

# Notes to the Financial Statements

For the year ended 31 December 2003

## 1. General

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

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

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

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

|                   |              |
|-------------------|--------------|
| SSAP 12 (Revised) | Income Taxes |
|-------------------|--------------|

### Income Taxes

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies

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

#### Basis of consolidation

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

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

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

#### Goodwill

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Negative goodwill

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

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

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

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

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

#### Toll road operating right

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

#### Interest in subsidiaries

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

#### Interest in jointly controlled entities

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Interest in associates

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

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

#### Investments in infrastructure projects

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

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

#### Investments in securities

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

Investments are classified as investment securities and other investments.

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

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

#### Revenue recognition

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Revenue recognition (continued)

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

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

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

#### Investment properties

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

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

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

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

#### Property, plant and equipment

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Property, plant and equipment (continued)

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

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

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

|                                   |  |
|-----------------------------------|--|
| Buildings                         | 4% – 5% or over the period of the lease terms  |
| Furniture, fixtures and equipment | 20% – 33 <sup>1</sup> / <sub>3</sub> % or over the period of the lease<br>in case of fixtures in rented premises |
| Motor vehicles                    | 20% – 30%  |
| Plant and machinery               | 6 <sup>2</sup> / <sub>3</sub> % – 20%  |

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

#### Impairment

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Borrowing costs

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

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

#### Inventories

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

#### Research and development expenditure

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

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

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

#### Retirement benefits costs

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

#### Taxation

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Taxation (continued)

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

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

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

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

#### Government grants

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

#### Foreign currencies

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 3. Significant Accounting Policies (continued)

#### Operating leases

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

### 4. Turnover

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

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

### 5. Investment Income – Net

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 6. Profit from Operations

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 7. Directors' Emoluments and Employees' Emoluments

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

The emoluments of the directors were within the following bands:

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

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

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

### 9. Taxation

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 9. Taxation (continued)

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

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

Details of deferred taxation are set out in note 33.

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 10. Dividends

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

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

### 11. Earnings per Share

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

|  | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
|--|--------------------|--------------------|
| Earnings:  |                    |                    |
| Profit for the year and earnings for the purpose of basic earnings per share                               | 1,259,166          | 1,126,343          |
| Effect of dilutive potential ordinary shares   |                    |                    |
| – adjustment to the share of results of a subsidiary based on potential dilution of its earnings per share | –                  | (21)               |
| Earnings for the purpose of diluted earnings per share   | <b>1,259,166</b>   | <b>1,126,322</b>   |
|  |                    |                    |
|  | 2003               | 2002               |
| Number of shares:  |                    |                    |
| Weighted average number of ordinary shares for the purpose of basic earnings per share                     | 940,604,493        | 919,908,679        |
| Effect of dilutive potential ordinary shares   |                    |                    |
| – share options  | 3,354,778          | 10,721,509         |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share                   | <b>943,959,271</b> | <b>930,630,188</b> |

## Notes to the Financial Statements

For the year ended 31 December 2003

### 12. Investment Property

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 13. Property, Plant and Equipment

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 13. Property, Plant and Equipment (continued)

In the current year, land and buildings include certain assets carried at cost or revaluation of HK\$9,361,000 (2002: HK\$9,361,000) in aggregate with accumulated depreciation of HK\$2,285,000 (2002: HK\$2,012,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$273,000 (2002: HK\$273,000).

In the current year, plant and machinery includes certain assets carried at cost of HK\$15,751,000 (2002: HK\$15,751,000) in aggregate with accumulated depreciation of HK\$12,802,000 (2002: HK\$11,227,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$1,575,000 (2002: HK\$1,575,000).

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 13. Property, Plant and Equipment (continued)

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

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

### 14. Toll Road Operating Right

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 15. Goodwill

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

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

### 16. Interest in Subsidiaries

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

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. Except for an amount of HK\$50 million at 31 December 2003 which bears interest at commercial rates, the remaining balances are non-interest bearing. In the opinion of the directors, the amounts will not be repayable within one year of the balance sheet date. Accordingly, such amounts have been classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2003 are set out in note 43.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 17. Interest in Jointly Controlled Entities

