

Directors' Report

The Directors have pleasure in presenting their annual report and the audited financial statements of Shanghai Industrial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31st December 2004.

Principal Activities

The Company is an investment holding company.

Principal Subsidiaries, Jointly Controlled Entities and Associates

Details of the principal subsidiaries, jointly controlled entities and associates at 31st December 2004 are set out in notes 47, 48 and 50 to the financial statements respectively.

Results and Dividends

The results of the Group for the year ended 31st December 2004 are set out in the consolidated income statement on page 53 of this annual report.

An interim dividend of HK20 cents per share was paid during the year. The Directors recommended a final dividend of HK35 cents per share to the Shareholders whose names, appear on the register of members of the Company on 26th May 2005.

Financial Summary

A summary of the financial information of the Group for the year ended 31st December 2004 and the financial information of the Group for the previous four years is set out on page 20 of this annual report.

Share Capital

Changes in the share capital of the Company during the year are set out in note 32 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 34 to the financial statements.

Investment Properties

At 31st December 2004, the investment properties of the Group were revalued by an independent property valuer based on an open market value on existing use at HK\$45.7 million. The valuation did not give rise to any surplus or deficit. Details are set out in note 14 to the financial statements.

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Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 15 to the financial statements.

Directors and Directors' Service Contracts

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

Executive Directors

Cai Lai Xing	(Chairman)	
Qu Ding	(Vice Chairman)	(appointed on 28th August 2004)
Lu Ming Fang	(Chief Executive Officer)	
Lu Da Yong	(Executive Deputy CEO)	
Ding Zhong De		(appointed on 19th January 2004)
Lu Shen		(appointed on 19th January 2004)
Qian Shi Zheng		
Yao Fang		
Tang Jun		(appointed on 12th June 2004)
Chen Wei Shu		(resigned on 19th January 2004)
Li Wei Da		(resigned on 19th January 2004)
Lu Yu Ping		(resigned on 12th June 2004)
Zhou Jie		(resigned on 19th January 2004)
Ge Wen Yao		(resigned on 28th August 2004)
Huang Yan Zheng		(resigned on 19th January 2004)

Independent non-executive Directors

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

In accordance with Articles 92 and 101 of the Company's Articles of Association, Mr. Cai Lai Xing, Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Yao Fang, Mr. Tang Jun and Dr. Lo Ka Shui retire and, being eligible, offer themselves for re-election.

The term of office of each of the non-executive Directors shall be terminated on whenever is the earlier of (i) 1st January 2008 and (ii) the non-executive Directors ceasing to be a Director for any reasons pursuant to the Company's Articles of Association or any other applicable laws.

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

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Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31st December 2004, the interests and short position of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(I) Interests in shares and underlying shares of the Company

(a) Ordinary shares

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Lai Xing	Beneficial owner	4,000,000	0.42%
Qu Ding	Beneficial owner	750,000	0.08%
Lu Ming Fang	Beneficial owner	4,200,000	0.44%
Lu Da Yong	Beneficial owner	2,700,000	0.28%
		11,650,000	1.22%

All interests stated above represented long positions.

(b) Share options

Name of Director	Capacity	Number of options held	Number of underlying shares	Percentage of the issued share capital of the Company
Qu Ding	Beneficial owner	500,000	500,000	0.05%

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(II) Interests in shares of Shanghai Industrial United Holdings Co. Ltd. ("SI United"), a subsidiary of the Company

Publicly tradable shares

Name of Director	Capacity	Number of issued shares held	Percentage of the total issued share capital of SI United
Lu Ming Fang	Beneficial owner	15,000	0.005%
Ding Zhong De	Beneficial owner	15,000	0.005%
Lu Shen	Beneficial owner	12,000	0.004%

All interests stated above represented long positions.

Save as disclosed above, as at 31st December 2004, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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Share Options

Particulars of the share option schemes adopted by the Group are set out in note 33 to the financial statements.

