

Notes to the Financial Statements

For the year ended 31st December 2004

1. GENERAL

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

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

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

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

SSAP 36

Agriculture

Agriculture

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

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

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For the year ended 31st December 2004

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

HKFRS 2 "Share-based Payment"

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

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

HKFRS 3 "Business Combinations"

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

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

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

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

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For the year ended 31st December 2004

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS (continued)

HKAS 32 "Financial Instruments: Disclosure and Presentation"

HKAS 39 "Financial Instruments: Recognition and Measurement"

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

HKAS 40 "Investment Properties"

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

Negative goodwill

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Toll road operating right

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

Interest in subsidiaries

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

Interest in jointly controlled entities

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

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

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

Interest in associates

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

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

Investments in other projects

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities

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

Investments are classified as investment securities and other investments.

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

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

Revenue recognition

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

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

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

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

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

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

Investment properties

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

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

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

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

Impairment

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

4. 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 period in which they are incurred.

Inventories

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

Research and development expenditure

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

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

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

Patents and trademarks

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

Retirement benefits costs

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

Taxation

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

4. 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 is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

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

Foreign currencies

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

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

Operating leases

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

Notes to the Financial Statements

For the year ended 31st December 2004

5. TURNOVER

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

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

6. INVESTMENT INCOME

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

Notes to the Financial Statements

For the year ended 31st December 2004

7. PROFIT FROM OPERATIONS

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

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For the year ended 31st December 2004

8. FINANCE COSTS

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

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

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

The emoluments of the directors were within the following bands:

	2004 Number of directors	2003 Number of directors
Up to HK\$1,000,000	12	10
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	2	1
HK\$3,500,001 to HK\$4,000,000	–	2
HK\$4,000,001 to HK\$4,500,000	–	2
HK\$5,000,001 to HK\$5,500,000	1	2
HK\$6,500,001 to HK\$7,000,000	1	–

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For the year ended 31st December 2004

9. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (continued)

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

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

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

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

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11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax		
– current year	66,633	57,703
– underprovision in prior years	30,704	21,164
– PRC income tax		
– current year	66,437	87,841
– underprovision in prior years	2,342	3,114
	166,116	169,822
Deferred taxation (note 37)		
– current year	20,036	(11,492)
– effect of change in tax rate	–	7,174
	20,036	(4,318)
Taxation attributable to the Company and its subsidiaries	186,152	165,504
Share of PRC income tax of jointly controlled entities	15,230	31,679
Share of PRC income tax of associates	30,597	44,721
	45,827	76,400
	231,979	241,904

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

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

Details of deferred taxation are set out in note 37.

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11. TAXATION (continued)

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

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

12. DIVIDENDS

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

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

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13. EARNINGS PER SHARE

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

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

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

14. INVESTMENT PROPERTIES

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

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

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

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

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15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The net book value of property interests comprises:				
Properties held under				
– short-term land use rights in the PRC	349	–	–	–
– medium-term leases in Macau	1,179	1,227	–	–
– medium-term leases in Hong Kong	265,007	272,911	–	–
– medium-term land use rights in the PRC	322,564	149,246	2,430	2,542
	589,099	423,384	2,430	2,542

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

16. TOLL ROAD OPERATING RIGHT

	THE GROUP
	HK\$'000
COST	
At 1st January 2004 – as originally stated	1,841,082
Change in fair value (note)	(14,805)
At 31st December 2004	1,826,277
AMORTISATION	
Charge for the year and balance at 31st December 2004	41,626
NET BOOK VALUE	
At 31st December 2004	1,784,651
At 31st December 2003	1,841,082

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

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

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

17. INTANGIBLE ASSETS

	THE GROUP
	HK\$'000
COST AND NET BOOK VALUE	
Arising on acquisition of a subsidiary and balance at 31st December 2004	39,206