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 18. Interest in Associates

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net assets of associates   | 3,095,868        | 2,449,531        |
| Goodwill on acquisition of associates/additional interest in associates less amortisation | 114,780          | 31,976           |
| Amount due from an associate  | 3                | 101,601          |
|   | <b>3,210,651</b> | <b>2,583,108</b> |

|   | THE GROUP<br>HK\$'000 |
|---|-----------------------|
| Goodwill arising on acquisition of associates/<br>additional interest in associates |                       |
| COST  |                       |
| At 1 January 2003   | 33,776                |
| Arising on acquisition of associates/additional interest in associates              | 97,917                |
| Eliminated on partial disposal/deemed disposal of interest in associates            | (7,881)               |
| At 31 December 2003   | 123,812               |
| AMORTISATION  |                       |
| At 1 January 2003   | 1,800                 |
| Provided for the year   | 8,436                 |
| Eliminated on partial disposal/deemed disposal of interest in associates            | (1,204)               |
| At 31 December 2003   | 9,032                 |
| NET BOOK VALUE  |                       |
| At 31 December 2003   | 114,780               |
| At 31 December 2002   | 31,976                |

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 18. Interest in Associates (continued)

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

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

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

### 19. Investments in Infrastructure and Other Projects

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

During the year, the directors of the Company reviewed the carrying amount of the unlisted investments in other projects in light of the current market condition with reference to the financial results and business operated by certain investees. The directors identified an impairment loss of HK\$26,062,000 (2002: HK\$22,831,000) on the unlisted investments, estimated by reference to the net recoverable amount of the investments and the amount has been recognised in the income statement accordingly.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 19. Investments in Infrastructure and other Projects (continued)

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

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

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 20. Investments in Securities

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 21. Loans Receivable

#### The Group

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

### 22. Deposits Paid on Acquisition of Property, Plant and Equipment

#### The Group

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

### 23. Inventories

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

The inventories are stated at cost.

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 24. Trade and Other Receivables

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

Included in trade and other receivables are trade receivables of HK\$405,350,000 (2002: HK\$292,419,000) and their aged analysis is as follows:

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

### 25. Pledged Bank Deposits

#### The Group

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

### 26. Trade and Other Payables

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 27. Short-term Borrowings

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

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

### 28. Share Capital

|  | Number of<br>ordinary shares | Amount<br>HK\$'000 |
|--|------------------------------|--------------------|
| Authorised:  |                              |                    |
| Ordinary shares of HK\$0.10 each                           |                              |                    |
| – at 1 January 2002, 31 December 2002 and 31 December 2003 | 2,000,000,000                | 200,000            |
| Issued and fully paid:                                     |                              |                    |
| Ordinary shares of HK\$0.10 each                           |                              |                    |
| – balance at 1 January 2002                                | 898,057,000                  | 89,806             |
| – exercise of share options                                | 44,220,000                   | 4,422              |
| – shares repurchased and cancelled                         | (5,979,000)                  | (598)              |
| – balance at 31 December 2002                              | 936,298,000                  | 93,630             |
| – exercise of share options                                | 9,450,000                    | 945                |
| – balance at 31 December 2003                              | 945,748,000                  | 94,575             |

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes

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

#### (a) SIHL Old Scheme

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

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

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

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

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

At 31 December 2003, the number of shares in respect of which options had been granted under the SIHL Old Scheme and remained outstanding was approximately 0.3% (2002: 1.4%) of the shares of the Company in issue at that date.

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes (continued)

#### (a) SIHL Old Scheme (continued)

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

| Month of grant | Exercise price<br>per share<br>HK\$ | Outstanding<br>at<br>1.1.2002 | Exercised<br>during<br>the year | Lapsed<br>during<br>the year | Outstanding<br>at<br>31.12.2002 |
|----------------|-------------------------------------|-------------------------------|---------------------------------|------------------------------|---------------------------------|
| August 1998    | 10.432                              | 19,650,000                    | (19,250,000)                    | (400,000)                    | –                               |
| January 1999   | 9.568                               | 22,300,000                    | (21,300,000)                    | –                            | 1,000,000                       |
| March 2001     | 10.496                              | 7,630,000                     | (1,170,000)                     | (90,000)                     | 6,370,000                       |
| July 2001      | 10.432                              | 8,000,000                     | (2,500,000)                     | –                            | 5,500,000                       |
|                |                                     | <b>57,580,000</b>             | <b>(44,220,000)</b>             | <b>(490,000)</b>             | <b>12,870,000</b>               |

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes (continued)

#### (a) SIHL Old Scheme (continued)

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

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

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

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

During the year ended 31 December 2002, the SIHL Old Scheme was terminated. Upon termination of the SIHL Old Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the SIHL Old Scheme shall remain in force. The outstanding options granted under the SIHL Old Scheme shall continue to be subject to the provisions of the SIHL Old Scheme.

