

At 31st December 2003, the number of shares in respect of which options had been granted under the SIHL Old Scheme and remained outstanding was approximately 0.3% of the shares of the Company in issue at that date.

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
March 2001	10.496	1,550,000	(1,550,000)	—	—
July 2001	10.432	<u>1,500,000</u>	<u>(1,500,000)</u>	<u>—</u>	<u>—</u>
		<u>3,050,000</u>	<u>(3,050,000)</u>	<u>—</u>	<u>—</u>
Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
January 1999	9.568	1,000,000	—	(1,000,000)	—
March 2001	10.496	6,370,000	(4,820,000)	—	1,550,000
July 2001	10.432	<u>5,500,000</u>	<u>(4,000,000)</u>	<u>—</u>	<u>1,500,000</u>
		<u>12,870,000</u>	<u>(8,820,000)</u>	<u>(1,000,000)</u>	<u>3,050,000</u>

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Reclassified during the year (note (i))	Exercised during the year	Outstanding at 31.12.2004
March 2001	10.496	1,550,000	(1,550,000)	—	—
July 2001	10.432	<u>1,500,000</u>	<u>—</u>	<u>(1,500,000)</u>	<u>—</u>
		<u>3,050,000</u>	<u>(1,550,000)</u>	<u>(1,500,000)</u>	<u>—</u>
Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Reclassified during the year (note (ii))	Exercised during the year	Outstanding at 31.12.2003
March 2001	10.496	2,050,000	(500,000)	—	1,550,000
July 2001	10.432	<u>1,500,000</u>	<u>—</u>	<u>—</u>	<u>1,500,000</u>
		<u>3,550,000</u>	<u>(500,000)</u>	<u>—</u>	<u>3,050,000</u>

Notes:

- (i) Mr. Lu Yu Ping resigned as a director of the Company on 12th June 2004 and accordingly, the share options were reclassified to share options held by employees.
- (ii) Mr. Gu Wen Xing resigned as a director of the Company on 25th April 2003 and accordingly, the share options were reclassified to share options held by employees.

Options granted under the SIHL Old Scheme were exercisable during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options under SIHL Old Scheme were exercised was HK\$13.78 (2003: HK\$11.40).

Total consideration received for shares issued upon exercise of share options under the SIHL Old Scheme during the year was approximately HK\$31,917,000 (2003: HK\$92,319,000).

During the year ended 31st December 2002, the SIHL Old Scheme was terminated. Upon termination of the SIHL Old Scheme, no further options may be offered thereunder.

(b) SIHL New Scheme

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

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

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

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

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

At 31st December 2004, the number of shares in respect of which options were granted under the SIHL New Scheme and which remained outstanding was approximately 1.7% (2003: 2.8%) of the shares of the Company in issue at that date.

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
September 2002	11.71	<u>26,120,000</u>	<u>(9,840,000)</u>	<u>—</u>	<u>16,280,000</u>

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
September 2002	11.71	<u>27,150,000</u>	<u>(630,000)</u>	<u>(400,000)</u>	<u>26,120,000</u>

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Exercised during the year	Reclassified during the year (note)	Outstanding at 31.12.2004
September 2002	11.71	<u>—</u>	<u>—</u>	<u>500,000</u>	<u>500,000</u>

Note: Mr. Qu Ding was appointed as a director of the Company on 28th August 2004 and accordingly, the share options were reclassified from share options held by employees.

Options granted under the SIHL New Scheme are exercisable during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

The weighted average closing prices of the Company's shares on the trading day immediately before the dates on which the options under SIHL New Scheme were exercised was HK\$14.86 (2003: HK\$14.79).

Total consideration received for shares issued upon exercise of share options under the SIHL New Scheme during the year was approximately HK\$115,226,000 (2003: HK\$7,377,000).

(c) SIIC MedTech Old Scheme

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

On 15th July 2003, all holders of the 37,800,000 options agreed to surrender their respective rights under the outstanding share options granted to them pursuant to the SIIC MedTech Old Scheme and received HK\$0.46 for each option held in SIIC MedTech, except for Mr. Li Wei Da and Mr. Ge Wen Yao who consented to SIIC MedTech cancelling the share options granted to them at no consideration.

(d) SIIC MedTech New Scheme

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

On 17th September 2003, the operation of the SIIC MedTech New Scheme was terminated.

No option was ever granted under the SIIC MedTech New Scheme since its adoption.

(e) Mergen Biotech Scheme

A subsidiary of the Company, Mergen Biotech Limited (“Mergen Biotech”) adopted a share option scheme (the “Mergen Biotech Scheme”) on 28th May 2004 for the primary purpose of providing incentives to eligible participants to contribute to Mergen Biotech and to enable Mergen Biotech to recruit and attract high-calibre employees and was to expire on 27th May 2014.

Under the Mergen Biotech Scheme, the Board of Directors of Mergen Biotech (“Mergen Board”) can grant options to eligible participants, including any director, management, employee (whether full-time or part-time) or business consultant and professional adviser of Mergen Biotech and its subsidiaries, to subscribe for shares in Mergen Biotech for a consideration of HK\$1 for each lot of share options granted. Options granted had to be accepted within 30 days from the date of grant.

Options are exercisable during a period to be notified by the Mergen Board to each grantee, such period shall not be more than 10 years from the date upon which the grant of the option. The exercise price was determined by the Mergen Board with reference to the pro forma net asset per share of Mergen Biotech (“Mergen Share”) as at 31st December 2003 and was not to be less than US\$8.22 (or its equivalent in HK\$) per Mergen Share. The subscription price of options granted after the Company has contemplated a separate listing of Mergen Biotech on the Main Board or the Growth Enterprise Market of the Stock Exchange or any overseas stock exchange and up to the date of listing of the Mergen Shares shall not be lower than the new issue price of the Mergen Shares on listing. Without to the foregoing, any options granted during the period commencing 6 months before the lodgement of Form A1 (or its equivalent for listing on GEM or any overseas exchange) are subject to the above requirement. The subscription price of any options granted during such period shall be adjusted at the absolute discretion of the Mergen Board to a price not lower than the new issue price of the Mergen Shares on listing.

The maximum number of Mergen Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Mergen Biotech Scheme and other share option scheme(s) of Mergen Biotech shall not exceed 10% of the total number of Mergen Shares in issue from time to time. The total number of shares in respect of which options could be granted under the Mergen Biotech Scheme shall not exceed 10% of the total number of Mergen Shares in issue as at the date of approval of the Mergen Biotech Scheme. No eligible participants under the Mergen Biotech Scheme could be granted an option which would result in the aggregate number of Mergen Shares issued and to be issued upon exercise of the options granted to such participant (including exercised, cancelled and outstanding options) in any 12-month period exceed 1% of the Mergen Shares in issue (the “Specified Limit”) unless approved by the shareholders of the Company. On 28th May 2004, the shareholders of the Company approved the granting of an option entitling Mr. Hu Fang to subscribe for 39,000 Mergen Shares which exceeded the Specified Limit, at an exercise price of not less than US\$8.22 (or its equivalent in HK\$) per Mergen Share.

On 31st December 2004, Mergen Biotech granted options to subscribe for 63,400 Mergen Shares under the Mergen Biotech Scheme to its employees at an exercise price of US\$8.22 (or its equivalent in HK\$) per Mergen Share. Among which, options to subscribe for 39,000 Mergen Shares were granted to Mr. Hu Fang. The share options can be exercised during the period from 30th June 2005 to 30th May 2014. As at 21st April 2005, the number of shares in respect of which options had been granted under the Mergen Biotech Scheme and remained outstanding was approximately 0.8% of the shares of Mergen Biotech in issue at that date.

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

34. RESERVES

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st January 2003	9,788,241	1,071	1,137,728	2,994,001	13,921,041
Premium arising on issue of shares	98,751	—	—	—	98,751
Expenses incurred in connection with the issue of shares	(88)	—	—	—	(88)
Profit for the year	—	—	—	293,364	293,364
Dividends paid (<i>note 12</i>)	—	—	—	(451,112)	(451,112)
At 31st December 2003	9,886,904	1,071	1,137,728	2,836,253	13,861,956
Premium arising on issue of shares	145,854	—	—	—	145,854
Expenses incurred in connection with the issue of shares	(127)	—	—	—	(127)
Profit for the year	—	—	—	694,221	694,221
Dividends paid (<i>note 12</i>)	—	—	—	(495,067)	(495,067)
At 31st December 2004	<u>10,032,631</u>	<u>1,071</u>	<u>1,137,728</u>	<u>3,035,407</u>	<u>14,206,837</u>

The Company's reserve available for distribution to shareholders as at 31st December 2004 represents its accumulated profits of approximately HK\$3,035.4 million (2003: HK\$2,836.3 million).

