# SHANGHAI INDUSTRIAL INVESTMENT TREASURY COMPANY LIMITED

*(incorporated in the British Virgin Islands with limited liability)*

**HK$2,330,000,000**

subject to an additional HK$389,000,000 in aggregate principal amount of Bonds which may be issued pursuant to an option described herein

## Zero Coupon Guaranteed Exchangeable Bonds due 2009

unconditionally and irrevocably guaranteed by

# SHANGHAI INDUSTRIAL INVESTMENT (HOLDINGS) COMPANY LIMITED

*(incorporated in Hong Kong with limited liability)*

and exchangeable into shares of




上海實業控股有限公司
SHANGHAI INDUSTRIAL HOLDINGS LIMITED
上海實業集團成員 A Member of SIIC

*(incorporated in Hong Kong with limited liability)*

---

The HK$2,330,000,000 Zero Coupon Guaranteed Exchangeable Bonds due 2009 (the "Bonds", which expression shall include the Optional Bonds (as defined below), if any) will be issued by Shanghai Industrial Investment Treasury Company Limited (the "Issuer") and will be guaranteed (the "Guarantee") by Shanghai Industrial Investment (Holdings) Company Limited (the "Guarantor").

The Issuer has granted to HSBC Bank plc (the "Lead Manager") an option which can be exercised, in whole or in part and on one occasion only, at any time on or before the 30th day following the Closing Date (as defined below) to subscribe for up to a further HK$389,000,000 in aggregate principal amount of Bonds (the "Optional Bonds"). See "Subscription and Sale".

Unless previously exchanged, redeemed or purchased and cancelled, each Bond will be exchangeable, at the option of the holder, on and after 23 March 2004 and up to the close of business on 6 March 2009 for (i) a pro rata share of the Exchange Property (as described herein), which will initially comprise ordinary shares of par value HK$0.10 each (the "Shares") in Shanghai Industrial Holdings Limited ("Shanghai Industrial") or (ii) at the option of the Issuer, an amount of cash in Hong Kong dollars equal to the Cash Settlement Amount (as defined herein) of such Bond. The number of Shares constituting the Exchange Property shall be calculated by dividing the aggregate principal amount of the Bonds outstanding by the Exchange Price, which shall initially be HK$26.381, subject to adjustment in certain events described under "Terms and Conditions of the Bonds — Exchange". Accordingly, the Exchange Property will initially comprise 88,321,140 Shares (subject to increase up to a maximum of 103,066,600 Shares if all of the Optional Bonds are issued).

Unless previously exchanged, redeemed or purchased and cancelled, the Bonds will be redeemed at 109.10% of their principal amount on 16 March 2009. On or at any time after 16 March 2007 and prior to maturity, the Issuer may redeem all or some only of the Bonds, at the relevant Early Redemption Amount (as defined herein), provided, however, that no such redemption may be made unless either (i) the value of the Exchange Property on each of the 20 consecutive Trading Days (as defined herein), the last of which occurs not more than five Trading Days immediately prior to the date upon which notice of such redemption is given, shall have exceeded 130% of the aggregate principal amount of the Bonds outstanding on such Trading Day; or (ii) prior to the date on which the relevant notice of redemption is given by the Issuer, less than 10% in aggregate principal amount of the Bonds originally issued (including any Optional Bonds) is outstanding. The Bonds may also be redeemed at the option of the holders at the Early Redemption Amount on the occurrence of a Change of Control (as defined herein) or a Delisting (as defined herein) of the Shares. All, but not some only, of the Bonds may be redeemed, at the option of the Issuer, at any time at their Early Redemption Amount, in the event of certain changes relating to British Virgin Islands, Hong Kong or PRC taxation. See "Terms and Conditions of the Bonds — Redemption and Purchase".

Application has been made to The Stock Exchange of Hong Kong Limited (the "HKSE") for listing of, and permission to deal in, the Bonds by way of selectively marketed securities (as defined in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and such permission is expected to become effective on 17 March 2004. The Shares are listed on the HKSE.

**Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 15 for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

---

**Issue Price: 100%**

---

**The Bonds, the Guarantee and the Shares to be delivered upon exchange of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States.**

**For a description of these and certain further restrictions on offers and sales of the Bonds and the Shares to be delivered upon exchange of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".**

The Bonds will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about 16 March 2004 (the "Closing Date"), with a common depositary for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

*Sole Bookrunner and Lead Manager*

**HSBC Bank plc**

*Co-Manager*

**ABN AMRO Rothschild**

Offering Circular dated 11 March 2004

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Guarantor's subsidiaries (the Guarantor and its subsidiaries, collectively, the "SIIC Group"), Shanghai Industrial and Shanghai Industrial's subsidiaries (Shanghai Industrial and its subsidiaries, collectively the "SIHL Group", and the SIIC Group and the SIHL Group are collectively referred to as the "Group") and certain of the Group's jointly controlled entities, associated companies and investment securities (the "jointly controlled entities"), and the issue of the Bonds and the Shares, which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in it relating to the Issuer, the Group and the jointly controlled entities are in every material respect true and accurate and not misleading, and (iii) the opinions and intentions expressed in this document with regard to the Issuer, the Group and the jointly controlled entities are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; there are no other facts in relation to the Issuer, the Group, the jointly controlled entities, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers (as defined in "Subscription and Sale") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or Shares deliverable upon exchange of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and Shares deliverable upon exchange of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Japan, Singapore and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group, the jointly controlled entities, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Managers, the Trustee or the Agents. Neither the delivery of this document nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Group or the jointly controlled entities or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Managers, the Trustee or the Agents to subscribe for or purchase any of, the Bonds or Shares and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. This Offering Circular is not intended to invite offers to subscribe for or purchase Shares.

No representation or warranty, express or implied, is made or given by any of the Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by any of the Managers, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Guarantor, the Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

**IN CONNECTION WITH THIS ISSUE, HSBC BANK PLC (OR ANY PERSON ACTING FOR IT) MAY (TO THE EXTENT PERMITTED BY APPLICABLE LAWS) OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE CLOSING DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON HSBC BANK PLC (OR ANY PERSON ACTING FOR IT) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

This Offering Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Issuer, the Group and the Bonds.

The HKSE takes no responsibility for the contents of this Offering Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Managers or any person affiliated with the Managers in connection with its investigation of the accuracy of such information or its investment decision.