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

18. GOODWILL

	THE GROUP
	HK\$'000
COST	
At 1st January 2004	266,175
Arising on acquisition of subsidiaries	130,369
Eliminated on disposal/deemed disposal of interest in subsidiaries	(28,035)
At 31st December 2004	368,509
AMORTISATION AND IMPAIRMENT	
At 1st January 2004	9,439
Charge for the year	15,462
Impairment loss recognised	2,003
Eliminated on disposal/deemed disposal of interest in subsidiaries	(4,599)
At 31st December 2004	22,305
NET BOOK VALUE	
At 31st December 2004	346,204
At 31st December 2003	256,736

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

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

19. NEGATIVE GOODWILL

	THE GROUP
	HK\$'000
GROSS AMOUNT	
Arising on acquisition of a subsidiary and balance at 31st December 2004	2,212
RELEASED TO INCOME	
Released for the year and balance at 31st December 2004	9
NET BOOK VALUE	
At 31st December 2004	2,203
At 31st December 2003	–

The amortisation period adopted for negative goodwill is 20 years.

Notes to the Financial Statements

For the year ended 31st December 2004

20. INTEREST IN SUBSIDIARIES

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

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

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

21. INTEREST IN JOINTLY CONTROLLED ENTITIES

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

21. INTEREST IN JOINTLY CONTROLLED ENTITIES (continued)

	THE GROUP
	HK\$'000
Goodwill arising on acquisition of jointly controlled entities/ additional interest in jointly controlled entities	
COST	
At 1st January 2004 and 31st December 2004	92,677
AMORTISATION AND IMPAIRMENT	
At 1st January 2004	5,532
Charge for the year	1,709
Impairment loss recognised	67,369
At 31st December 2004	74,610
NET BOOK VALUE	
At 31st December 2004	18,067
At 31st December 2003	87,145

The amortisation period adopted for the above goodwill ranges from 10 to 20 years and such amortisation was included in share of results of jointly controlled entities.

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

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

22. INTEREST IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets of associates	4,304,285	3,095,868
Goodwill on acquisition of associates/additional interest in associates less amortisation	72,291	114,780
Amount due from an associate	-	3
	4,376,576	3,210,651
Less: Impairment loss recognised	(9,419)	-
	4,367,157	3,210,651
Market value of listed shares	3,103,635	-

Notes to the Financial Statements

For the year ended 31st December 2004

22. INTEREST IN ASSOCIATES (continued)

	THE GROUP
	HK\$'000
Goodwill arising on acquisition of associates/ additional interest in associates	
COST	
At 1st January 2004	123,812
Eliminated on disposal/deemed disposal of interest in associates	(41,260)
At 31st December 2004	<u>82,552</u>
AMORTISATION	
At 1st January 2004	9,032
Charge for the year	6,636
Eliminated on disposal/deemed disposal of interest in associates	(5,407)
At 31st December 2004	<u>10,261</u>
NET BOOK VALUE	
At 31st December 2004	<u>72,291</u>
At 31st December 2003	<u>114,780</u>

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

23. INVESTMENTS IN OTHER PROJECTS

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

24. INVESTMENTS IN SECURITIES

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

25. LOAN RECEIVABLE

THE GROUP

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

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

THE GROUP

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

27. INVENTORIES

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

The inventories are stated at cost.

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

Notes to the Financial Statements

For the year ended 31st December 2004

28. TRADE AND OTHER RECEIVABLES

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

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

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

29. PLEDGED BANK DEPOSITS

THE GROUP

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

30. TRADE AND OTHER PAYABLES

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

31. SHORT-TERM BANK AND OTHER BORROWINGS

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

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

32. SHARE CAPITAL

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

Notes to the Financial Statements

For the year ended 31st December 2004

33. SHARE OPTION SCHEMES

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

(a) SIHL Old Scheme

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

33. SHARE OPTION SCHEMES (continued)

(a) SIHL Old Scheme (continued)

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
March 2001	10.496	1,550,000	(1,550,000)	–	–
July 2001	10.432	1,500,000	(1,500,000)	–	–
		3,050,000	(3,050,000)	–	–