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

35. AMOUNTS DUE TO SUBSIDIARIES

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

36. LONG-TERM BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Secured bank loans	45,040	—	—	—
Unsecured bank loans	803,236	800,000	800,000	800,000
Other unsecured loans	36,474	—	—	—
	884,750	800,000	800,000	800,000
Less: Amount due within one year included under current liabilities (<i>note 31</i>)	(25,360)	—	—	—
Amount due after one year	859,390	800,000	800,000	800,000
The bank and other borrowings are repayable as follows:				
Within one year	25,360	—	—	—
Between one to two years	15,941	—	—	—
Between two to five years	833,860	800,000	800,000	800,000
Over five years	9,589	—	—	—
	884,750	800,000	800,000	800,000

Other borrowings are unsecured, bear interest at commercial rates with fixed repayment terms.

37. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Other deferred tax liabilities HK\$'000	Other deferred tax assets HK\$'000	Total HK\$'000
At 1st January 2003	80,463	(5,000)	156	600	76,219
(Credit) charge to income for the year (<i>note 11</i>)	(6,847)	369	1,118	(6,132)	(11,492)
Effect of change in tax rate	7,571	(469)	16	56	7,174
At 31st December 2003	81,187	(5,100)	1,290	(5,476)	71,901
Charge (credit) to income for the year (<i>note 11</i>)	20,758	150	2,104	(2,976)	20,036
Acquired on acquisition of subsidiaries	—	—	—	(33,232)	(33,232)
At 31st December 2004	101,945	(4,950)	3,394	(41,684)	58,705

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

	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	91,937	71,901
Deferred tax assets	<u>(33,232)</u>	<u>—</u>
	<u>58,705</u>	<u>71,901</u>

At 31st December 2004, the Group had unused tax losses of HK\$142.5 million (2003: HK\$1,275.8 million) available for offset against future profits. A deferred tax asset amounting to approximately HK\$5.0 million (2003: HK\$5.1 million) in respect of tax losses amounted to approximately HK\$28.3 million (2003: HK\$29.1 million) has been recognised. No deferred tax asset has been recognised in respect of the remaining HK\$114.2 million (2003: HK\$1,246.7 million) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

During the year, approximately HK\$1,158.8 million unused tax losses brought forward from prior years has been disallowed by the Hong Kong Inland Revenue Department as available for off-setting future assessable profits. No deferred tax asset had been recognised on such unused tax losses in prior years. Hence no adjustment on the Group's deferred taxation is required.

38. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the following subsidiaries:

- (a) the 55% of registered capital of Liaoning Herbapex Pharmaceutical (Group) Company Limited ("Liaoning Herbapex"), a sino-foreign equity joint venture company, for a consideration of RMB85,000,000 (equivalent to HK\$80,196,000). This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of this acquisition was HK\$29,640,000;
- (b) approximately 56.63% of the issued share capital of Shanghai Industrial United Holdings Co., Ltd. ("SI United"), a company listed on the A Shares Market of the Shanghai Stock Exchange, for a consideration of RMB866,460,988 (equivalent to HK\$818,421,000). This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of this acquisition was HK\$100,729,000; and

- (c) the entire issued share capital of Shen Dong Limited for a consideration of HK\$6,483,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of negative goodwill arising as a result of this acquisition was HK\$2,212,000.

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Investment properties	41,982	—
Property, plant and equipment	625,898	38,798
Toll road operating right	—	1,841,082
Intangible assets	39,206	—
Interest in associates	591,998	—
Investments in securities	102,302	2,422
Deferred tax assets	33,232	—
Inventories	348,058	3,304
Trade and other receivables	572,538	82,811
Bank balances and cash	514,285	9,028
Trade and other payables	(616,796)	(89,502)
Taxation payable	(8,001)	(12,956)
Short-term bank and other borrowings	(372,019)	—
Minority interests	(1,066,466)	—
Long-term bank and other borrowings	(29,274)	—
	776,943	1,874,987
Goodwill arising on acquisition of subsidiaries	130,369	37,076
Negative goodwill arising on acquisition of a subsidiary	(2,212)	—
	<u>905,100</u>	<u>1,912,063</u>
Satisfied by:		
Cash consideration paid	905,100	1,906,323
Other payables	—	5,740
	<u>905,100</u>	<u>1,912,063</u>
Net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash paid	(905,100)	(1,906,323)
Bank balances and cash acquired	514,285	9,028
	<u>(390,815)</u>	<u>(1,897,295)</u>

The subsidiaries acquired during the year contributed approximately HK\$104.3 million (2003: HK\$2.1 million) and approximately HK\$23.0 million (2003: loss from operations of HK\$8.4 million) to the Group's turnover and profit from operations respectively.

39. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of its entire interest in EAS Da Tong International Aircargo Company Limited (“EAS Da Tong”). The net assets of EAS Da Tong at the date of disposal were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	—	29,086
Interest in associates	199,671	58,343
Investments in securities	—	534
Inventories	—	34,349
Trade and other receivables	—	6,984
Taxation recoverable	44	—
Bank balances and cash	—	171,648
Trade and other payables	(44)	(184,911)
Taxation payable	—	(5,815)
Short-term borrowings	—	(3,271)
Minority interests	—	(20,205)
	199,671	86,742
Unamortised goodwill	16,345	—
Goodwill previously written off against reserves	—	56,428
Translation reserve realised	(286)	(38)
	215,730	143,132
Gain on disposal of interest in a subsidiary	3,603	29,869
	<u>219,333</u>	<u>173,001</u>
Satisfied by:		
Cash consideration received	198,396	173,001
Other receivables	20,937	—
	<u>219,333</u>	<u>173,001</u>
Net inflow of cash and cash equivalents in connection with the disposal of a subsidiary:		
Cash received	198,396	173,001
Bank balances and cash disposed of	—	(171,648)
	<u>198,396</u>	<u>1,353</u>

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

40. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	32,530	25,758	2,981	2,155
In the second to fifth year inclusive	78,279	83,835	67	10
After five years	<u>101,638</u>	<u>170,000</u>	<u>—</u>	<u>—</u>
	<u>212,447</u>	<u>279,593</u>	<u>3,048</u>	<u>2,165</u>

Operating lease payments represent rental payable by the Group and the Company for certain office and factory properties. Leases are negotiated for an average term of 20 years and rentals are fixed for an average term of 1 to 2 years.

Included in the above are operating lease commitments for land and buildings of approximately HK\$171 million (2003: HK\$276 million) and approximately HK\$3.1 million (2003: HK\$2.2 million) payable by the Group and the Company respectively to the ultimate holding company and fellow subsidiaries.

The Group as lessor

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

	THE GROUP			
	Land and buildings		Plant and machinery	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,707	693	2,151	2,151
In the second to fifth year inclusive	<u>849</u>	<u>725</u>	<u>—</u>	<u>2,151</u>
	<u>2,556</u>	<u>1,418</u>	<u>2,151</u>	<u>4,302</u>

The properties have committed tenants of 1 to 2 years.

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

41. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investment in Jinhua Jinyong Expressway Construction and Investment Co., Ltd. (“Jinyong”)	267,170	—
— investments in PRC jointly controlled entities	40,410	185,962
— acquisition of property, plant and equipment	126,096	255,364
— additions in construction in progress	7,328	16,074
— investment in securities	312	312
— investment in SI United	—	817,416
	<u>441,316</u>	<u>1,275,128</u>
Capital expenditure authorised but not contracted for in respect of		
— investments in PRC subsidiaries and associates	157,931	—
— acquisition of property, plant and equipment	<u>64,721</u>	<u>—</u>
	<u>222,652</u>	<u>—</u>

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— investments in PRC subsidiaries and jointly controlled entities	432,656	8,369
— acquisition of property, plant and equipment	<u>68,057</u>	<u>14,984</u>
	<u>500,713</u>	<u>23,353</u>
Capital expenditure authorised but not contracted for in respect of		
— acquisition of property, plant and equipment	<u>125,704</u>	<u>—</u>

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

At 31st December 2004, included in the bank balances and cash was a bank deposit of approximately HK\$75.5 million (2003: nil) designated as a security deposit for the committed investment in Jinyong.

42. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities utilised by				
— associates	18,000	78,038	—	47,170
— a supplier	1,887	1,887	—	—
— connected persons	50,471	—	—	—
— outsiders (<i>note</i>)	33,019	—	—	—
	<u>103,377</u>	<u>79,925</u>	<u>—</u>	<u>47,170</u>

Details of contingent liabilities given by the Group to connected persons are set out in note 45 (I)(c).

Note: The guarantees were subsequently released on 18th April 2005.

43. PLEDGE OF ASSETS

At 31st December 2004, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

- (i) plant and machinery with a net book value of approximately HK\$65.4 million (2003: HK\$6.4 million);
- (ii) leasehold land and buildings with a net book value of approximately HK\$6.3 million (2003: HK\$8.9 million);
- (iii) bank deposits of approximately HK\$3.8 million (2003: HK\$2.7 million);
- (iv) motor vehicles with a net book value of approximately HK\$1 million (2003: nil); and
- (v) construction in progress with a net book value of approximately HK\$5.3 million (2003: nil).

In addition, at 31st December 2004, certain of the Group's plant and machinery with a net book value of HK\$2,400,000 (2003: HK\$2,600,000) were pledged to an independent third party which provided a guarantee to a bank in respect of a bank loan granted to the Group.

At 31st December 2004, the Group had bank deposits of approximately HK\$28.9 million (2003: HK\$28.8 million) and approximately HK\$10.4 million (2003: HK\$10.3 million) pledged to banks in respect of banking facilities granted to an associate and a jointly controlled entity respectively.

44. RETIREMENT BENEFITS SCHEMES

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

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

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

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Connected persons

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

Connected persons	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Transactions			
Ultimate holding company:			
Shanghai Industrial Investment (Holdings) Company Limited	Rentals paid on land and buildings (note (i))	5,174	6,301
Fellow subsidiaries:			
City Note Holdings Limited (“City Note”)	Acquisition of interest in a subsidiary (note (ii))	—	277,970
Nanyang Enterprises Limited (“NEL”)	Acquisition of interest in a subsidiary (note (iii))	—	17,389
Nanyang Enterprises Properties Limited (“NPL”)	Rentals paid on land and buildings (note (i))	13,020	13,800
	Acquisition of interest in a subsidiary (note (iii))	—	2,096
The Tien Chu (HK) Co. Ltd.	Rentals paid on land and buildings (note (i))	840	140
	Purchase of materials (note (iv))	237	145
	Printing services income (note (iv))	286	284
上海上實(集團)有限公司 (SIIC Shanghai Holdings Co., Ltd.) (“SIIC Shanghai”)	Rentals paid on land and buildings (note (i))	2,997	2,974
	Acquisition of interest in a subsidiary (note (ii))	—	322,445
上海上實資產經營有限公司	Consultancy fee (note (iv))	—	4,103
Directors of subsidiaries:			
Chen Shu Zi	Acquisition of interest in a subsidiary (note (iii))	—	1,840
Feng Gen Sheng	Acquisition of interest in a subsidiary (note (iii))	—	2,760

Connected persons	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Shen Wei Jia	Acquisition of interest in a subsidiary (<i>note (iii)</i>)	—	484
Wu Jian Zhuang	Acquisition of interest in a subsidiary (<i>note (iii)</i>)	—	1,150
<i>Minority shareholders of subsidiaries:</i>			
中國(杭州)青春寶集團有限公司 (China (Hangzhou) Qingchunbao Group Co. Ltd.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (<i>note (vi)</i>)	61	62
	Purchase of raw materials (<i>note (iv)</i>)	—	213
Shanghai Yibai (Holdings) Company Ltd. ("Shanghai Yibai")	Disposal of interest in a subsidiary (<i>note (vii)</i>)	—	119,941
許昌捲煙總廠	Sales of cigarette box packaging materials (<i>note (vi)</i>)	22,198	—
寧夏農林科學院	Interest paid (<i>note (v)</i>)	136	127
<i>Fellow subsidiary of a minority shareholder of a subsidiary:</i>			
福建省廈門醫藥採購供應站	Sales of medicine products (<i>note (vi)</i>)	7,098	—
Balances			
<i>Minority shareholders of subsidiaries:</i>			
China Qingchunbao and its subsidiaries	Balance at 31st December		
	— trade receivables	331	249
	— trade payables	750	750
	— dividend payable	—	1,203
寧夏農林科學院	Balance at 31st December		
	— loan payable (<i>note (v)</i>)	1,887	1,887
Cyber Care Inc.	Balance at 31st December		
	— non-trade receivables (<i>note (viii)</i>)	—	1,328
鼎爐實業總公司 (Dinglu Industrial Co.) and its subsidiaries	Balance at 31st December		
	— non-trade payables (<i>note (viii)</i>)	—	1,608
許昌捲煙總廠	Balance at 31st December		
	— trade receivables	3,774	—

Connected persons	Nature of transaction	THE GROUP	
		2004	2003
		HK\$'000	HK\$'000
<i>Fellow subsidiary of a minority shareholder of a subsidiary:</i>			
福建省廈門醫藥採購供應站	Balance at 31st December		
	— deposits received in advance	486	—

Notes:

- (i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.
 - (ii) On 21st May 2003, Shanghai Industrial YKB Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement with a number of vendors to acquire the non-publicly tradable shares of SI United, representing an aggregate of approximately 56.63% of the issued share capital of SI United, as to which 19.26% and 22.34% is to be acquired from City Note and SIIC Shanghai respectively. The consideration payable to City Note and SIIC Shanghai amounted to approximately HK\$277,970,000 and HK\$322,445,000 respectively. The acquisition was completed in December 2004. Details of this acquisition were included in a published announcement of the Company on the same date.
 - (iii) In 2003, the Group completed the privatisation of SIIC MedTech. The payments to NEL, NPL and certain directors of SIIC MedTech, in consideration for the cancellation of their interests in SIIC MedTech, were in accordance with the price as stated in the document issued by the Company on 18th July 2003.
 - (iv) The terms of these transactions were determined and agreed by both parties.
 - (v) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (vi) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
 - (vii) On 7th May 2003, S.I. Commerce Holdings Limited, a wholly-owned subsidiary of the Group entered into an agreement, with Shanghai Yibai to dispose of all its 51% interest in Shanghai Orient to Shanghai Yibai, at a cash consideration of RMB127,137,000 (approximately HK\$119,941,000). Details of this disposal were included in a published announcement of the Company on 9th May 2003.
 - (viii) The amount was unsecured, non-interest bearing and fully repaid during the year.
- (b) Details of operating lease commitments with connected parties are set out in note 40.

- (c) At 31st December 2004, the Group has given guarantees amounting to approximately HK\$50 million to various banks in respect of credit facilities granted to the following fellow subsidiaries:

	2004 HK\$'000	2003 HK\$'000
上海百樂毛紡織有限公司	12,736	—
上海聯合毛紡織有限公司 (Shanghai United Weaving Co., Ltd.)	32,075	—
上海聯合羊絨針織有限公司 (Shanghai United Knitting Products Co., Ltd.)	5,660	—
	<u>50,471</u>	<u>—</u>

The guarantees were subsequently released on 30th March 2005.