Each of the Guarantor and Shanghai Industrial has prepared audited consolidated financial statements as of and for the two years ended 31 December 2001 and 2002. Shanghai Industrial has prepared unaudited consolidated financial statements as of and for the six months ended 30 June 2002 and 2003 and the Guarantor has prepared unaudited consolidated management accounts as of and for the six months ended 30 June 2002 and 2003. These financial statements were prepared in conformity with HKFRS, which differ in certain material respects from IFRS. See "Summary of Significant Differences Between HKFRS and IFRS".

Unless otherwise specified or the context requires, references herein to "Hong Kong dollars", "HK dollars", "HK$" and "HK¢" are to the lawful currency of Hong Kong, references herein to "US dollars" or "US$" are to the lawful currency of the United States of America, references herein to "Renminbi" or "RMB" are to the lawful currency of the People's Republic of China (the "PRC"), references to "HKFRS" are to accounting principles generally accepted in Hong Kong and references to "IFRS" are to International Financial Reporting Standards. For convenience only and unless otherwise noted, all translations from HK dollars into US dollars in this Offering Circular were made at the rate of HK$7.7987 to US$1.00, being the noon buying rate in New York City for cable transfers on 31 December 2002, with respect to the financial information for the year ended 31 December 2002 and at the rate of HK$7.7986 to US$1.00, being the noon buying rate in New York City for cable transfers on 30 June 2003, with respect to the financial information for the six months ended 30 June 2003. No representation is made that the HK dollar or US dollar amounts referred to in this Offering Circular could have been or could be converted into US dollars or HK dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see "Exchange Rates".

In this document, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

## SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements under "Summary", "Risk Factors", "Description of the Guarantor", "Description of Shanghai Industrial" and elsewhere in this Offering Circular constitutes "forward-looking statements". All statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the financial position, business strategy, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group, or industry results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Among the important factors that could cause the Group's actual results or performance to differ materially from those in the forward-looking statements include, among others, the general political, social and economic conditions in Hong Kong and the PRC. Additional factors that could cause actual results or performance to differ materially include, but are not limited to, those discussed in "Risks Factors". These forward-looking statements speak only as of the date of this Offering Circular. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

## INCORPORATION BY REFERENCE OF FINANCIAL STATEMENTS OF SHANGHAI INDUSTRIAL

The audited consolidated financial statements of Shanghai Industrial which are contained in the Annual Reports of Shanghai Industrial for the two years ended 31 December 2001 and 2002, and the unaudited consolidated financial statements of Shanghai Industrial which are contained in the Interim Reports of Shanghai Industrial for the six months ended 30 June 2002 and 2003, are incorporated by reference in this Offering Circular. Copies of the accounts are available and may be (i) obtained free of charge at the specified office of the Guarantor at 26th Floor, Harcourt House, 39 Gloucester Road, Wan Chai, Hong Kong or (ii) downloaded free of charge from Shanghai Industrial's website on the internet at www.sihl.com.hk.

# TABLE OF CONTENTS


| | Page |
|---|---|
| SUMMARY | 6 |
| SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR | 7 |
| SUMMARY FINANCIAL INFORMATION OF SHANGHAI INDUSTRIAL | 10 |
| THE OFFERING | 12 |
| RISK FACTORS | 15 |
| RECENT DEVELOPMENTS | 23 |
| USE OF PROCEEDS | 24 |
| MARKET PRICE INFORMATION | 25 |
| CAPITALISATION OF THE GUARANTOR | 26 |
| CAPITALISATION OF SHANGHAI INDUSTRIAL | 27 |
| EXCHANGE RATES | 28 |
| DIVIDENDS | 29 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 30 |
| DESCRIPTION OF THE GUARANTOR | 43 |
| DESCRIPTION OF SHANGHAI INDUSTRIAL | 53 |
| THE ISSUER | 79 |
| PRINCIPAL SHAREHOLDERS AND DIRECTORS' INTERESTS IN SHANGHAI INDUSTRIAL | 81 |
| TERMS AND CONDITIONS OF THE BONDS | 83 |
| THE GLOBAL CERTIFICATE | 112 |
| DESCRIPTION OF THE SHARES | 114 |
| TAXATION | 120 |
| SUBSCRIPTION AND SALE | 122 |
| SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS | 125 |
| GENERAL INFORMATION | 129 |
| INDEX TO FINANCIAL STATEMENTS OF THE GUARANTOR | F-1 |
| APPENDIX: PRINCIPAL PROPERTIES AND PROPERTY DEVELOPMENT OF THE SIIC GROUP | A-1 |

# SUMMARY

*The summary below is only intended to provide a very limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.*

**The Guarantor**

The Guarantor, a diversified holding company with interests focused on businesses involved in manufacturing of consumer products and merchandise trading, medicine and health food, infrastructure and logistics, securities investment, property and hotel development and investment, automotive parts and information technology, is the largest commercial enterprise established by the Shanghai Municipal Government outside the PRC. The Guarantor has interests in more than 200 entities, including joint ventures and co-operative enterprises. The Guarantor's principal subsidiary is Shanghai Industrial. As of 10 March 2004, the Guarantor beneficially owned approximately 58% of the issued share capital of Shanghai Industrial. Shanghai Industrial itself is also a diversified holding company and has interests in a range of businesses concentrated in Shanghai, Hong Kong and other parts of the PRC, including customer products and automobile and parts, medicine and biotechnology, infrastructure and modern logistics and information technology.

The Guarantor was incorporated on 17 July 1981 as the "window" company in Hong Kong for the Shanghai Municipal Government. The State-owned Assets Administration Commission of the Shanghai Municipal Government (上海市國有資產管理委員會) beneficially owns all of the issued share capital of the Guarantor. The Guarantor is the largest commercial enterprise established by the Shanghai Municipal Government outside the PRC. In addition to its operations in Shanghai and other provinces in the PRC and Hong Kong, the Guarantor also has other subsidiaries in various overseas countries.

**Shanghai Industrial**

Shanghai Industrial is a diversified holding company with interests in a wide range of businesses concentrated in Shanghai, Hong Kong and other parts of the PRC. Shanghai Industrial's business interests include consumer products & automobile and parts, medicine and bio-technology, infrastructure and modern logistics and information technology.

Shanghai Industrial's major shareholder is the Guarantor, the "window" company in Hong Kong established in 1981 by the Shanghai Municipal Government. The Guarantor is the largest overseas enterprise established by the Shanghai Municipal Government outside the PRC, with interests in over 200 entities, including joint ventures and co-operative enterprises.

As of 10 March 2004, the Guarantor held approximately 58%, of the issued share capital of Shanghai Industrial. Based on the closing price of the shares of Shanghai Industrial on the HKSE on 10 March 2004, Shanghai Industrial had a market capitalisation of approximately HK$17,446 million.

## SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

The following tables set forth the summary consolidated financial and other information of the Guarantor as at and for the periods indicated. The summary audited consolidated financial information as at and for the years ended 31 December 2001 and 2002 set forth below are derived from the Guarantor's audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Guarantor for each of the years ended 31 December 2001 and 2002 and the notes thereto included elsewhere in this Offering Circular. The summary unaudited consolidated financial information as at and for the six months ended 30 June 2002 and 2003 is derived from the Guarantor's unaudited consolidated management accounts and should be read in conjunction with the unaudited consolidated management accounts of the Guarantor for the six months ended 30 June 2002 and 2003 included elsewhere in this Offering Circular. Certain items in the consolidated financial statements of the Guarantor as at and for the years ended 31 December 2001 and 2002 and certain items in the consolidated management accounts of the Guarantor as at and for the six months ended 30 June 2002 and 2003 have been aggregated for the purpose of presentation of the summary financial information in the tables below.

The Guarantor's consolidated financial statements are prepared and presented in accordance with the applicable HKFRS. HKFRS differs in certain respects from IFRS. For a discussion of the differences between HKFRS and IFRS, see "Summary of Certain Differences Between HKFRS and IFRS".

**Consolidated Income Statement**

| | Year ended 31 December | | | Six months ended 30 June | | |
|---|---|---|---|---|---|---|
| | (audited) | | | (unaudited) | | |
| | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | (HK$) | (HK$) | (US$) | (HK$) | (HK$) | (US$) |
| | | | (thousands) | | | |
| Turnover | 9,219,029 | 10,375,490 | 1,330,413 | 4,659,573 | 5,048,982 | 647,421 |
| Cost of sales | (6,663,452) | (7,417,121) | (951,072) | (3,300,871) | (3,612,756) | (463,257) |
| Service costs | (122,760) | (166,478) | (21,347) | (117,894) | (120,857) | (15,497) |
| | 2,432,817 | 2,791,891 | 357,994 | 1,240,808 | 1,315,369 | 168,667 |
| Other operating income | 651,875 | 558,758 | 71,648 | 185,883 | 142,264 | 18,242 |
| Distribution costs | (579,332) | (689,686) | (88,436) | (323,270) | (385,795) | (49,470) |
| Administrative expenses | (615,543) | (717,951) | (92,060) | (332,581) | (438,276) | (56,199) |
| Other operating expenses | (88,170) | (76,272) | (9,780) | — | — | — |
| | 1,801,647 | 1,866,740 | 239,366 | 770,840 | 633,562 | 81,240 |
| Impairment losses and allowances | (156,716) | (210,971) | (27,052) | (19,979) | (50,328) | (6,453) |
| Profit from operations | 1,644,931 | 1,655,769 | 212,314 | 750,861 | 583,234 | 74,787 |
| Gain (loss) on disposal of investments | 149,170 | 74,069 | 9,498 | (92,008) | 163,316 | 20,942 |
| Finance costs | (878,957) | (654,749) | (83,956) | (360,499) | (296,971) | (38,080) |
| Share of results of | | | | | | |
| Jointly controlled entities | 278,013 | 151,922 | 19,480 | 98,403 | 105,026 | 13,467 |
| Associates | 103,263 | 70,775 | 9,075 | 65,490 | 103,339 | 13,251 |
| Profit before taxation | 1,296,420 | 1,297,786 | 166,411 | 462,247 | 657,944 | 84,367 |
| Incomes taxes | (167,314) | (264,812) | (33,956) | (107,955) | (151,698) | (19,452) |
| Profit before minority interests | 1,129,106 | 1,032,974 | 132,455 | 354,292 | 506,246 | 64,915 |
| Minority interests | (758,610) | (659,331) | (84,544) | (279,654) | (386,767) | (49,594) |
| Net profit for the year/period | 370,496 | 373,643 | 47,911 | 74,638 | 119,479 | 15,321 |

**Consolidated Balance Sheet**

| | As at 31 December | | | As at 30 June | | |
|---|---|---|---|---|---|---|
| | (audited) | | | (unaudited) | | |
| | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | (HK$) | (HK$) | (US$) | (HK$) | (HK$) | (US$) |
| | | | (thousands) | | | |
| NON-CURRENT ASSETS | | | | | | |
| Investment properties | 976,848 | 1,177,116 | 150,937 | 949,642 | 1,174,620 | 150,619 |
| Property, plant and equipment | 4,314,763 | 4,485,334 | 575,139 | 4,369,197 | 4,564,501 | 585,297 |
| Properties for development | 2,774,189 | 2,802,707 | 359,381 | 2,858,554 | 2,749,511 | 352,565 |
| Interests in jointly controlled entities | 2,171,248 | 2,046,600 | 262,428 | 2,292,978 | 2,105,522 | 269,987 |
| Interests in associates | 2,236,172 | 3,296,388 | 422,684 | 2,844,060 | 3,339,293 | 428,191 |
| Investments in infrastructure and other development projects | 6,069,809 | 5,663,029 | 726,150 | 5,931,416 | 5,662,624 | 726,108 |
| Investments in securities | 1,671,034 | 1,566,253 | 200,835 | 1,649,924 | 1,867,965 | 239,526 |
| Deposits pledged with financial institutions | 22,018 | 10,408 | 1,335 | — | — | — |
| Other non-current assets | 331,021 | 522,234 | 66,964 | 325,858 | 287,875 | 36,914 |
| Goodwill | 30,510 | 62,265 | 7,984 | 29,707 | 464,093 | 59,510 |
| | 20,597,612 | 21,632,334 | 2,773,837 | 21,251,336 | 22,216,004 | 2,848,717 |
| CURRENT ASSETS | | | | | | |
| Inventories | 666,556 | 898,706 | 115,238 | 710,067 | 1,078,596 | 138,306 |
| Stock of properties | 1,311,203 | 923,932 | 118,473 | 1,031,760 | 1,490,667 | 191,145 |
| Investments in securities | 528,823 | 1,507,737 | 193,332 | 1,537,038 | 1,755,625 | 225,120 |
| Loans and instalments receivable | 190,727 | 36,614 | 4,695 | 175,377 | 20,296 | 2,603 |
| Trade and other receivables | 1,485,469 | 2,237,487 | 286,905 | 1,422,968 | 1,928,614 | 247,303 |
| Deposits pledged with financial institutions | 351,057 | 42,869 | 5,497 | 40,989 | 52,051 | 6,674 |
| Placement of deposits with financial institutions | — | 214,953 | 27,563 | — | 264,151 | 33,872 |
| Bank balances and cash | 6,177,730 | 5,720,207 | 733,482 | 6,486,289 | 5,670,267 | 727,088 |
| | 10,711,565 | 11,582,505 | 1,485,185 | 11,404,488 | 12,260,267 | 1,572,111 |
| CURRENT LIABILITIES | | | | | | |
| Trade and other payables | 1,845,461 | 2,621,776 | 336,181 | 2,076,364 | 2,585,713 | 331,561 |
| Sales deposits received | 671,199 | 93,301 | 11,964 | 186,916 | 353,301 | 45,303 |
| Taxation | 84,075 | 143,462 | 18,396 | 86,853 | 126,662 | 16,242 |
| Amounts due to minority shareholders | 243,597 | 162,688 | 20,861 | 191,161 | 264,671 | 33,938 |
| Long-term borrowings — due within one year | 4,505,404 | 1,895,358 | 243,035 | 2,140,805 | 1,771,403 | 227,144 |
| Bank loans and overdrafts | 2,896,224 | 3,043,880 | 390,306 | 3,850,455 | 3,476,904 | 445,837 |
| | 10,245,960 | 7,960,465 | 1,020,743 | 8,532,554 | 8,578,654 | 1,100,025 |
| NET CURRENT ASSETS | 465,605 | 3,622,040 | 464,442 | 2,871,934 | 3,681,613 | 472,086 |
| | 21,063,217 | 25,254,374 | 3,238,279 | 24,123,270 | 25,897,617 | 3,320,803 |