#### (b) SIHL New Scheme

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes (continued)

#### (b) SIHL New Scheme (continued)

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

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

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

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

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

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

  

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes (continued)

#### (b) SIHL New Scheme (continued)

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

#### (c) SIIC MedTech Old Scheme

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes (continued)

#### (c) SIIC MedTech Old Scheme (continued)

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

| Month of grant | Exercise price per share<br>HK\$ | Outstanding at<br>1.1.2003 | Exercised during<br>the year | Cancelled during<br>the year | Lapsed during<br>the year | Outstanding at<br>31.12.2003 |
|----------------|----------------------------------|----------------------------|------------------------------|------------------------------|---------------------------|------------------------------|
| January 2000   | 1.69                             | 38,200,000                 | (400,000)                    | (37,800,000)                 | –                         | –                            |
| Month of grant | Exercise price per share<br>HK\$ | Outstanding at<br>1.1.2002 | Exercised during<br>the year | Cancelled during<br>the year | Lapsed during<br>the year | Outstanding at<br>31.12.2002 |
| January 2000   | 1.69                             | 38,700,000                 | –                            | –                            | (500,000)                 | 38,200,000                   |

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

| Month of grant | Exercise price per share<br>HK\$ | Outstanding at<br>1.1.2003 | Reclassified during<br>the year | Exercised during<br>the year | Cancelled during<br>the year | Lapsed during<br>the year | Outstanding at<br>31.12.2003 |
|----------------|----------------------------------|----------------------------|---------------------------------|------------------------------|------------------------------|---------------------------|------------------------------|
| January 2000   | 1.69                             | 8,500,000                  | –                               | –                            | (8,500,000)                  | –                         | –                            |
| Month of grant | Exercise price per share<br>HK\$ | Outstanding at<br>1.1.2002 | Reclassified during<br>the year | Exercised during<br>the year | Cancelled during<br>the year | Lapsed during<br>the year | Outstanding at<br>31.12.2002 |
| January 2000   | 1.69                             | 16,500,000                 | (8,000,000)                     | –                            | –                            | –                         | 8,500,000                    |

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 29. Share Option Schemes (continued)

#### (c) SIIC MedTech Old Scheme (continued)

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

#### (d) SIIC MedTech New Scheme

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 30. Reserves

|   | Share<br>premium<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|--|--------------------------------|------------------------------------|-------------------|
| THE COMPANY   |                              |  |                                |                                    |                   |
| At 1 January 2002   | 9,350,049                    | 473  | 1,137,728                      | 2,756,115                          | 13,244,365        |
| Premium arising on issue of shares                          | 438,553                      | –  | –                              | –                                  | 438,553           |
| Expenses incurred in connection<br>with the issue of shares | (361)                        | –  | –                              | –                                  | (361)             |
| Premium on share repurchased and<br>cancelled               | –                            | –  | –                              | (69,665)                           | (69,665)          |
| Transfer arising on shares repurchased<br>and cancelled     | –                            | 598  | –                              | (598)                              | –                 |
| Profit for the year   | –                            | –  | –                              | 762,169                            | 762,169           |
| Dividends paid (note 10)                                    | –                            | –  | –                              | (454,020)                          | (454,020)         |
| At 31 December 2002   | 9,788,241                    | 1,071  | 1,137,728                      | 2,994,001                          | 13,921,041        |
| Premium arising on issue of shares                          | 98,751                       | –  | –                              | –                                  | 98,751            |
| Expenses incurred in connection<br>with the issue of shares | (88)                         | –  | –                              | –                                  | (88)              |
| Profit for the year   | –                            | –  | –                              | 293,364                            | 293,364           |
| Dividends paid (note 10)                                    | –                            | –  | –                              | (451,112)                          | (451,112)         |
| At 31 December 2003   | 9,886,904                    | 1,071  | 1,137,728                      | 2,836,253                          | 13,861,956        |

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

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

### 31. Amounts due to Subsidiaries

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 32. Long-term Bank Loan

#### The Group and the Company

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

### 33. Deferred Taxation

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 34. Acquisition of Subsidiaries

During the year, the Group acquired the following subsidiaries:

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 34. Acquisition of Subsidiaries (continued)

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

### 35. Disposal of Subsidiaries

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 36. Operating Lease Arrangements

#### The Group as lessee

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

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

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

Included in the above are operating lease commitments for land and buildings of approximately HK\$276 million (2002: HK\$531 million) and approximately HK\$2.2 million (2002: HK\$4.1 million) payable by the Group and the Company respectively to the ultimate holding company and fellow subsidiaries.