(II) Related parties, other than connected persons

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

Related parties	Nature of transaction	THE GROUP	
		2004	2003
		HK\$'000	HK\$'000
Transactions			
Jointly controlled entities:			
Daily Wealth Investments Limited	Purchase of finished goods (note (ii))	—	216
	Material cost received (note (ii))	—	94
Dragon Wealth Assets Limited	Service income (note (i))	—	415
Mergen Holdings Ltd.	Acquisition of interest in subsidiaries (note (iii))	—	27,300
珠海友通科有限公司 (E-COM Technology Limited)	Sales of finished goods (note (ii))	4,700	12,502
河北永新紙業有限公司 (Hebei Yongxin Paper Co., Ltd.)	Interest income received (note (x))	620	—
廣東寶萊特醫用科技股份有限公司 (Guangdong Biolight Medical Technology Co. Ltd.)	Sales of goods (note (ii))	114	—
Associates:			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Collection on behalf	—	17,608
	Payment on behalf	—	17,452
	Repayment of advance	—	9,434
	Purchase of materials (note (ii))	1,392	5,274
	Interest paid (note (iv))	1,109	354
浙江天外印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Printing services income (note (ii))	8,020	6,719

Related parties	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
四川科美紙業有限公司	Printing services income (<i>note (ii)</i>)	1,651	2,784
成都九興印刷包裝有限公司 (Chengdu Jiuxing Printing and Packing Co., Ltd.)	Interest income received (<i>note (ix)</i>)	534	48
西安環球印務有限公司 (Xian Global Printing Co., Ltd.)	Proceeds from disposal of interest in an associate (<i>note (i)</i>)	—	7,475
廣西甲天下水松紙有限公司	Sales of materials (<i>note (ii)</i>)	10,175	2,051
EAS International Transportation Limited	Interest income received (<i>note (v)</i>)	—	1,003
西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.)	Interest paid (<i>note (xi)</i>)	628	—
Balances			
<i>Jointly controlled entities:</i>			
Mergen Holdings Ltd.	Balance at 31st December — long-term receivable (net of allowance of HK\$33,376,000 (2003: HK\$67,337,000) (<i>note (viii)</i>)	—	33,375
珠海友通科技有限公司 (E-COM Technology Limited)	Balance at 31st December — trade receivable (net of allowance of HK\$14,800,000 (2003: nil))	—	13,860
杭州胡慶餘堂國藥號有限公司 (Hangzhou Huqingyutang Drugstore Co., Ltd.)	Balance at 31st December — non-trade receivable (<i>note (vi)</i>) — non-trade payable (<i>note (vii)</i>)	2,358 —	2,358 649
河北永新紙業有限公司 (Hebei Yongxin Paper Co., Ltd.)	Balance at 31st December — short-term loan receivable (<i>note (x)</i>)	38,512	9,434
廣東寶萊特醫用科技股份有限公司 (Guangdong Biolight Medical Technology Co. Ltd.)	Balance at 31st December — non-trade payable (<i>note (vii)</i>)	—	102
<i>Associates:</i>			
上海家化聯合股份有限公司 (Shanghai Jahwa United Co. Ltd.) (“Shanghai Jahwa”)	Balance at 31st December — short-term loan receivable (<i>note (viii)</i>) — non-trade receivable (<i>note (vii)</i>)	3,000 —	3,000 2,264

Related parties	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Balance at 31st December — trade payable	1,134	1,025
浙江天外印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Balance at 31st December — trade receivable	180	2,476
四川科美紙業有限公司	Balance at 31st December		
	— trade receivable	145	429
	— non-trade receivable (<i>note (vi)</i>)	1,202	—
成都九興印刷包裝有限公司 (Chengdu Jiuxing Printing and Packing Co., Ltd.)	Balance at 31st December — short-term loan receivable (<i>note (ix)</i>)	29,972	9,434
廣西甲天下水松紙有限公司	Balance at 31st December — trade receivable	3,680	1,814
西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.)	Balance at 31st December		
	— other short-term loan (<i>note (xi)</i>)	30,700	—
	— non-trade receivable (<i>note (vii)</i>)	—	7,477
西安環球印務有限公司 (Xian Global Printing Co., Ltd.)	Balance at 31st December		
	— non-trade receivable (<i>note (vii)</i>)	—	990

Notes:

- (i) These transactions were carried out in accordance with the terms of the agreement entered into between the relevant parties.
- (ii) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
- (iii) On 14th October 2003, S.I. Pharmaceutical Holdings Limited, a wholly-owned subsidiary of the Group, agreed to purchase from Mergen Holdings Ltd. all the issued share capital of Mergen Biotech Limited and Mergen BioMedicine Limited at a total consideration of HK\$27,300,000.
- (iv) The interest was charged at 5% per annum.
- (v) The interest was charged at commercial rates.
- (vi) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
- (vii) The amount was unsecured, non-interest bearing and fully repaid during the year.
- (viii) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
- (ix) The loan is unsecured, bears interest at 5.31% per annum and has no fixed repayment terms.

- (x) Except for an amount of HK\$33,019,000 (2003: HK\$9,434,000) bears interest at 5% per annum, the remaining balance (2003: nil) bears interest at 5.4% per annum. The loan has no fixed repayment terms. An amount of HK\$5,755,000 is secured by the equity interest in the jointly controlled entity held by the remaining shareholders.
- (xi) The loan is unsecured, bears interest at 3 months HIBOR plus 2.5% per annum with fixed repayment terms.
- (b) Detail of guarantees and pledged assets given by the Group to related parties are set out in notes 42 and 43 respectively.

46. GOVERNMENT GRANTS

During the year, the Group received a government subsidy of approximately HK\$5,321,000 (2003: HK\$14,151,000) towards the cost of acquisition of plant and machinery. The amount has been deducted from the carrying amount of the relevant assets. The amount is transferred to income in the form of reduced depreciation charges over the useful lives of the relevant assets. This policy has reduced the depreciation charges in the current year of approximately HK\$1,415,000 (2003: HK\$755,000).

47. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December 2004 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/registered capital	Percentage of issued/ registered capital held by the Company/ subsidiaries	Principal activities
正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co., Ltd.) (note (i))	PRC	RMB128,500,000	55%	Manufacture and sale of Chinese medicine and health food
上海滬寧高速公路(上海段)發展有限公司 (Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited) (note (ii))	PRC	RMB2,000,000,000	100%	Holding of a right to operate a toll road
S.I. Infrastructure Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Investment holding
SIHL Treasury Limited	Hong Kong	Ordinary shares — HK\$2	100%	Investment
SIIC MedTech	Cayman Islands/Hong Kong	Ordinary shares — HK\$40,893,400	100%	Investment holding
Nanyang Tobacco (Marketing) Company, Limited	British Virgin Islands/ PRC and Macau	Ordinary shares — US\$1 — HK\$100,000,400	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares — HK\$2	100%	Manufacture and sale of cigarettes
		Non-voting deferred shares — HK\$8,000,000	—	

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/registered capital	Percentage of issued/ registered capital held by the Company/ subsidiaries	Principal activities
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares — HK\$2,000,000	93.3%	Manufacture and sale of packaging materials and printed products
		Non-voting deferred shares — HK\$1,829,510	—	
SI United (<i>note (iii)</i>)	PRC	Ordinary shares — RMB306,512,351	56.63%	Manufacture and sale of biomedicine and commercial network operations
廈門中藥廠有限公司 (Xiamen Traditional Chinese Medicine Co., Ltd. ("Xiamen TCM") (<i>note (i)</i>)	PRC	RMB47,830,000	56%	Manufacture and sale of Chinese medicine
遼寧好護士藥業(集團) 有限責任公司 ("Liaoning Herbapec") (<i>note (i)</i>)	PRC	RMB51,000,000	55%	Manufacture and sale of Chinese medicine
上海三維生物技術有限公司 (Shanghai Sunway Biotech Co., Ltd.) (<i>note (i)</i>)	PRC	US\$15,343,300	70.4%	Manufacture and sale of biomedicine

Notes:

- (i) The company was established in the PRC as a sino-foreign equity joint venture company.
- (ii) The company was established in the PRC as a wholly foreign owned enterprise.
- (iii) The company is a company listed on the A share market of the Shanghai Stock Exchange.