| | As at 31 December | | | As at 30 June | | |
|---|---|---|---|---|---|---|
| | (audited) | | | (unaudited) | | |
| | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | (HK$) | (HK$) | (US$) | (HK$) | (HK$) | (US$) |
| | | | (thousands) | | | |
| CAPITAL AND RESERVES | | | | | | |
| Share capital | 10,000 | 10,000 | 1,282 | 10,000 | 10,000 | 1,282 |
| Reserves | 8,022,978 | 8,380,030 | 1,074,542 | 8,123,304 | 8,520,200 | 1,092,529 |
| | 8,032,978 | 8,390,030 | 1,075,824 | 8,133,304 | 8,530,200 | 1,093,811 |
| MINORITY INTERESTS | 6,541,721 | 7,492,253 | 960,705 | 6,976,737 | 7,877,281 | 1,010,089 |
| NON-CURRENT LIABILITIES | | | | | | |
| Long-term borrowings — due after one year | 6,394,530 | 9,274,808 | 1,189,276 | 8,900,223 | 9,127,423 | 1,170,393 |
| Other long-term payable | — | — | — | — | 204,717 | 26,250 |
| Deferred taxation | 93,988 | 97,283 | 12,474 | 113,006 | 157,996 | 20,260 |
| | 6,488,518 | 9,372,091 | 1,201,750 | 9,013,229 | 9,490,136 | 1,216,903 |
| | 21,063,217 | 25,254,374 | 3,238,279 | 24,123,270 | 25,897,617 | 3,320,803 |

# SUMMARY FINANCIAL INFORMATION OF SHANGHAI INDUSTRIAL

The following tables set forth the summary consolidated financial and other information of Shanghai Industrial as at and for the periods indicated. The summary audited consolidated financial information as at and for the years ended 31 December 2001 and 2002 set forth below are derived from the previously published Shanghai Industrial's audited consolidated financial statements and should be read in conjunction with the previously published audited consolidated financial statements of Shanghai Industrial for each of the years ended 31 December 2001 and 2002 and the notes thereto. The summary unaudited consolidated financial information as at and for the six months ended 30 June 2002 and 2003 is derived from the previously published Shanghai Industrial's unaudited consolidated interim reports and should be read in conjunction with the previously published unaudited consolidated interim reports of Shanghai Industrial for the six months ended 30 June 2002 and 2003 and the notes thereto. Certain items in the consolidated financial statements of Shanghai Industrial as at and for the years ended 31 December 2001 and 2002 and as at and for the six months ended 30 June 2002 and 2003 have been aggregated for the purpose of presentation of the summary financial information in the tables below.

Shanghai Industrial's consolidated financial statements are prepared and presented in accordance with HKFRS. HKFRS differs in certain respects from IFRS. For a discussion of the differences between HKFRS and IFRS, see "Summary of Certain Differences Between HKFRS and IFRS".

**Consolidated Income Statement**

| | Year ended 31 December | | | Six months ended 30 June | | |
|---|---|---|---|---|---|---|
| | (audited) | | | (unaudited) | | |
| | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | (HK$) | (HK$) | (US$) | (HK$) | (HK$) | (US$) |
| | (thousands, except per share data) | | | | | |
| Turnover | 3,199,418 | 3,380,037 | 433,410 | 1,720,301 | 1,463,289 | 187,635 |
| Profit from operations | 1,090,164 | 1,159,122 | 148,630 | 555,008 | 490,469 | 62,892 |
| Finance cost | (93,771) | (63,745) | (8,174) | (41,564) | (18,256) | (2,341) |
| Share of results of jointly controlled entities | 266,846 | 141,849 | 18,189 | 87,190 | 91,616 | 11,748 |
| Share of results of associates | 72,370 | 7,032 | 902 | 28,090 | 54,254 | 6,957 |
| Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities | 154,360 | 222,864 | 28,577 | — | 25,200 | 3,231 |
| Impairment loss recognised in respect of interest in a jointly controlled entity | — | (15,300) | (1,962) | — | — | — |
| Profit from ordinary activities before taxation | 1,489,969 | 1,451,822 | 186,162 | 628,724 | 643,283 | 82,487 |
| Taxation | (108,854) | (182,376) | (23,385) | (80,583) | (92,109) | (11,811) |
| Profit before minority interests | 1,381,115 | 1,269,446 | 162,777 | 548,141 | 551,174 | 70,676 |
| Minority interests | (178,581) | (143,103) | (18,350) | (62,863) | (59,686) | (7,653) |
| Profit for the year/period | 1,202,534 | 1,126,343 | 144,427 | 485,278 | 491,488 | 63,023 |
| Dividends | 395,491 | 454,020 | 58,217 | 312,688 | 280,908 | 36,020 |
| Earnings per share — Basic | HK$1.34 | HK$1.22 | US15.6 cents | HK53.6 cents | HK52.5 cents | US6.73 cents |