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

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Reclassified during the year (note (i))	Exercised during the year	Outstanding at 31.12.2004
March 2001	10.496	1,550,000	(1,550,000)	–	–
July 2001	10.432	1,500,000	–	(1,500,000)	–
		3,050,000	(1,550,000)	(1,500,000)	–

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

Notes to the Financial Statements

For the year ended 31st December 2004

33. SHARE OPTION SCHEMES (continued)

(a) SIHL Old Scheme (continued)

Notes:

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

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

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

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

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

(b) SIHL New Scheme

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

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

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

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For the year ended 31st December 2004

33. SHARE OPTION SCHEMES (continued)

(b) SIHL New Scheme (continued)

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

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

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

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

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2004	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
September 2002	11.71	26,120,000	(9,840,000)	–	16,280,000
Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2003
September 2002	11.71	27,150,000	(630,000)	(400,000)	26,120,000

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

33. SHARE OPTION SCHEMES (continued)

(b) SIHL New Scheme (continued)

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

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

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

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

(c) SIIC MedTech Old Scheme

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

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

(d) SIIC MedTech New Scheme

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

33. SHARE OPTION SCHEMES (continued)

(e) Mergen Biotech Scheme

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

33. SHARE OPTION SCHEMES (continued)

(e) Mergen Biotech Scheme (continued)

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

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

34. RESERVES

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

Notes to the Financial Statements

For the year ended 31st December 2004

34. RESERVES (continued)

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

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

35. AMOUNTS DUE TO SUBSIDIARIES

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

36. LONG-TERM BANK AND OTHER BORROWINGS

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

37. DEFERRED TAXATION

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

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

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

	2004	2003
	HK\$'000	HK\$'000
Deferred tax liabilities	91,937	71,901
Deferred tax assets	(33,232)	–
	58,705	71,901

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

38. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the following subsidiaries:

- (a) the 55% of registered capital of Liaoning Herbapex Pharmaceutical (Group) Company Limited ("Liaoning Herbapex"), a sino-foreign equity joint venture company, for a consideration of RMB85,000,000 (equivalent to HK\$80,196,000). This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of this acquisition was HK\$29,640,000;
- (b) approximately 56.63% of the issued share capital of Shanghai Industrial United Holdings Co., Ltd. ("SI United"), a company listed on the A Shares Market of the Shanghai Stock Exchange, for a consideration of RMB866,460,988 (equivalent to HK\$818,421,000). This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising as a result of this acquisition was HK\$100,729,000; and
- (c) the entire issued share capital of Shen Dong Limited for a consideration of HK\$6,483,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of negative goodwill arising as a result of this acquisition was HK\$2,212,000.

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

Notes to the Financial Statements

For the year ended 31st December 2004

38. ACQUISITION OF SUBSIDIARIES (continued)

	2004 HK\$'000	2003 HK\$'000
Satisfied by:		
Cash consideration paid	905,100	1,906,323
Other payables	–	5,740
	905,100	1,912,063
Net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash paid	(905,100)	(1,906,323)
Bank balances and cash acquired	514,285	9,028
	(390,815)	(1,897,295)

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

Notes to the Financial Statements

For the year ended 31st December 2004

39. DISPOSAL OF A SUBSIDIARY

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

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

The subsidiary 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 31st December 2004

40. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

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

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

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

The Group as lessor

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

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

The properties have committed tenants of 1 to 2 years.