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

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

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

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

48. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31st December 2004 are as follows:

Name of jointly controlled entity	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
上海滙眾汽車製造有限公司 (Shanghai Huizhong Automotive Manufacturing Company Limited) ("Shanghai Huizhong")	PRC	50%	Manufacture and sale of vehicles, automobile components and spare parts
上海市信息投資股份有限公司 (Shanghai Information Investment Inc.)	PRC	20%	Development of communication infrastructure and cable network and provision of internet-related services
上海三維製藥有限公司 (Shanghai Sunve Pharmaceutical Co., Ltd.)	PRC	48%	Manufacture and sale of pharmaceutical products
上海萬眾汽車零部件有限公司 (Shanghai Wanzhong Automotive Components Co., Ltd.)	PRC	50%	Manufacture and sale of automobile components and spare parts
中環保水務投資有限公司 (General Water of China Co., Ltd.)	PRC	50%	Joint investment and operation of water-related and environment protection business in the PRC

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

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

A summary of the financial information of Shanghai Huizhong, the major jointly controlled entity of the Group, is set out in note 49.

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

The following is a summary of the financial information extracted from the audited financial statements of Shanghai Huizhong for the year ended 31st December 2004:

Consolidated results for the year ended 31st December:

	2004 HK\$'000	2003 HK\$'000
Turnover	<u>5,436,631</u>	<u>5,624,644</u>
Profit for the year	<u>134,599</u>	<u>209,358</u>
Profit attributable to the Group	<u>67,300</u>	<u>104,679</u>

Consolidated financial position as at 31st December:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets	1,414,366	1,201,861
Current assets	2,210,464	2,066,652
Current liabilities	(1,476,475)	(1,071,971)
Minority interests	<u>(369)</u>	<u>—</u>
Net assets	<u>2,147,986</u>	<u>2,196,542</u>
Net assets attributable to the Group	<u>1,073,993</u>	<u>1,098,271</u>

50. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December 2004 and which are all sino-foreign equity joint venture companies established in the PRC are as follows:

Name of associate	Percentage of registered capital held by the subsidiaries	attributable to the Group	Principal activities
SMIC	9.95%	9.95%	Investment holding and manufacture and marketing of advanced technology semiconductors
光明乳業股份有限公司 (Bright Dairy and Food Co., Ltd.) ("Bright Dairy")	30.8%	30.8%	Manufacture, distribution and sale of dairy and related products
Shanghai Jahwa	28.15%	28.15%	Manufacture, distribution and sale of personal care and cosmetics products
杭州胡慶餘堂藥業有限公司 (Hangzhou Huqingyutang Pharmaceutical Company Limited)	30%	30%	Manufacture and sale of Chinese medicine and health products
上海實業交通電器有限公司 (Shanghai SIIC Transportation Electric Co., Ltd.)	30%	30%	Manufacture, distribution and sale of automobile components

All the above associates are indirectly held by the Company.

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

A summary of the financial information of SMIC and Bright Dairy, the major associates of the Group, is set out in note 51.

51. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP'S MAJOR ASSOCIATES

The following is a summary of the financial information extracted from the audited financial statements of SMIC and Bright Dairy for the year ended 31st December 2004:

Consolidated results for the year ended 31st December:

	SMIC		Bright Dairy	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>7,602,385</u>	<u>2,853,423</u>	<u>6,385,922</u>	<u>5,630,439</u>
Profit (loss) for the year	<u>700,010</u>	<u>(515,927)</u>	<u>299,975</u>	<u>266,474</u>
Profit (loss) attributable to the Group	<u>75,635</u>	<u>(85,580)</u>	<u>92,392</u>	<u>82,074</u>

Consolidated financial position as at 31st December:

	SMIC		Bright Dairy	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	26,748,142	13,658,351	1,685,222	1,646,550
Current assets	7,452,259	5,310,880	1,679,973	1,618,388
Current liabilities	(5,696,570)	(2,538,359)	(1,113,180)	(1,174,579)
Non-current liabilities	(4,246,804)	(3,743,692)	(142,303)	(167,058)
Minority interests	—	—	(175,578)	(167,397)
Net assets	<u>24,257,027</u>	<u>12,687,180</u>	<u>1,934,134</u>	<u>1,755,904</u>
Net assets attributable to the Group	<u>2,413,574</u>	<u>1,700,082</u>	<u>595,713</u>	<u>540,818</u>

52. POST BALANCE SHEET EVENTS

The following significant events took place after the balance sheet date:

- (a) On 17th January 2005, SIIC MedTech Health Products Limited ("Health Products"), a wholly-owned subsidiary of the Group, and Kong Hee Enterprises Limited ("Kong Hee"), entered into a share transfer agreement, pursuant to which Health Products acquired a further 5% interest in Xiamen TCM from Kong Hee at a consideration of HK\$11,450,000, payable in cash.

Kong Hee is a company wholly-owned by Mr. Hui Wang Chuen and his associate. As Mr. Hui Wang Chuen is a director of Xiamen TCM, he is a connected person of the Company. Hence, Kong Hee is also deemed as a connected person of the Company. Pursuant to the Listing Rules, the acquisition constitutes a connected transaction of the Company and falls within Rule 14A.32 of the Listing Rules.

The transaction was completed in February 2005. Details of this acquisition were included in a published announcement of the Company on 17th January 2005.

- (b) In March 2005, the Group acquired a 30% interest in an associate — Jinyong, for a cash consideration of approximately HK\$267 million. The associate holds the right to receive toll fees from vehicles using the Jinhua Section of the Yongjin Expressway and to operate service facilities in designated areas along the Jinhua Section for a period of 28 years.

53. SEGMENT INFORMATION

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

Principal businesses are as follows:

Infrastructure facilities	—	investment in toll road projects and water-related business
Medicine	—	manufacture and sale of Chinese medicine and health food; biotechnology development
Consumer products	—	manufacture and sale of cigarettes, packaging materials, printed products, dairy products, commercial vehicles, automobile components and spare parts
Information technology	—	development of communication infrastructure and information technology business

Segment information about these businesses is presented below:

2004	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
Income statement:					
External sales	<u>189,208</u>	<u>1,283,622</u>	<u>1,956,109</u>	<u>—</u>	<u>3,428,939</u>
Segment results	145,880	253,986	504,737	66,497	971,100
Net unallocated corporate expenses					<u>(67,830)</u>
Profit from operations					903,270
Finance costs					(19,317)
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					698,523
Share of results of jointly controlled entities	1,887	17,826	65,371	9,367	94,451
Share of results of associates	2,590	9,347	198,809	73,983	284,729
Allowance for amount due from a jointly controlled entity					(33,376)
Impairment losses recognised in respect of interests in an associate and jointly controlled entities and goodwill relating to a subsidiary					<u>(191,232)</u>
Profit from ordinary activities before taxation					1,737,048
Taxation					<u>(231,979)</u>
Profit from ordinary activities after taxation					<u><u>1,505,069</u></u>

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FINANCIAL INFORMATION OF THE GROUP

2004	Infrastructure facilities <i>HK\$'000</i>	Medicine <i>HK\$'000</i>	Consumer products <i>HK\$'000</i>	Information technology <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Balance sheet:						
ASSETS						
Segment assets	2,497,861	3,701,417	2,779,111	465,135	—	9,443,524
Interest in jointly controlled entities	301,120	161,494	1,312,279	367,916	—	2,142,809
Interest in associates	11,015	292,621	1,628,528	2,434,993	—	4,367,157
Unallocated corporate assets						<u>4,656,391</u>
Consolidated total assets						<u><u>20,609,881</u></u>
LIABILITIES						
Segment liabilities	17,323	861,530	453,041	—	—	1,331,894
Unallocated corporate liabilities						<u>2,183,740</u>
Consolidated total liabilities						<u><u>3,515,634</u></u>
Other information:						
Capital additions	2,466	912,505	311,448	—	2,319	1,228,738
Depreciation and amortisation	43,392	38,652	93,984	—	3,099	179,127
Impairment losses on investments in other projects and investments in securities	—	—	—	—	72,532	72,532
Allowance on doubtful debts and bad debts written off	—	641	3,694	—	14,800	19,135
Loss on disposal of property, plant and equipment	—	1,264	3,170	—	—	4,434