**Consolidated Balance Sheet**

| | As at 31 December (audited) | | | As at 30 June (unaudited) | | |
|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | (HK$) | (HK$) | (US$) | (HK$) | (HK$) | (US$) |
| | | | (thousands) | | | |
| **Non-Current Assets** | | | | | | |
| Investment property | 12,000 | 3,300 | 423 | 12,000 | 3,300 | 423 |
| Property, plant and equipment | 1,131,438 | 1,188,483 | 152,395 | 1,108,318 | 1,178,537 | 151,122 |
| Goodwill | — | 27,717 | 3,554 | — | 30,491 | 3,910 |
| Interest in jointly controlled entities | 1,984,235 | 1,877,633 | 240,762 | 2,117,450 | 1,931,091 | 247,620 |
| Interest in associates | 1,672,061 | 2,583,108 | 331,223 | 2,173,620 | 2,689,927 | 344,924 |
| Investments in infrastructure and other projects | 5,676,703 | 5,547,855 | 711,382 | 5,615,786 | 5,547,323 | 711,323 |
| Investments in securities | 252,453 | 274,918 | 35,252 | 237,762 | 455,737 | 58,438 |
| Loans receivable | — | 8,703 | 1,116 | — | 7,443 | 955 |
| Deposits paid on acquisition of property, plant and equipment | 16,816 | 6,632 | 850 | 20,094 | 5,602 | 718 |
| | 10,745,706 | 11,518,349 | 1,476,957 | 11,285,030 | 11,849,451 | 1,519,433 |
| **Current Assets** | | | | | | |
| Inventories | 373,320 | 401,571 | 51,492 | 383,690 | 359,998 | 46,162 |
| Trade and other receivables | 587,252 | 796,018 | 102,071 | 544,222 | 639,130 | 81,954 |
| Taxation recoverable | 7,533 | — | — | 7,926 | 4,014 | 515 |
| Investments in securities | 1,718 | 286,370 | 36,720 | 390,303 | 255,722 | 32,791 |
| Placement of deposits with financial institutions | — | 214,953 | 27,563 | — | 264,151 | 33,872 |
| Pledged bank deposits | 53,571 | 42,869 | 5,497 | 30,838 | 41,569 | 5,330 |
| Bank balances and cash | 3,067,104 | 3,202,532 | 410,649 | 3,231,494 | 3,269,356 | 419,223 |
| | 4,090,498 | 4,944,313 | 633,992 | 4,588,473 | 4,833,940 | 619,847 |
| **Current Liabilities** | | | | | | |
| Trade and other payables | 570,127 | 552,717 | 70,873 | 703,631 | 524,908 | 67,308 |
| Taxation payable | 30,457 | 73,920 | 9,478 | 38,412 | 82,915 | 10,632 |
| Short-term borrowings | 1,226,692 | 843,451 | 108,153 | 843,596 | 831,030 | 106,561 |
| | 1,827,276 | 1,470,088 | 188,504 | 1,585,639 | 1,438,853 | 184,501 |
| **Net Current Assets** | 2,263,222 | 3,474,225 | 445,488 | 3,002,834 | 3,395,087 | 435,346 |
| | 13,008,928 | 14,992,574 | 1,922,445 | 14,287,864 | 15,244,538 | 1,954,779 |
| **Capital and Reserves** | | | | | | |
| Share capital | 89,806 | 93,630 | 12,006 | 92,367 | 93,636 | 12,007 |
| Reserves | 12,348,602 | 13,404,176 | 1,718,771 | 12,781,178 | 13,705,759 | 1,757,464 |
| | 12,438,408 | 13,497,806 | 1,730,777 | 12,873,545 | 13,799,395 | 1,769,471 |
| **Minority interests** | 482,309 | 618,549 | 79,314 | 530,295 | 568,886 | 72,947 |
| **Non-current Liabilities** | | | | | | |
| Long-term bank and other borrowings | 4,187 | 800,000 | 102,581 | 800,000 | 800,000 | 102,583 |
| Deferred taxation | 84,024 | 76,219 | 9,773 | 84,024 | 76,257 | 9,778 |
| | 88,211 | 876,219 | 112,354 | 884,024 | 876,257 | 112,361 |
| | 13,008,928 | 14,992,574 | 1,922,445 | 14,287,864 | 15,244,538 | 1,954,779 |

## THE OFFERING

*Phrases used in this summary and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds".*

| | |
|---|---|
| **Issuer** | Shanghai Industrial Investment Treasury Company Limited |
| **Guarantor** | Shanghai Industrial Investment (Holdings) Company Limited |
| **Issue** | HK$2,330,000,000 aggregate principal amount of Zero Coupon Guaranteed Exchangeable Bonds due 2009, exchangeable into fully-paid ordinary shares with par value of HK$0.10 each of Shanghai Industrial.<br><br>In addition, the Issuer has granted to HSBC Bank plc an option which can be exercised, in whole or in part and on one occasion only, on or before the 30th day following the Closing Date, to subscribe for up to a further HK$389,000,000 in aggregate principal amount of Bonds. |
| **Issue Price** | 100% |
| **Closing Date** | 16 March 2004 |
| **Maturity Date** | 16 March 2009 |
| **Form and Denomination** | The Bonds will be in registered form in the denomination of HK$10,000 each. The Bonds may be held and transferred, and will be offered and sold, in the principal amount of HK$10,000 and integral multiples of HK$10,000 in excess thereof. The Bonds will be represented by a Global Certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream on or about the Closing Date. Individual Certificates evidencing holding of Bonds will only be available in certain limited circumstances. See "The Global Certificate". |
| **Status of the Bonds** | The Bonds constitute senior, unsubordinated, direct, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by mandatory provisions of applicable legislation and subject as described under "Terms and Conditions of the Bonds — Negative Pledge". |
| **Guarantee** | The payment of all sums due in respect of the Bonds and all other moneys payable by the Issuer under the Trust Deed as well as all of the obligations of the Issuer under the Bonds and the Trust Deed have been unconditionally and irrevocably guaranteed by the Guarantor. Its obligations in that respect are contained in the Trust Deed. |
| **Negative Pledge** | The Bonds will contain a negative pledge provision as further described in "Terms and Conditions of the Bonds — Negative Pledge". |