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

Notes to the Financial Statements

For the year ended 31st December 2004

41. CAPITAL COMMITMENTS

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

42. CONTINGENT LIABILITIES

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

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

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

43. PLEDGE OF ASSETS

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

43. PLEDGE OF ASSETS (continued)

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

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

44. RETIREMENT BENEFITS SCHEMES

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) CONNECTED PERSONS

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED PERSONS (continued)

(a) (continued)

Connected persons	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Transactions (continued)			
<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
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 of subsidiaries:</i>			
中國(杭州)青春寶集團 有限公司 (China (Hangzhou) Qingchunbao Group Co. Ltd.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (note (vi)) Purchase of raw materials (note (iv))	61 –	62 213
Shanghai Yibai (Holdings) Company Ltd. ("Shanghai Yibai")	Disposal of interest in a subsidiary (note (vii))	–	119,941

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED PERSONS (continued)

(a) (continued)

Connected persons	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Transactions (continued)			
<i>Minority shareholders of subsidiaries: (continued)</i>			
許昌捲煙總廠	Sales of cigarette box packaging materials (note (vi))	22,198	–
寧夏農林科學院	Interest paid (note (v))	136	127
<i>Fellow subsidiary of a minority shareholder of a subsidiary:</i>			
福建省廈門醫藥採購 供應站	Sales of medicine products (note (vi))	7,098	–
Balances			
<i>Minority shareholders of subsidiaries:</i>			
China Qingchunbao and its subsidiaries	Balance at 31st December – trade receivables – trade payables – dividend payable	331 750 –	249 750 1,203
寧夏農林科學院	Balance at 31st December – loan payable (note (v))	1,887	1,887
Cyber Care Inc.	Balance at 31st December – non-trade receivables (note (viii))	–	1,328

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED PERSONS (continued)

(a) (continued)

Connected persons	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Balances (continued)			
<i>Minority shareholders of subsidiaries: (continued)</i>			
鼎爐實業總公司 (Dinglu Industrial Co.) and its subsidiaries	Balance at 31st December – non-trade payables (note (viii))	–	1,608
許昌捲煙總廠	Balance at 31st December – trade receivables	3,774	–
<i>Fellow subsidiary of a minority shareholder of a subsidiary:</i>			
福建省廈門醫藥採購 供應站	Balance at 31st December – deposits received in advance	486	–

Notes:

- (i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.
- (ii) On 21st May 2003, Shanghai Industrial YKB Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement with a number of vendors to acquire the non-publicly tradable shares of SI United, representing an aggregate of approximately 56.63% of the issued share capital of SI United, as to which 19.26% and 22.34% is to be acquired from City Note and SIIC Shanghai respectively. The consideration payable to City Note and SIIC Shanghai amounted to approximately HK\$277,970,000 and HK\$322,445,000 respectively. The acquisition was completed in December 2004. Details of this acquisition were included in a published announcement of the Company on the same date.
- (iii) In 2003, the Group completed the privatisation of SIIC MedTech. The payments to NEL, NPL and certain directors of SIIC MedTech, in consideration for the cancellation of their interests in SIIC MedTech, were in accordance with the price as stated in the document issued by the Company on 18th July 2003.
- (iv) The terms of these transactions were determined and agreed by both parties.

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED PERSONS (continued)

(a) (continued)

Notes: (continued)

- (v) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (vi) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
 - (vii) On 7th May 2003, S.I. Commerce Holdings Limited, a wholly-owned subsidiary of the Group entered into an agreement, with Shanghai Yibai to dispose of all its 51% interest in Shanghai Orient to Shanghai Yibai, at a cash consideration of RMB127,137,000 (approximately HK\$119,941,000). Details of this disposal were included in a published announcement of the Company on 9th May 2003.
 - (viii) The amount was unsecured, non-interest bearing and fully repaid during the year.
- (b) Details of operating lease commitments with connected parties are set out in note 40.
- (c) At 31st December 2004, the Group has given guarantees amounting to approximately HK\$50 million to various banks in respect of credit facilities granted to the following fellow subsidiaries:

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

The guarantees were subsequently released on 30th March 2005.