2003	Infrastructure facilities <i>HK\$'000</i>	Medicine <i>HK\$'000</i>	Consumer products <i>HK\$'000</i>	Information technology <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Income statement:					
External sales	<u>283,019</u>	<u>1,127,892</u>	<u>1,415,067</u>	<u>—</u>	<u>2,825,978</u>
Segment results	281,299	288,772	336,843	179,586	1,086,500
Net unallocated corporate income					<u>46,261</u>
Profit from operations					1,132,761
Finance costs					(31,001)
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					278,059
Share of results of jointly controlled entities	444	35,804	124,580	11,807	172,635
Share of results of associates	26,295	7,184	217,215	(89,157)	161,537
Allowance for amount due from a jointly controlled entity					<u>(67,337)</u>
Profit from ordinary activities before taxation					1,646,654
Taxation					<u>(241,904)</u>
Profit from ordinary activities after taxation					<u><u>1,404,750</u></u>

2003	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Balance sheet:						
ASSETS						
Segment assets	2,516,851	1,249,788	2,421,178	436,911	—	6,624,728
Interest in jointly controlled entities	300,929	180,195	1,200,651	451,576	—	2,133,351
Interest in associates	209,905	88,467	1,173,738	1,738,541	—	3,210,651
Unallocated corporate assets						<u>5,106,724</u>
Consolidated total assets						<u><u>17,075,454</u></u>
LIABILITIES						
Segment liabilities	15,017	166,011	124,414	5,726	—	311,168
Unallocated corporate liabilities						<u>1,892,512</u>
Consolidated total liabilities						<u><u>2,203,680</u></u>
Other information:						
Capital additions	1,841,082	319,182	98,495	31	1,090	2,259,880
Depreciation and amortisation	1,927	21,893	87,714	343	3,606	115,483
Impairment losses on investments in other projects and investments in securities	—	—	—	540	34,431	34,971
Allowance on doubtful debts and bad debts written off	—	9,205	1,121	—	—	10,326
Loss on disposal of property, plant and equipment	—	3,526	2,826	—	(86)	6,266

Geographical segments

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

	Sales revenue by geographical market		Contribution to profit from operations	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	<u>39,978</u>	<u>226,881</u>	<u>10,755</u>	<u>48,282</u>
	<u><u>3,428,939</u></u>	<u><u>2,825,978</u></u>	971,100	1,086,500
Net unallocated corporate (expenses) income			<u>(67,830)</u>	<u>46,261</u>
Profit from operations			<u><u>903,270</u></u>	<u><u>1,132,761</u></u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical region				
PRC	13,894,116	9,981,894	991,257	2,210,084
Asia	24,900	22,991	—	—
Hong Kong	6,365,700	6,285,946	237,481	49,796
Other areas	325,165	784,623	—	—
	<u>20,609,881</u>	<u>17,075,454</u>	<u>1,228,738</u>	<u>2,259,880</u>

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AFTER COMPLETION**(A) Unaudited Pro Forma Statement of Assets and Liabilities of the Group after Completion**

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Group, assuming that the Asset Swap had been completed as at 31st December 2004 for the purpose of illustrating how the transaction might have affected the financial position of the Group.

The unaudited pro forma statement of assets and liabilities of the Group has been prepared based on the audited consolidated balance sheet of the Group as at 31st December 2004 as extracted from the annual report of the Company for the year ended 31st December 2004 and the unaudited management accounts as at 31st December 2004 under the Asset Swap Agreement and adjusted for the transaction resulting from the Asset Swap.

The unaudited pro forma statement of assets and liabilities is prepared to provide financial information of the Group as a result of the completion of the Asset Swap. As it is prepared for illustrative purpose only, it may not purport to present what the assets and liabilities of the Group are on the completion of the Asset Swap or on any other date.

	As at 31st December 2004			
	The Group	Adjustments		Pro Forma
	<i>(Audited)</i>			<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Non-current assets				
Investment properties	45,672			45,672
Property, plant and equipment	2,080,378	90,787	(a)	2,171,165
Toll road operating right	1,784,651			1,784,651
Intangible assets	39,206			39,206
Goodwill	346,204	87,838	(b)	434,042
Negative goodwill	(2,203)			(2,203)
Interest in jointly controlled entities	2,142,809	2,358	(a)	2,145,167
Interest in associates	4,367,157	(87,044)	(a)&(b)	4,280,113
Investments in other projects	51,032			51,032
Investments in securities	245,512	94	(a)	245,606
Loan receivable	2,748			2,748
Deposits paid on acquisition of property, plant and equipment	25,821			25,821
Deferred tax assets	33,232			33,232
	<u>11,162,219</u>			<u>11,256,252</u>

	As at 31st December 2004		
	The Group (Audited) HK\$'000	Adjustments HK\$'000	Pro Forma (Unaudited) HK\$'000
Current assets			
Inventories	877,785	25,833 (a)	903,618
Trade and other receivables	1,487,294	56,935 (a)	1,544,229
Investments in securities	1,084,036		1,084,036
Placement of deposits with financial institutions	188,962		188,962
Pledge bank deposits	43,121		43,121
Bank balances and cash	<u>5,766,464</u>	9,719 (a)	<u>5,776,183</u>
	<u>9,447,662</u>		<u>9,540,149</u>
Current liabilities			
Trade and other payables	1,226,846	41,196 (a)	1,268,042
Taxation payable	96,816		96,816
Short-term bank and other borrowings	<u>1,240,645</u>	2,830 (a)	<u>1,243,475</u>
	<u>2,564,307</u>		<u>2,608,333</u>
Net current assets	<u>6,883,355</u>		<u>6,931,816</u>
Minority interests	<u>1,476,786</u>	134,947 (c)	<u>1,611,733</u>
Non-current liabilities			
Long-term bank and other borrowings	859,390	7,547 (a)	866,937
Deferred tax liabilities	<u>91,937</u>		<u>91,937</u>
	<u>951,327</u>		<u>958,874</u>
Net assets	<u><u>15,617,461</u></u>		<u><u>15,617,461</u></u>

Notes:

- (a) To consolidate the assets and liabilities of Huqingyutang Pharmaceutical based on the unaudited management account as at 31st December 2004 as if Huqingyutang Pharmaceutical were a subsidiary of the Group as at 31st December 2004. Huqingyutang Pharmaceutical is in the process of obtaining approval by the PRC administration department of foreign investment to increase its registered capital from RMB37,210,000 to RMB53,160,000. Upon completion of the Asset Swap, SIIC MedTech will increase its equity interest in Huqingyutang Pharmaceutical from 30% to 51% by the injection of RMB132,800,000 (approximately HK\$125,283,000). Huqingyutang Pharmaceutical will become a subsidiary of the Company.
- (b) The goodwill adjustment is calculated based on the assumption that the acquisitions of additional equity interest in Huqingyutang Pharmaceutical and Xiamen TCM were completed on 31st December 2004 for a consideration of RMB132,800,000 (approximately HK\$125,283,000) and HK\$11,450,000 respectively. The difference between the considerations and the net asset value attributable to the additional equity interest in Huqingyutang

Pharmaceutical and Xiamen TCM based on the unaudited management accounts of both companies as at 31st December 2004 of RMB99,173,000 (approximately HK\$93,559,000) and HK\$4,860,000, represents the goodwill arising on acquisition of additional interest of HK\$31,724,000 and HK\$6,590,000 respectively.

The final amount of goodwill may be different if the fair value of the identifiable assets and liabilities of Huqingyutang Pharmaceutical and Xiamen TCM at the date of completion of the Asset Swap are different from their book values as at 31st December 2004.

In addition, goodwill included in interest in associates of HK\$49,524,000 was transferred to goodwill upon completion of capital injection in Huqingyutang Pharmaceutical.

- (c) The adjustment reflected the changes in minority interests of Huqingyutang Pharmaceutical and Xiamen TCM upon completion of capital injection in the respective companies.

(B) Letter on Unaudited Pro Forma Statement of Assets and Liabilities of the Group after Completion

The following is the text of a letter from Deloitte, the Company's auditors, in respect of the unaudited pro forma statement of assets and liabilities of the Group after Completion prepared for incorporation in this circular.

The Directors
Shanghai Industrial Holdings Limited

13th July 2005

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities ("Pro Forma Statement") of Shanghai Industrial Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Section 1(A) of Appendix II to the circular dated 13th July 2005 (the "Circular") in connection with the major transaction in relation to an asset swap agreement with Shanghai Industrial United Holdings Co., Ltd., which has been prepared, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented.