#### The Group as lessor

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

|                                       | THE GROUP          |          |                     |          |
|---------------------------------------|--------------------|----------|---------------------|----------|
|                                       | Land and buildings |          | Plant and machinery |          |
|                                       | 2003               | 2002     | 2003                | 2002     |
|                                       | HK\$'000           | HK\$'000 | HK\$'000            | HK\$'000 |
| Within one year                       | 693                | 685      | 2,151               | 2,131    |
| In the second to fifth year inclusive | 725                | 1,212    | 2,151               | 4,262    |
|                                       | 1,418              | 1,897    | 4,302               | 6,393    |

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 37. Capital Commitments

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

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

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of |                  |                  |
| – investments in the PRC subsidiaries and jointly controlled entities                         | 8,369            | 8,045            |
| – acquisition of property, plant and equipment  | 14,984           | 7,546            |
| – additions in construction in progress   | –                | 2,804            |
|   | <b>23,353</b>    | <b>18,395</b>    |
| Capital expenditure authorised but not contracted for in respect of                           |                  |                  |
| – acquisition of property, plant and equipment  | –                | 4,053            |
| – additions in construction in progress   | –                | 8,411            |
|   | <b>–</b>         | <b>12,464</b>    |

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 38. Contingent Liabilities

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

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

### 39. Pledge of Assets

At 31 December 2003, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

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

In addition, certain of the Group's plant and machinery with a net book value of HK\$2,600,000 (2002: HK\$3,782,000) were pledged to an independent third party which provided a guarantee to a bank in respect of a bank loan granted to the Group.

As at 31 December 2003, the Group had bank deposits of approximately HK\$28.8 million (2002: HK\$28.5 million) and approximately HK\$10.3 million (2002: HK\$10.2 million) pledged to banks in respect of banking facilities granted to an associate and a jointly controlled entity respectively.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 40. Retirement Benefits Schemes

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

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

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

### 41. Connected and Related Party Transactions and Balances

#### (I) Connected Persons

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

| Connected persons   | Nature of transaction                         | THE GROUP        |                  |
|---|---|------------------|------------------|
|   |   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| <b>Transactions</b>                                       |   |                  |                  |
| <i>Ultimate holding company:</i>                          |   |                  |                  |
| Shanghai Industrial Investment (Holdings) Company Limited | Rentals paid on land and buildings (note (i)) | 6,301            | 5,884            |

## Notes to the Financial Statements

For the year ended 31 December 2003

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

#### (I) Connected Persons (continued)

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

## Notes to the Financial Statements

For the year ended 31 December 2003

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

#### (I) Connected Persons (continued)

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

## Notes to the Financial Statements

For the year ended 31 December 2003

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

#### (I) Connected Persons (continued)

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

## Notes to the Financial Statements

For the year ended 31 December 2003

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

#### (I) Connected Persons (continued)

Notes:

- (i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.
  - (ii) On 21 May 2003, Shanghai Industrial YKB Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement with a number of vendors to acquire the non-publicly tradable shares of SI United, representing an aggregate of approximately 56.63% of the issued share capital of SI United, as to which 19.26% and 22.34% is to be acquired from City Note and SIIC Shanghai respectively. The consideration payable to City Note and SIIC Shanghai amounted to approximately HK\$277,970,000 and HK\$322,445,000 respectively. The acquisition has not been completed at the report date as it is pending for the approval from respective government authorities. Details of this acquisition were included in a published announcement of the Company on the same date.
  - (iii) During the year, the Group completed the privatisation of SIIC MedTech. The payments to NEL, NPL and certain directors of SIIC MedTech, in consideration for the cancellation of their interests in SIIC MedTech, were in accordance with the price as stated in the document issued by the Company on 18 July 2003.
  - (iv) The terms of these transactions were determined and agreed by both parties.
  - (v) On 29 May 2002, SIMST, a non-wholly owned subsidiary of the Group, and S.I. Technology Venture Capital Limited ("SITVC"), a wholly-owned subsidiary of the Group, entered into a share transfer agreement, pursuant to which SIMST acquired a 13.35% interest in E-COM Technology Limited from SITVC at a consideration of RMB9,500,000 (approximately HK\$8,953,000). Details of this acquisition were included in a published announcement of SIIC MedTech on the same date.
  - (vi) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
  - (vii) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
  - (viii) The loan was unsecured, borne interest at 5% per annum and fully repaid during the year.
  - (ix) On 7 May 2003, S.I. Commerce Holdings Limited ("SI Commerce"), a wholly-owned subsidiary of the Group entered into an agreement, with Shanghai Yibai to dispose of all its 51% interest in Orient Shopping to Shanghai Yibai, at a cash consideration of RMB127,137,000 (approximately HK\$119,941,000). Details of this disposal were included in a published announcement of the Company on 9 May 2003.
  - (x) The amount was unsecured, non-interest bearing and fully repaid during the year.
  - (xi) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
- (b) Details of operating lease commitments with connected parties are set out in note 36.
- (c) As at 31 December 2003, the Company had given guarantees amounting to approximately HK\$22 million (2002: HK\$22 million) to various banks in respect of credit facilities granted to The Wing Fat Printing Company, Limited ("Wing Fat") which is 93.3% indirectly owned by the Group. Also, the Group had provided advances to Wing Fat for financing its operations. As at 31 December 2003, the Group had advanced approximately HK\$58 million (2002: HK\$109 million) to Wing Fat. The advances are unsecured, non-interest bearing and have no fixed repayment terms. The guarantees given by the Company and advances made by the Group were the only financial assistance given by Wing Fat's shareholders to Wing Fat.

## Notes to the Financial Statements

For the year ended 31 December 2003

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

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

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

| Related parties   | Nature of transaction   | THE GROUP        |                  |
|---|---|------------------|------------------|
|   |   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| <b>Balances</b>   |   |                  |                  |
| <i>Jointly controlled entities:</i>   |   |                  |                  |
| 珠海友通科技有限公司<br>(E-COM Technology Limited)                                    | Balance at 31 December<br>– trade receivable                  | 13,860           | 6,071            |
| 杭州胡慶餘堂國藥號有限公司<br>(Hangzhou Huqingyutang Drugstore<br>Co., Ltd.)             | Balance at 31 December<br>– non-trade receivable (note (vi))  | 2,358            | 2,336            |
|   | – non-trade payable (note (vi))                               | 649              | –                |
| Mergen Holdings Ltd.  | Balance at 31 December<br>– long-term receivable (note (vii)) | 33,375           | 208,564          |
| 廣東寶萊特醫用科技股份<br>有限公司<br>(Guong Dong Biolight Medical<br>Technology Co. Ltd.) | Balance at 31 December<br>– non-trade payable (note (vi))     | 102              | –                |
| Dragon Wealth Assets Limited  | Balance at 31 December<br>– long-term receivable (note (v))   | –                | 3,120            |
| 上海三維製藥有限公司<br>(Shanghai Sunve Pharmaceutical<br>Co., Ltd.)                  | Balance at 31 December<br>– non-trade receivable (note (v))   | –                | 8,131            |

## Notes to the Financial Statements

For the year ended 31 December 2003

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

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

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

Notes:

- (i) These transactions were carried out in accordance with the terms of the agreement entered into between the relevant parties.
  - (ii) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
  - (iii) On 14 October 2003, S.I. Pharmaceutical Holdings Limited, a wholly-owned subsidiary of the Group, agreed to purchase from Mergen Holdings Limited all the issued share capital of Mergen Biotech Limited and Mergen BioMedicine Limited at a total consideration of HK\$27,300,000.
  - (iv) The loan was unsecured, borne interest at 5% per annum and fully repaid during the year.
  - (v) The loan was unsecured, borne interest at commercial rates and fully repaid during the year.
  - (vi) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
  - (vii) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
  - (viii) The loan is unsecured, bears interest at 5.31% per annum and has no fixed repayment terms.
  - (ix) The loan bears interest at 5% per annum and has no fixed repayment terms. An amount of HK\$5,755,000 is secured by the equity interest in the associate held by the remaining shareholders.
- (b) Detail of guarantees and pledged assets given by the Group to related parties are set out in notes 38 and 39 respectively.