| | |
|---|---|
| **Final Redemption** | Unless previously exchanged, redeemed or purchased and cancelled in the circumstances referred to in the Terms and Conditions, the Bonds will be redeemed at 109.10% of their principal amount on 16 March 2009. |
| **Redemption at the Option of the Issuer** | The Bonds may be redeemed at the option of the Issuer at the Early Redemption Amount in whole or in part at any time on or after 16 March 2007 and prior to the Maturity Date provided that (i) the value of the Exchange Property on each of the 20 consecutive Trading Days, the last day of which occurs not more than five Trading Days immediately prior to the date upon which notice of such redemption is given, shall have exceeded 130% of the aggregate principal amount of the Bonds outstanding on such Trading Day or (ii) at any time if prior to the date on which notice of such redemption is given, less than 10% in aggregate principal amount of the Bonds originally issued (including any Optional Bonds) is outstanding. |
| **Redemption for Change of Control** | Holders of the Bonds will have the right to require the Issuer to redeem all or some only of the Bonds at their Early Redemption Amount following a Change of Control. |
| **Repurchase in the Event of Delisting** | In the event of a Delisting, each Bondholder will have the right at such Bondholder's option to require the Issuer to redeem all or some only of such Bondholder's Bonds at the Early Redemption Amount. |
| **Tax Redemption** | Subject to certain exceptions and as more fully described herein, the Bonds may be redeemed, in whole but not in part, at the option of the Issuer, at their Early Redemption Amount on the date fixed for redemption if, as a result of certain changes in the laws or regulations of the British Virgin Islands, Hong Kong or the PRC generally, the Issuer or the Guarantor would be required to pay Additional Amounts. |
| **Exchange Right** | The holder of each Bond has the right to exchange such Bond at any time during the Exchange Period for a *pro rata* share of the Exchange Property (an "Exchange Right"). However, in the event of an Offer in respect of the Shares or any other Relevant Securities, the Exchange Rights may be suspended as described in "Terms and Conditions of the Bonds — General Offer".<br><br>A *pro rata* share of the Exchange Property means, for any Bond at any time, a fraction of the Exchange Property the numerator of which shall be the nominal amount of such Bond and the denominator of which shall be the aggregate principal amount of all of the Bonds (including the Bond to which the pro rata share relates) which are outstanding at such time. |
| **Cash Settlement Option** | Notwithstanding the Exchange Right of each Bondholder in respect of each Bond, at any time when the delivery of Exchange Property deliverable upon exchange of the Bonds is required to satisfy the Exchange Right in respect of an Exchange Notice, the Issuer shall have the option to pay an amount of cash in Hong Kong dollars equal to the Cash Settlement Amount in order to satisfy such Exchange Right in full or in part (in which case the other part shall be satisfied by the delivery of Exchange Property). |

| | |
|---|---|
| **Exchange Period** | The period beginning on and including 23 March 2004 and ending at the close of business on 6 March 2009. |
| **Exchange Property** | The Exchange Property shall initially comprise 88,321,140 Shares (or initially up to 103,066,600 Shares if the Lead Manager exercises its option in respect of all of the Optional Bonds) and shall include all Relevant Securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property pursuant to the Conditions, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property pursuant to the Conditions. |
| **Initial Exchange Ratio** | On the exercise of Exchange Rights, Bondholders will initially be entitled to receive 379 Shares for each HK$10,000 principal amount of Bonds, subject to adjustment in accordance with the Conditions. |
| **Governing Law** | English law. |
| **Trustee** | The Hongkong and Shanghai Banking Corporation Limited. |
| **Listing** | Application has been made to list the Bonds as selectively marketed securities on the HKSE.<br><br>The Shares are currently listed on the HKSE. |
| **Clearing** | The Bonds have been accepted for clearance by Euroclear and Clearstream under the following Common Code and ISIN:<br><br>Common Code: 018722801<br><br>ISIN: XS0187228019 |

*Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to the Issuer or the Guarantor, or which the Issuer or the Guarantor currently deem immaterial, may also have an adverse effect on an investment in the Bonds. Capitalised terms used but not defined herein have the meanings given to them elsewhere in this Offering Circular.*

**Risks Relating to the Group's Business**

***Holding Company Structure***

The Issuer will issue the Bonds and on-lend the entire proceeds from the issue of the Bonds to the Guarantor. The Issuer is a wholly-owned subsidiary of the Guarantor and does not and will not upon completion of the offering of the Bonds have any assets other than its investment in its currently owned subsidiary Shanghai Investment Holdings Limited ("SINVHL"), through which a substantial part of the Guarantor's interests in Shanghai Industrial is held, and the on-loan to the Guarantor. Consequently, its ability to make payments under the Bonds will depend on its receipt of timely payments under such on-loan and dividends and other distributions in respect of the Shares and its holdings in SINVHL.

Apart from holding certain assets directly, the Guarantor also operates through subsidiaries and direct and indirect investments in associated companies. As a result, the Guarantor's assets consist to a significant extent of shareholdings in its subsidiaries and associated companies. In the event of a winding-up, claims of creditors of the subsidiaries and associated companies of the Guarantor, including trade creditors and bank lenders, and holders of preferred shares of such entities will have priority as to the assets of such entities over claims of the Guarantor and its creditors, including the Bondholders as beneficiaries of the Guarantee. In addition, further issues of equity interests by such entities might dilute the ownership interest of the Guarantor in such entities. For details of the indebtedness of the SIIC Group, see "Capitalisation of the Guarantor".

***Exchange Property***

Upon Bondholders exercising their respective Exchange Rights, the Issuer is required to deliver a pro rata share of the Exchange Property or, at the option of the Issuer, an amount equal to the Cash Settlement Amount, as more fully set out under "Terms and Conditions of the Bonds — Exchange". SINVHL holds a substantial part of the Guarantor's interests in Shanghai Industrial, including Shares constituting the Exchange Property. Consequently, the ability of the Issuer to deliver Shares upon exchange of the Bonds is subject to SINVHL's ability to deliver such Shares, the terms of an option agreement (see "The Issuer") and, in the event of a winding-up of SINVHL, potential claims of creditors of SINVHL who may have priority as to the Shares held by SINVHL, including the Exchange Property. SINVHL has agreed not to incur any further indebtedness and the Issuer and the Guarantor have agreed not to issue any securities exchangeable or convertible into the Exchange Property so long as the Bonds remain outstanding. In addition, SINVHL has agreed to maintain sufficient Shares, free from all liens, claims, equities, charges and encumbrances, as may be necessary to meet any settlement of the Issuer's delivery obligations by means of delivery of Exchange Property pursuant to the Conditions. There can be no assurance, however, that the Issuer will elect to deliver Shares upon exchange of the Bonds or that such Shares will be available upon exercise of an Exchange Right.