During the year, the movements in the share options to subscribe for the Company's shares were as follows:

	Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Reclassified during the year	Exercised during the year	Outstanding at 31.12.2004	
Category 1: Directors							
	Lu Ming Fang	July 2001	10.432	1,500,000	–	(1,500,000)	–
	Lu Yu Ping (note (i))	March 2001	10.496	1,550,000	(1,550,000)	–	–
	Qu Ding (note (ii))	September 2002	11.710	–	500,000	–	500,000
	Total for Directors			3,050,000	(1,050,000)	(1,500,000)	500,000
Category 2: Employees							
		March 2001	10.496	–	1,550,000	(1,550,000)	–
		September 2002	11.710	26,120,000	(500,000)	(9,840,000)	15,780,000
	Total for employees			26,120,000	1,050,000	(11,390,000)	15,780,000
	Total for all categories			29,170,000	–	(12,890,000)	16,280,000

Notes:

- (i) No share options were exercised by Mr. Lu Yu Ping during the period prior to his resignation as a Director of the Company on 12th June 2004.
- (ii) No share options were exercised by Mr. Qu Ding during the period after his appointment as a Director of the Company on 28th August 2004.

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

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised was HK\$14.60.

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Directors' Right to Acquire Shares and Debentures

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

Substantial Shareholders

As at 31st December 2004, the interests and short positions of every position, other than the Directors and Chief Executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, are set out below:

Ordinary shares

Name of shareholder	Capacity	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of the Company
(a) <i>Long Positions</i>			
Shanghai Industrial Investment (Holdings) Co. Ltd. ("SIIC")	Interests held by controlled corporation(s)	550,278,562 (notes (i) and (ii))	57.4%
(b) <i>Short Positions</i>			
SIIC	Interests held by controlled corporation(s)	92,145,863 (note (iii))	9.6%

Notes:

- (i) Shanghai Investment Holdings Limited ("SIH"), SIIC Capital (B.V.I.) Limited ("SIIC Capital BVI") and SIIC CM Development Limited ("SIIC CM Development") held 468,066,000, 80,000,000 and 10,000 ordinary shares in the Company respectively. SIIC owns 100% of SIIC CM Development and Shanghai Industrial Investment Treasury Company Limited ("STC") respectively whereas STC owns 100% of SIH which in turns owns 100% of SIIC Capital BVI.
- (ii) SIIC Treasury (B.V.I.) Limited and SIIC CM Development Funds Limited, both of which are indirect wholly-owned subsidiaries of SIIC, acquired physically settled equity derivatives in respect of 1,824,290 and 378,272 underlying shares in the Company respectively, pursuant to which the issuer of the equity derivatives has the obligation to procure delivery of the said shares to the said respective companies under certain conditions.
- (iii) SIIC was taken to have short positions in respect of 92,145,863 underlying shares in the Company whereby STC has issued an aggregate of HK\$2,430,900,000 Zero Coupon Guaranteed Exchangeable Bonds due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company at an exchangeable price of HK\$26.381 per share.

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under Section 336 of the SFO as at 31st December 2004.

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Connected Transactions

Details of the discloseable connected transactions for the year are set out in note 45(l) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The independent non-executive Directors have reviewed the connected transactions set out in note 45(l)(a) to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms not less favourable than terms available to independent third parties; and
- (iii) in accordance with the terms of the agreements governing such transactions or on terms that are fair and reasonable and in the interests of the Shareholders of the Company are concerned.

Directors' Interests in Contracts

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

Competing Interests

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

SIICI has interest in Shanghai SIIC SMU Biotech Co., Ltd. ("SMU Biotech"). SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection which is used for emergency treatment to dissolve blood clog from myocardial infection.

Save as disclosed above, during the year ended 31st December 2004, none of the Directors or the substantial shareholders of the Company had an interest in a business, which competes or may compete with the business of the Group.

Major Customers and Suppliers

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 33% of the Group's total sales and total purchases respectively. The sales attributable to the Group's largest customer were approximately 8% of the Group's total sales. The aggregate purchases attributable to the Group's largest supplier were approximately 11% of the Group's total purchases.

None of the Directors, their associates or any Shareholder which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers of the Group.

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

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

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31st December 2004.

Donations

During the year, the Group made charitable and other donations totalling HK\$871,000.

Retirement Benefits Schemes

Details of the Group's retirement benefits schemes are set out in note 44 to the financial statements.

Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 52 to the financial statements.

Model Code for Securities Transactions

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

Corporate Governance

The Company has complied throughout the year ended 31st December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that the non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

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Auditors

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

On behalf of the Board



Cai Lai Xing

Chairman

Hong Kong, 21st April 2005