Responsibilities

It is the sole responsibility of the directors of the Company to prepare the Pro Forma Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on Pro Forma Financial Information Pursuant to The Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Statement with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Pro Forma Statement.

The Pro Forma Statement has been prepared on the basis set out in Section 1(A) of Appendix II to the Circular for illustrative purpose only and, because of its nature, it may not be indicative of the financial position of the Group as at 31st December 2004 or at any future date.

Opinion

In our opinion:

- (a) the Pro Forma Statement has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Statement as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. INDEBTEDNESS**Borrowings**

As at the close of business on 31st May 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowings:

	<i>HK\$'000</i>
Bank loans	
— secured	145,092
— unsecured	<u>1,926,688</u>
	<u>2,071,780</u>
Other loans	
— secured	14,151
— unsecured	<u>42,167</u>
	<u>56,318</u>
	<u><u>2,128,098</u></u>

The maturity of the bank loans and other loans are as follows:

	<i>HK\$'000</i>
Within one year	1,244,418
Between one to two year	26,629
Between two to five years	854,499
Over five years	<u>2,552</u>
	<u><u>2,128,098</u></u>

Pledge of assets

As at 31st May 2005, the following assets were pledged by the Group in order to secure general credit facilities granted to the Group:

- a. plant and machinery with a net book value of approximately HK\$78.4 million;
- b. land and buildings with a net book value of approximately HK\$41.1 million;
- c. bank deposits of approximately HK\$39.5 million; and
- d. motor vehicles with a net book value of approximately HK\$1 million.

Contingent liabilities

As at 31st May 2005, the Group had given guarantees to banks in respect of banking facilities utilized by:

	<i>HK\$'000</i>
— 西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.*)	18,000
— 中國航空港建設總公司 (China Aviation Terminal Construction Company*)	<u>9,434</u>
	<u><u>27,434</u></u>

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade and other payables, at the close of business on 31st May 2005, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, term loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account its internal resources and the present available banking facilities, the Group will, immediately following the completion of the Asset Swap, have sufficient working capital for its present requirements.

4. INFORMATION ON LIANHUA SUPERMARKET AND CENTURY LIANHUA

For the accountants' reports and management discussion and analysis of the performance of Lianhua Supermarket, please refer to the placing and public offer prospectus of Lianhua Supermarket dated 17th June 2003 and the 2003 and 2004 annual reports of Lianhua Supermarket (copies of which are available at the website of the Stock Exchange at www.hkex.com.hk).

* The English name is an informal English translation of the official Chinese name.

Century Lianhua is a limited liability company specialized in the operation of hypermarkets in provinces of the PRC including Anhui, Hebei, Henan, Jiangsu, Heilongjiang and Sichuan. Its outlets are managed by Lianhua Supermarket under the brand name of “centurymart”. As of 31st December 2004, Century Lianhua owned a total of 26 outlets with a total floor area of more than 5,000 sq. m.

The hypermarkets of Century Lianhua target consumers who require a comprehensive “one-stop” shopping experience whereby they can take their families for a day’s outing and at the same time complete their shopping all under one roof. These hypermarkets offer a broad range of quality products at competitive prices, and at the same time offer various ancillary services to satisfy the needs of “one-stop” shopping of the consumers such as laundry, banking, pharmaceutical, photo-finishing and shoe-repairing services.

With quality products and services offered at competitive prices, in particular for the live and fresh produce, plus ancillary services and facilities catered for the needs of consumers, hypermarkets represent tremendous potential in the PRC retail market in view of increasing market acceptance. Century Lianhua will continue to seek expansion in its existing regions of operations, subject to Lianhua Supermarket’s priority in those regions.

The audited net assets value and the audited total asset value of Century Lianhua as at 31st December 2004 amounted to approximately RMB112,470,000 (equivalent to approximately HK\$106,104,000) and approximately RMB579,443,000 (equivalent to approximately HK\$546,644,000) respectively. The total registered capital of Century Lianhua as at 31st December 2004 amounted to RMB100,000,000. There had been no material changes in net assets value of Century Lianhua up to 31st May 2005 since its last audited accounts.

The audited turnover of Century Lianhua for the year ended 31st December 2004 amounted to approximately RMB1,059,369,000 (equivalent to approximately HK\$999,405,000). The audited profit before taxation and the audited profit after taxation of Century Lianhua as at 31st December 2004 amounted to approximately RMB6,855,000 (equivalent to approximately HK\$6,467,000) and approximately RMB6,747,000 (equivalent to approximately HK\$6,365,000) respectively. The interest in associates in respect of Century Lianhua in the audited consolidated accounts of the Group as at 31st December 2004 was approximately RMB56,393,000 (equivalent to approximately HK\$53,201,000).

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>	<i>HK\$</i>
2,000,000,000 Shares of HK\$0.10 each	200,000,000
<i>Issued and fully paid:</i>	
967,133,000 Shares of HK\$0.10 each	96,713,300

The Shares in issue are listed on the Main Board of the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchanges.

3. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interest or short positions of the Directors and the chief executive of the Company in the Shares and underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(i) Interests in Shares and underlying Shares

Name of Director	Capacity	Nature of interest	Number of issued ordinary Shares held	Percentage of issued share capital of the Company
Cai Lai Xing	Beneficial owner	Personal	4,000,000	0.41%
Qu Ding	Beneficial owner	Personal	1,250,000	0.13%
Lu Ming Fang	Beneficial owner	Personal	4,200,000	0.43%
Lu Da Yong	Beneficial owner	Personal	2,700,000	0.28%

All interests stated above represented long positions.

(ii) Interests in shares of SI United, a subsidiary of the Company

Publicly tradable shares

Name of director	Capacity	Nature of interests	Number of issued shares held	Percentage of total issued share capital of SI United
Lu Ming Fang	Beneficial Owner	Personal	15,000	0.005%
Ding Zhong De	Beneficial Owner	Personal	15,000	0.005%
Lu Shen	Beneficial Owner	Personal	12,000	0.004%

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the interest of the persons (not being a Director or chief executive of the Company) in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Capacity	Number of issued ordinary Shares beneficially held	Percentage of the issued share capital of the Company
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(a) *Long Positions*

SIIC	Interests held by controlled corporation(s)	548,076,000 (note (i))	56.67%
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(b) *Short Positions*

SIIC	Interests held by controlled corporation(s)	88,033,054 (note (ii))	9.10%
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Notes:

- (i) SIH, SIIC Capital and SIIC CM Development held 468,066,000, 80,000,000 and 10,000 ordinary Shares respectively. SIIC owns 100% of SIIC CM Development and STC respectively, whereas STC owns 100% of SIH, which in turn owns 100% of SIIC Capital.
- (ii) SIIC was taken to have short positions in respect of 88,033,054 underlying Shares whereby STC has issued an aggregate of HK\$2,430,900,000 Zero Coupon Guaranteed Exchangeable Bonds due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary Shares at an exchangeable price of HK\$26.381 per Share.

Save as disclosed above, no other interests or short positions in the Shares or underlying Shares were recorded in the register required to be kept under Section 336 of the SFO as at the Latest Practicable Date.

As at the Latest Practicable Date, so far so was known to the Directors, the following Directors are also directors or employees of SIIC:

Name of Director	Position held in SIIC
Mr. Cai Lai Xing	Chairman
Mr. Qu Ding	Executive Director and Executive Vice President
Mr. Lu Ming Fang	Vice President
Mr. Lu Da Yong	Executive Director
Mr. Ding Zhong De	Executive Director
Mr. Lu Shen	Assistant President
Mr. Qian Shi Zheng	Chief Financial Officer

- (c) So far as was known to the Directors, as at the Latest Practicable Date, the following persons (other than members of the Group) were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company) and the amount of each of such person's interest in such securities were as follows:

Name of member of the Group	Name of substantial shareholder	Interest in share capital/ equity interest	Percentage of shareholding
Changzhou Pharmaceutical Co., Ltd.* (常州藥業股份有限公司)	Changzhou State-owned Assets Investment Co.* (常州國有資產投資經營總公司)	equity interest	23.05%
Chia Tai Qingchunbao Pharmaceutical Co., Ltd.	China (Hangzhou) Qingchunbao Group Co., Ltd.* (中國(杭州)青春寶集團有限公司)	equity interest	20%
	Hangzhou Chia Tai Qingchunbao Staff Shareholding Association* (杭州市正大青春寶職工持股協會)	equity interest	20%
Chifeng Aike Pharmaceutical Technology Co., Ltd.* (赤峰艾克製藥科技股份有限公司)	Hainan Dalong International Investment Co., Ltd.* (海南大龍國際投資有限公司)	equity interest	14.67%
	Shenzhen Yigong Industrial Co., Ltd.* (深圳益公實業有限公司)	equity interest	14.67%

* The English name is an informal English translation of the official Chinese name.