***Controlling Shareholder***

The State-owned Assets Administration Commission of the Shanghai Municipal Government (上海市國有資產管理委員會) (the "Shanghai Municipal Government") beneficially owns all of the issued share capital of the Guarantor and, (through the Guarantor, the Issuer and the Guarantor's subsidiaries) as of 10 March 2004, approximately 58% of the issued share capital of Shanghai Industrial. As a result, the Shanghai Municipal Government is able to control the composition of a majority of the board of directors of Shanghai Industrial and, in general, influence Shanghai Industrial's corporate policies, appoint Shanghai Industrial's directors and officers and determine the outcome of most

corporate transactions and other matters submitted to the shareholders of Shanghai Industrial for approval. In particular, the strategic goals of the Shanghai Municipal Government may not be consistent with the strategy of Shanghai Industrial. See "Description of the Guarantor — Relationship with the Shanghai Municipal Government".

***Expansion Strategy***

The Group's overall strategic objective is to achieve growth through acquisitions of new, and development of existing, businesses and projects in Shanghai, other parts of the PRC and Hong Kong. In addition to the internal growth of existing businesses, the growth of the Group will to a significant extent be dependent upon the identification of attractive acquisition or joint venture opportunities, obtaining required approvals from various regulatory authorities in the PRC and the ability to finance such investments. Although the Guarantor believes that the Group will benefit from the Guarantor's unique relationship with the Shanghai Municipal Government in implementing its growth strategy, there is no certainty as to the timing and completion of any particular acquisition or joint venture arrangement. See "Description of the Guarantor — Strategy" and "Description of Shanghai Industrial — Strategy".

The businesses of the SIIC Group and the SIHL Group are separate and the Guarantor has undertaken to Shanghai Industrial that, so long as it remains at least a 35% shareholder of Shanghai Industrial, the SIIC Group will not, save as described in this Offering Circular, engage in, or control, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the SIHL Group. Moreover, the Guarantor has in the past transferred its interests in a number of businesses and joint ventures to Shanghai Industrial (see "Description of Shanghai Industrial"). The Guarantor has also, through its relationship with the Shanghai Municipal Government, facilitated the acquisition of certain other interests in businesses and joint ventures by Shanghai Industrial. There can, however, be no assurance that the Guarantor will continue to do so in the future.

In addition, the Group's planned investment strategy will require additional financing. The Group's ability to arrange for financing, and the costs of such financing, are dependent on numerous factors such as general economic conditions, the state of the capital markets, credit availability from banks or other lenders, investor confidence in the Group and the success of the Group's businesses. Although the Group has historically been able to obtain financing on terms acceptable to the Group, there can be no assurance that the required financing will always be available, when needed, and on terms acceptable to the Group. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

***Joint Venture Arrangements***

The Group has, and expects to have in the future, significant interests in sino-foreign equity and cooperative joint ventures in the PRC in connection with its investments and projects. Such joint ventures may involve special risks associated with the possibility that the joint venture partners may (i) have economic or business interests or goals that are inconsistent with those of the Group, (ii) take action contrary to the instructions or requests of the Group or contrary to the Group's policies or objectives with respect to its investments and projects, (iii) be unable or unwilling to fulfil their obligations under the relevant joint venture or other agreements or (iv) experience financial or other difficulties. In addition, guarantees given by PRC parties in relation to loans to joint ventures in the PRC may be difficult to enforce as their validity may depend on the financial and legal qualifications of the guarantors and appropriate approvals having been obtained. Guarantees given by PRC parties in respect of returns to foreign investors in a sino-foreign joint venture may be discouraged by existing PRC government policies and may be unenforceable. Practical difficulties may also hinder enforcement. Cooperation among the joint venture partners of such entities on existing and future business decisions is an important factor for the sound operation and financial success of such businesses. Disputes among the partners over joint venture obligations or otherwise could affect the results of operations or financial condition of these businesses. To date, the Group has not experienced any significant problems with its joint venture partners.

***Negative cashflows***

The Guarantor recorded a net decrease in cash or cash equivalents amounting to HK$1,330 million and HK$543 million for the years ended 31 December 2001 and 2002, respectively. Shanghai Industrial also recorded a net decrease in cash or cash equivalents amounting to HK$914 million and HK$400 million for the year ended 31 December 2001 and the six months ended 30 June 2003, respectively. The net decrease in cash or cash equivalents principally resulted from cash being used for investing and financing activities. There can be no assurance that such negative cashflows will not recur in the future, which could have a material adverse effect on the Group's financial condition and future prospects.

***Competition***

The markets for many of the products and services of the Group and its associated companies are highly competitive, and are experiencing the entry of new competitors or the expansion of capacity by existing competitors. Certain of these competitors may have substantially greater financial and other resources than the Group and its associated companies. To the extent that competitors become more successful with respect to key competitive factors such as brand name acceptance, pricing, product range, quality, distribution capabilities and services, the results of operations and financial condition of the Group and its associated companies could be adversely affected.

The PRC has been a member of the World Trade Organisation ("WTO") since 11 December 2001, as a result of which the PRC has already begun, and is expected to continue, lowering some import tariffs and reducing certain other restrictions on imports. The PRC's entry into the WTO and the lowering of import barriers may result in increasing competition in the domestic markets by foreign as well as domestic competitors.

***Potential Product Liability***

Although the Group has never been subject to any product liability claim, as a manufacturer of, amongst other things, pharmaceuticals, cosmetics, automotive parts and dairy products, the Group may face claims of liability arising from alleged harmful effects from its products. The Guarantor believes that the Group's success in controlling product liability risk has been through stringent quality control of its operations. In addition, many of the Group's products must meet quality standards imposed by regulatory authorities in its principal markets in order for the Group to obtain the necessary certificates, permits and approvals for the sale and distribution of such products.

As is usual for PRC companies, the Group's PRC subsidiaries have not taken out product liability insurance. The Guarantor believes that product liability claims are not common in most of the principal markets for its products, and the Group has never had a product liability claim made against it or experienced a contamination problem in any of its products. Furthermore, since the Group has few assets in those jurisdictions where significant product liability claims are common, the Guarantor believes that the Group is unlikely to be subject to material product liability claims in those jurisdictions. There is no assurance, however, that any product liability claim which may be brought against the Group in respect of any of its products will not have an adverse effect on the results of operations or financial condition of the Group or that the occurrence of a contamination problem in any of its products would not result in a recall of such product and damage to the Group's reputation.