Notes to the Financial Statements

For the year ended 31st December 2004

45. 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	
		2004 HK\$'000	2003 HK\$'000
Transactions			
<i>Jointly controlled entities:</i>			
Daily Wealth Investments Limited	Purchase of finished goods (note (ii))	–	216
	Material cost received (note (ii))	–	94
Dragon Wealth Assets Limited	Service income (note (i))	–	415
Mergen Holdings Ltd.	Acquisition of interest in subsidiaries (note (iii))	–	27,300
珠海友通科技有限公司 (E-COM Technology Limited)	Sales of finished goods (note (ii))	4,700	12,502
河北永新紙業有限公司 (Hebei Yongxin Paper Co., Ltd.)	Interest income received (note (x))	620	–
廣東寶萊特醫用科技 股份有限公司 (Guangdong Biolight Medical Technology Co. Ltd.)	Sales of goods (note (ii))	114	–
<i>Associates:</i>			
上海申永燙金材料 有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Collection on behalf	–	17,608
	Payment on behalf	–	17,452
	Repayment of advance	–	9,434
	Purchase of materials (note (ii))	1,392	5,274
	Interest paid (note (iv))	1,109	354

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) RELATED PARTIES, OTHER THAN CONNECTED PERSONS

(a) (continued)

Related parties	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Transactions (continued)			
<i>Associates: (continued)</i>			
浙江天外印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Printing services income (note (ii))	8,020	6,719
四川科美紙業有限公司	Printing services income (note (ii))	1,651	2,784
成都九興印刷包裝有限公司 (Chengdu Jiuxing Printing and Packing Co., Ltd.)	Interest income received (note (ix))	534	48
西安環球印務有限公司 (Xian Global Printing Co., Ltd.)	Proceeds from disposal of interest in an associate (note (i))	–	7,475
廣西甲天下水松紙有限公司	Sales of materials (note (ii))	10,175	2,051
EAS International Transportation Limited	Interest income received (note (v))	–	1,003
西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.)	Interest paid (note (xi))	628	–
Balances			
<i>Jointly controlled entities:</i>			
Mergen Holdings Ltd.	Balance at 31st December – long-term receivable (net of allowance of HK\$33,376,000 (2003: HK\$67,337,000) (note (viii)))	–	33,375

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For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) RELATED PARTIES, OTHER THAN CONNECTED PERSONS

(a) (continued)

Related parties	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Balances (continued)			
<i>Jointly controlled entities: (continued)</i>			
珠海友通科技有限公司 (E-COM Technology Limited)	Balance at 31st December – trade receivable (net of allowance of HK\$14,800,000 (2003: nil))	–	13,860
杭州胡慶餘堂國藥號有限公司 (Hangzhou Huqingyutang Drugstore Co., Ltd.)	Balance at 31st December – non-trade receivable (note (vi)) – non-trade payable (note (vii))	2,358 –	2,358 649
河北永新紙業有限公司 (Hebei Yongxin Paper Co., Ltd.)	Balance at 31st December – short-term loan receivable (note (x))	38,512	9,434
廣東寶萊特醫用科技股份 有限公司 (Guangdong Biolight Medical Technology Co. Ltd.)	Balance at 31st December – non-trade payable (note (vii))	–	102
<i>Associates:</i>			
上海家化聯合股份有限公司 (Shanghai Jahwa United Co. Ltd.) ("Shanghai Jahwa")	Balance at 31st December – short-term loan receivable (note (viii)) – non-trade receivable (note (vii))	3,000 –	3,000 2,264
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Balance at 31st December – trade payable	1,134	1,025
浙江天外印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Balance at 31st December – trade receivable	180	2,476

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45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) RELATED PARTIES, OTHER THAN CONNECTED PERSONS

(a) (continued)

Related parties	Nature of transaction	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Balances (continued)			
<i>Associates: (continued)</i>			
四川科美紙業有限公司	Balance at 31st December		
	– trade receivable	145	429
	– non-trade receivable (note (vi))	1,202	–
成都九興印刷包裝有限公司 (Chengdu Jiuxing Printing and Packing Co., Ltd.)	Balance at 31st December		
	– short-term loan receivable (note (ix))	29,972	9,434
廣西甲天下水松紙有限公司	Balance at 31st December		
	– trade receivable	3,680	1,814
西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.)	Balance at 31st December		
	– other short-term loan (note (xi))	30,700	–
	– non-trade receivable (note (vii))	–	7,477
西安環球印務有限公司 (Xian Global Printing Co., Ltd.)	Balance at 31st December		
	– non-trade receivable (note (vii))	–	990