### 42. Government Grants

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 43. Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2003 are as follows:

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 43. Principal Subsidiaries (continued)

*Notes:*

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 44. Principal Jointly Controlled Entities

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

| Name of jointly controlled entity   | Place of incorporation or establishment/ operations | Percentage of registered capital attributable to the Group | Principal activities   |
|---|---|--|--|
| 上海匯眾汽車製造有限公司<br>(Shanghai Huizhong Automotive Manufacturing Company Limited)<br>("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<br>(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<br>(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<br>(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<br>(China Water & Sewage Treatment Company Limited)                                       | PRC   | 50%  | Joint investment and operation of water-related and environment protection business in the PRC           |
| 中環水務建設有限公司  | PRC   | 40%  | Construction of water supply and sewage treatment projects in the PRC                                    |

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

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

A summary of the financial information of Shanghai Huizhong, the major jointly controlled entity of the Group, is set out in note 45.

## Notes to the Financial Statements

For the year ended 31 December 2003

### 45. Summary of Financial Information of the Group's Major Jointly Controlled Entity

The following is a summary of the financial information extracted from the audited financial statements of Shanghai Huizhong for the year ended 31 December 2003:

#### Consolidated Results

for the year ended 31 December:

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

#### Consolidated Financial Position

as at 31 December:

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 46. Principal Associates

Particulars of the Group's principal associates at 31 December 2003 and which are all sino-foreign equity joint venture companies established in the PRC are as follows:

| Name of associate   | Percentage of registered capital |                           | Principal activities   |
|---|----------------------------------|---------------------------|--|
|   | held by the subsidiaries         | attributable to the Group |  |
| EAS International   | 50%                              | 50%                       | Provision of freight forwarding and logistics services                                 |
| SMIC  | 13.4%                            | 13.4%                     | Investment holding and manufacture and marketing of advanced technology semiconductors |
| Shanghai Jahwa  | 28.2%                            | 28.2%                     | Manufacture, distribution and sale of personal care and cosmetics products             |
| 光明乳業股份有限公司<br>(Bright Dairy and Food Co., Ltd.)                   | 30.8%                            | 30.8%                     | Manufacture, distribution and sale of dairy and related products                       |
| 濟南泉永印務有限公司<br>(Jinan Quanyong Printing Co., Ltd.)                 | 48%                              | 44.8%                     | Provision of printing services   |
| 上海申永燙金材料有限公司<br>(Shanghai Shen Yong Stamping Foil Co., Ltd.)      | 29%                              | 27.1%                     | Manufacture of stamping foil   |
| 上海實業交通電器有限公司<br>(Shanghai SIIC Transportation Electric Co., Ltd.) | 30%                              | 30%                       | Manufacture, distribution and sale of automobile components                            |
| 浙江天外煙草印刷有限公司<br>(Zhejiang Tianwai Tobaccos Printing Co., Ltd.)    | 30%                              | 28%                       | Provision of printing services   |

All the above associates are indirectly held by the Company.

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 47. Post Balance Sheet Events

The following significant events occurred after the balance sheet date:

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

### 48. Segment Information

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

Principal businesses are as follows:

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 48. Segment Information (continued)

Segment information about these businesses is presented below:

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 48. Segment Information (continued)