Name of member of the Group	Name of substantial shareholder	Interest in share capital/ equity interest	Percentage of shareholding
Chifeng Mengxin Pharmaceutical Co., Ltd.* (赤峰蒙欣藥業有限公司)	Chifeng Pharmaceutical (Group) Co., Ltd* (赤峰製藥(集團)有限責任公司)	equity interest	17.91%
Guangdong Techpool Biochem Pharma Co., Ltd.* (廣東天普生化醫藥股份有限公司)	Guangzhou Bopu Bio-technology Co., Ltd.* (廣州市博普生物技術有限公司)	equity interest	32.75%
	Guangdong Province Technology Venture Investment Co.* (廣東省科技創業投資公司)	equity interest	10%
Liaoning Herbapex	Medieval	equity interest	28.8%
	Zheng Ji Yu	equity interest	16.5%
Mergen Biotech Limited	Excellent Hope Holdings Inc.	equity interest	15%
Ningbo SDIF Medical Instruments Co.* (寧波斯迪夫醫療器械公司)	Chen Guo An	equity interest	16.3%
	Hong Ji De	equity interest	12.6%
Ningxia SIIC Viopes Nutraceuticals Co., Ltd.*	Ningxia Nonglin Scientific Academy (Barbary Wolfberry) Co., Ltd.* (寧夏農林科學院枸杞所(有限公司))	equity interest	21.66%
	Ningxia Nonglin Scientific Academy* (寧夏農林科學院)	equity interest	14.66%
Shanghai Qiyi Dental Equipment Co., Ltd.* (上海奇異牙科器材有限公司)	Shanghai Dental Materials Factory Qi Xin Operating Services Department* (上海齒科材料廠奇新綜合經營服務部)	equity interest	10%

* The English name is an informal English translation of the official Chinese name.

Name of member of the Group	Name of substantial shareholder	Interest in share capital/ equity interest	Percentage of shareholding
Shanghai Sunway Biotech Co., Ltd.	Shanghai Alliance Investment Ltd.	equity interest	18.6%
Shanghai Tongjian Pharmacy Co., Ltd.* (上海同健藥房有限公司)	Shanghai Huajian Medical Technology Co.* (上海華健醫藥科技公司)	equity interest	40%
Shanghai Victor Medical Instrument Co., Ltd.	The Mansfield Corp. USA	equity interest	30%
Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co., Ltd.	Shanghai University of Traditional Chinese Medicine Technological Development Co.* (上海中醫大科技發展公司)	equity interest	45%
Shanghai Yuemin Pharmacy Co., Ltd.* (上海悅民大藥房有限公司)	Chang Qing	equity interest	30%
Shanghai Yunhu Raw-pharmaceutical Co., Ltd.* (上海雲湖醫藥藥材股份有限公司)	Shanghai Yunhu Raw-pharmaceutical Co., Ltd. Staff Shareholding Association* (上海雲湖醫藥藥材股份有限公司職工持股會)	equity interest	15.45%
SI United Changcheng Pharmaceutical Co., Ltd.* (上海實業聯合集團長城藥業有限公司)	Jin Jiang International Holdings Co., Ltd.	equity interest	30%
SI United Pharmacy Co., Ltd.* (上海實業聯合集團大藥房有限公司)	Shanghai Zhenru Shangcheng Co., Ltd.* (上海真如商城股份有限公司)	equity interest	10%
Xiamen TCM	Xiamen Dinglu Ind. Corp.* (廈門鼎爐實業總公司)	equity interest	30%
NTTC (BVI) Limited	Centenary Limited	ordinary shares	35%

* The English name is an informal English translation of the official Chinese name.

Name of member of the Group	Name of substantial shareholder	Interest in share capital/ equity interest	Percentage of shareholding
Chengdu Jiuxing Printing and Packing Co., Ltd.	Sichuan Quanxing Co., Ltd.	equity interest	20%
	Chengdu Jiang Shi Investment Co., Ltd.* (成都江氏投資有限公司)	equity interest	29%
Chengdu Wingfat Printing Co., Ltd.* (成都永發印務有限公司)	Sichuan Quanxing Co., Ltd.	equity interest	20%
	Chengdu Jiang Shi Investment Co., Ltd.* (成都江氏投資有限公司)	equity interest	29%
Guiyang Jiuxing Printing Co., Ltd.* (貴陽九興印刷有限公司)	Yuan Chun Ming	equity interest	21%
Xuchang Yongchang Printing Co., Ltd.	Xuchang Cigarette Factory* (許昌捲煙總廠)	equity interest	49%
Zhejiang Rongfeng Paper Co., Ltd.	Hui Kin Yip	equity interest	10%

(d) Save as disclosed above, as at the Latest Practicable Date:

- (i) so far as was known to the Directors, none of the Directors or chief executive of the Company had any interest or short positions in any Shares or underlying Shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.
- (ii) there was no person known to the Directors who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

* The English name is an informal English translation of the official Chinese name.

4. DIRECTORS' INTERESTS IN CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31st December 2004 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (c) As at the Latest Practicable Date, save for those service contracts entered into by Directors with the Company which expire or are determinable by the Company within one year without compensation (other than statutory compensation), none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31st December 2004 (being the date to which the latest published audited accounts of the Company were made up).

6. EXPERT

- (a) The following are the qualifications of the expert who has given its report, opinion or advice which are contained in this circular:

Name	Qualifications
Deloitte	Certified Public Accountants

- (b) (i) As at the Latest Practicable Date, Deloitte was not interested beneficially or non-beneficially in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.
- (ii) As at the Latest Practicable Date, Deloitte did not have any direct or indirect interest in any assets which had been since 31st December 2004 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.
- (iii) Deloitte has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 13th July 2005 and the references to its name included herein in the form and context in which they respectively appear.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far so was known to the Directors, none of the Directors, and their respective associates was considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group pursuant to the Listing Rules.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within two years preceding the date of this circular and which are or may be material:

- (a) the sale and purchase agreement dated 29th August 2003 entered into between S.I. Infrastructure and Shanghai City Construction relating to the disposal of 50.2% equity interest in Shanghai Yanan Road Elevated Road Development Co., Ltd.;
- (b) the sale and purchase agreement dated 29th August 2003 entered into between S.I. Infrastructure and Shanghai City Construction relating to the disposal of 35% equity interest in Shanghai New Construction Development Co., Ltd.;
- (c) the sale and purchase agreement dated 21st April 2005 entered into between the Company and SPGC relating to the disposal of 48% of the total issued shares of Shanghai Sunve Pharmaceutical Co., Ltd.;
- (d) the sale and purchase agreement dated 21st April 2005 entered into between SI United and SPGC relating to the acquisition of 40% of the total issued shares of Shanghai Medical Instruments Co., Ltd; and
- (e) the Asset Swap Agreement.

9. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong during normal business hours up to and including 27th July 2005:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for each of the two years ended 31st December 2004;
- (c) the Asset Swap Agreement;
- (d) the accountants' report of the Group for the three years ended 31st December 2004 issued by Deloitte, extracts of which are set out in Appendix I of this circular;

- (e) the letter issued by Deloitte in connection with the unaudited pro forma consolidated balance sheet of the Group, the text of which is set out in Appendix II of this circular;
- (f) the contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (g) the written consent referred to in the paragraph headed “Expert” of this appendix; and
- (h) all of the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31st December 2004.

11. MISCELLANEOUS

- (a) The registered office of the Company is at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (b) The share registrars and transfer office of the Company is Secretaries Limited at 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of the Company is Ms. Wong Mei Ling, Marina who is a Fellow of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (d) The qualified accountant of the Company is Ms. Chan Yat Ying, Cherie who is a member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.