Notes:

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

Notes to the Financial Statements

For the year ended 31st December 2004

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) RELATED PARTIES, OTHER THAN CONNECTED PERSONS (continued)

(a) (continued)

Notes: (continued)

- (vi) The amount is unsecured, non-interest bearing and has no fixed repayment terms.
 - (vii) The amount was unsecured, non-interest bearing and fully repaid during the year.
 - (viii) The loan is unsecured, bears interest at commercial rates and has no fixed repayment terms.
 - (ix) The loan is unsecured, bears interest at 5.31% per annum and has no fixed repayment terms.
 - (x) Except for an amount of HK\$33,019,000 (2003: HK\$9,434,000) bears interest at 5% per annum, the remaining balance (2003: nil) bears interest at 5.4% per annum. The loan has no fixed repayment terms. An amount of HK\$5,755,000 is secured by the equity interest in the jointly controlled entity held by the remaining shareholders.
 - (xi) The loan is unsecured, bears interest at 3 months HIBOR plus 2.5% per annum with fixed repayment terms.
- (b) Detail of guarantees and pledged assets given by the Group to related parties are set out in notes 42 and 43 respectively.

46. GOVERNMENT GRANTS

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

Notes to the Financial Statements

For the year ended 31st December 2004

47. PRINCIPAL SUBSIDIARIES

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

47. PRINCIPAL SUBSIDIARIES (continued)

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

Notes:

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

48. PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

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

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

Consolidated results for the year ended 31st December:

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

Consolidated financial position as at 31st December:

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

Notes to the Financial Statements

For the year ended 31st December 2004

50. PRINCIPAL ASSOCIATES

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

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

All the above associates are indirectly held by the Company.

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

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

Notes to the Financial Statements

For the year ended 31st December 2004

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

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

Consolidated results for the year ended 31st December:

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

Consolidated financial position as at 31st December:

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

Notes to the Financial Statements

For the year ended 31st December 2004

52. POST BALANCE SHEET EVENTS

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

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

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

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

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

53. SEGMENT INFORMATION

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

Principal businesses are as follows:

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

Notes to the Financial Statements

For the year ended 31st December 2004

53. SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

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

Notes to the Financial Statements

For the year ended 31st December 2004

53. SEGMENT INFORMATION (continued)

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

Notes to the Financial Statements

For the year ended 31st December 2004

53. SEGMENT INFORMATION (continued)

2003	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
Income statement:					
External sales	283,019	1,127,892	1,415,067	–	2,825,978
Segment results	281,299	288,772	336,843	179,586	1,086,500
Net unallocated corporate income					46,261
Profit from operations					1,132,761
Finance costs					(31,001)
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					278,059
Share of results of jointly controlled entities	444	35,804	124,580	11,807	172,635
Share of results of associates	26,295	7,184	217,215	(89,157)	161,537
Allowance for amount due from a jointly controlled entity					(67,337)
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 31st December 2004

53. SEGMENT INFORMATION (continued)

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

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For the year ended 31st December 2004

53. 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	1,943,374	1,768,201	573,620	836,042
Asia	1,259,255	661,553	283,039	133,726
Hong Kong	186,332	169,343	103,686	68,450
Other areas	39,978	226,881	10,755	48,282
	3,428,939	2,825,978	971,100	1,086,500
Net unallocated corporate (expenses) income			(67,830)	46,261
Profit from operations			903,270	1,132,761

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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	13,894,116	9,981,894	991,257	2,210,084
Asia	24,900	22,991	–	–
Hong Kong	6,365,700	6,285,946	237,481	49,796
Other areas	325,165	784,623	–	–
	20,609,881	17,075,454	1,228,738	2,259,880