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

## Notes to the Financial Statements

For the year ended 31 December 2003

### 48. Segment Information (continued)

| 2002   | Consumer<br>Products and<br>Automobiles<br>and Parts<br>HK\$'000 | Infrastructure<br>Facilities<br>HK\$'000 | Medicine and<br>Biotechnology<br>HK\$'000 | Information<br>Technology<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--|--|--|---|---------------------------------------|--------------------------|
| <b>Income statement:</b>   |  |  |   |                                       |                          |
| External sales   | 1,832,933  | 704,718                                  | 842,386                                   | –                                     | 3,380,037                |
| Segment results  | 260,695  | 701,926                                  | 225,055                                   | –                                     | 1,187,676                |
| Less: Net headquarters administrative expenses   |  |  |   |                                       | (79,400)                 |
| Add: Interest income   | 9,089  | –  | 5,702                                     | 36,055                                | 50,846                   |
| Profit from operations   |  |  |   |                                       | 1,159,122                |
| Interest on bank and other borrowings<br>wholly repayable within five years                  |  |  |   |                                       | (63,745)                 |
| Gain on disposal of interests in subsidiaries,<br>associates and jointly controlled entities |  |  |   |                                       | 222,864                  |
| Share of results of jointly controlled entities  | 171,122  | 756                                      | 3,474                                     | (33,503)                              | 141,849                  |
| Share of results of associates   | 123,914  | 7,355                                    | –   | (124,237)                             | 7,032                    |
| Impairment loss recognised in respect of<br>interest in a jointly controlled entity          |  |  |   |                                       | (15,300)                 |
| Profit from ordinary activities before taxation  |  |  |   |                                       | 1,451,822                |
| Taxation   |  |  |   |                                       | (182,376)                |
| Profit from ordinary activities after taxation   |  |  |   |                                       | 1,269,446                |

## Notes to the Financial Statements

For the year ended 31 December 2003

### 48. Segment Information (continued)

| 2002  | Consumer<br>Products and<br>Automobiles<br>and Parts<br>HK\$'000 | Infrastructure<br>Facilities<br>HK\$'000 | Medicine and<br>Biotechnology<br>HK\$'000 | Information<br>Technology<br>HK\$'000 | Unallocated<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|--|--|---|---------------------------------------|-------------------------|--------------------------|
| <b>Balance sheet:</b>                                       |  |  |   |                                       |                         |                          |
| <b>ASSETS</b>   |  |  |   |                                       |                         |                          |
| Segment assets  | 2,607,228  | 5,942,015                                | 920,941                                   | 263,041                               | –                       | 9,733,225                |
| Interest in jointly controlled entities                     | 1,097,168  | 61,614                                   | 288,136                                   | 430,715                               | –                       | 1,877,633                |
| Interest in associates                                      | 1,103,078  | 141,618                                  | –   | 1,338,412                             | –                       | 2,583,108                |
| Unallocated corporate assets                                |  |  |   |                                       |                         | 2,268,696                |
| Consolidated total assets                                   |  |  |   |                                       |                         | 16,462,662               |
| <b>LIABILITIES</b>  |  |  |   |                                       |                         |                          |
| Segment liabilities   | 257,703  | –  | 195,177                                   | 1,125                                 | –                       | 454,005                  |
| Unallocated corporate liabilities                           |  |  |   |                                       |                         | 1,892,302                |
| Consolidated total liabilities                              |  |  |   |                                       |                         | 2,346,307                |
| <b>Other information:</b>                                   |  |  |   |                                       |                         |                          |
| Capital additions   | 86,930   | 20,647                                   | 75,899                                    | 708                                   | 3,009                   | 187,193                  |
| Depreciation and amortisation                               | 88,332   | 1,927                                    | 13,374                                    | 301                                   | 3,882                   | 107,816                  |
| Impairment losses   | –  | –  | 15,300                                    | 14,456                                | 3,231                   | 32,987                   |
| Allowance on amount due from a jointly<br>controlled entity | –  | –  | 12,987                                    | –                                     | –                       | 12,987                   |

## Notes to the Financial Statements

For the year ended 31 December 2003

### 48. Segment Information (continued)

#### Geographical segments

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

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

The Group's consumer products and automobiles and parts business is located in the PRC and Hong Kong while the infrastructure facilities business, medicine and biotechnology business, and information technology business are located in the PRC.

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

| Geographical region | Carrying amount of segment assets |                   | Additions to property, plant and equipment and intangible assets |                  |
|---------------------|-----------------------------------|-------------------|--|------------------|
|                     | 2003<br>HK\$'000                  | 2002<br>HK\$'000  | 2003<br>HK\$'000   | 2002<br>HK\$'000 |
| PRC                 | 9,981,894                         | 12,049,034        | 2,210,084  | 166,660          |
| South-East Asia     | 22,991                            | 29,050            | –  | –                |
| Hong Kong           | 6,285,946                         | 4,354,966         | 49,796   | 20,533           |
| Other areas         | 784,623                           | 29,612            | –  | –                |
|                     | <b>17,075,454</b>                 | <b>16,462,662</b> | <b>2,259,880</b>   | <b>187,193</b>   |