***Interest Rate and Exchange Rate Risks***

Some of the Group's credit facilities currently are, and may in the future be, structured on a floating interest rate basis and may be denominated in US dollars or other currencies. An increase in interest rates, and fluctuations in exchange rates between the Hong Kong dollar or Renminbi (see "Risk Factors — Risks Relating to the PRC — Government Control of Currency Conversion") and other currencies, may result in increased borrowing costs and affect the profitability of the Group's operations. Although the Hong Kong dollar has been linked to the US dollar since 1983, there can be no assurance that such link will be maintained in the future. The Group's results could be adversely affected by the discontinuation of such linkage. The Group will continue to monitor closely the interest rate environment and the foreign exchange market and may hedge against interest rate and currency exposure as it deems appropriate.

***Severe Acute Respiratory Syndrome***

From December 2002 to June 2003, the PRC, Hong Kong, Taiwan and certain other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. On 5 July 2003, the World Health Organisation declared that SARS had been contained. In September and December 2003 and January 2004, however, isolated new cases of SARS were reported in Asia. Any economic downturn as a result of another SARS outbreak may have an adverse effect on the overall level of business, productivity and growth in the affected areas. It may also disrupt the Group's business operations and consequently have an adverse effect on its financial condition and results of operations.

***ICAC investigation into three employees of Nanyang Tobacco***

Shanghai Industrial issued an announcement dated 27 February 2004, stating that three employees of Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco"), a wholly-owned subsidiary of Shanghai Industrial, were being investigated by the Independent Commission Against Corruption ("ICAC") on suspicions of receiving bribes. One of the three employees under investigation possibly involves a Director and Executive Deputy CEO of Shanghai Industrial, who is also a Director of the Guarantor. The investigation by the ICAC is at an early stage. The Guarantor is unable to predict the eventual outcome of the investigation or its ultimate impact on the Group. See "Recent Developments".

**Risks Relating to Manufacturing Activities**

***Production and Sale of Cigarettes***

A significant portion of the Group's operating profit is currently derived from Nanyang Tobacco and the Group's profitability in the short term depends largely on the continued success of Nanyang Tobacco's cigarette business.

Nanyang Tobacco's sales are affected by many factors which affect the tobacco industry in general. These include anti-smoking campaigns, which vary in their intensity and effectiveness from country to country, and the imposition of excise taxes and customs tariffs. Legislation requiring health warnings on cigarette packets and restricting cigarette advertising and smoking in public places has been adopted in many countries, including the PRC, and certain cities and townships in the PRC have instituted or are considering instituting a sales tax on tobacco products. In addition, cigarette manufacturers, particularly in the United States, have in recent years become subject to increasing litigation by plaintiffs claiming liability for harmful effects attributable to tobacco products. As only small amounts of cigarettes produced by Nanyang Tobacco are exported to the United States, the Guarantor believes that Nanyang Tobacco is unlikely to become exposed to liability in the United States as a result of its activities there. Furthermore, while there can be no assurance that Nanyang Tobacco will not become subject to similar liability in its major markets, principally the PRC, Hong Kong and other Asian countries, the Guarantor is not aware of any cigarette manufacturing company being sued in these jurisdictions for damages allegedly arising out of smoking.

Nanyang Tobacco maintains insurance adequate to cover damage to its manufacturing facilities and inventories, and loss of profit, should its facilities be disabled. There is no assurance, however, that the insurance coverage would be adequate to cover lost profits caused by a complete cessation of operations of Nanyang Tobacco.

In countries where import tariffs on cigarettes are high, cigarette smuggling often occurs. Imports of cigarettes through unauthorised channels may adversely affect the control of Nanyang Tobacco and its customers over the distribution and retail pricing of their cigarettes and hence, Nanyang Tobacco's business with these customers. The Guarantor believes that, until the PRC government reduces its import tariffs on cigarettes and implements stricter enforcement, Nanyang Tobacco may experience occasional difficulties in controlling its distribution channels and that its sales may from time to time be negatively affected. See "Description of Shanghai Industrial — Cigarettes".

***Manufacture and Sale of Automotive Components***

A significant portion of the Group's operating profit is currently derived from Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Huizhong Automotive") and the Group's profitability depends largely on the continued success of its automotive components business.

The principal customer of Huizhong Automotive is Shanghai Volkswagen, which accounts for a significant majority of Huizhong Automotive's sales. Huizhong Automotive has been making sales to Shanghai Volkswagen for over seven years and the Guarantor believes that it has a good relationship with Shanghai Volkswagen. However, Huizhong Automotive, which tailors a significant part of its production facilities to meet the specifications required by Shanghai Volkswagen, does not have a long-term supply contract with Shanghai Volkswagen and, accordingly, there can be no assurance that sales to Shanghai Volkswagen will continue at their current levels or at all and that the loss of all or some of such sales would not have a material adverse effect on the results of operations or financial condition of the Group. In 1997, Huizhong Automotive began to modify its product mix to seek additional joint venture opportunities to provide a wider customer base for its products and lessen its dependence on Shanghai Volkswagen. In 1999, Huizhong Automotive started OEM relationship with Shanghai General Motors Corporation Limited to supply automobile parts for its Buick model. With the introduction of Passat Model in 2000, Huizhong Automotive become the OEM supplier of both Passat and Santana models of Shanghai Volkswagen. See "Description of Shanghai Industrial — Automobile and Parts — Shanghai Huizhong Automotive Manufacturing Co., Ltd.".

Huizhong Automotive's current manufacturing operations are located in five production facilities. Huizhong Automotive has never experienced any significant production stoppage at these facilities. As is usual for PRC companies of this type, Huizhong Automotive does not maintain insurance to cover damage to its manufacturing facilities or inventories, or loss of profit, should its facilities be disabled. There is no assurance that any such damage or loss of profit would not have a material adverse effect on the Group.

**Risks Relating to Property Activities**

***General***

The property development and investment activities of the SIIC Group are subject to certain risks inherent generally in the development and ownership of property. These risks include the cyclical nature of property markets, changes in government policies or regulations, building material shortages (which may result from, amongst other things, the imposition of centrally mandated government allocation of raw materials), increases in the costs of labour and materials, changes in general economic, business and credit conditions, the liquidity of land and other real property, competition for tenants, losses suffered due to bankruptcy or insolvency of tenants and the need to renovate or repair at appropriate times.

Property development projects of the types undertaken by the SIIC Group typically require significant capital expenditure during construction and it usually takes two to three years before the projects are pre-sold, completed and are able to generate positive cashflow. If expected results of pre-sales or rental of such projects are not achieved due to market conditions, the financial costs of the projects will rise significantly. The SIIC Group is also subject to risks inherent in property development, including, *inter alia*, the risks that financing for development may not be available on favourable terms, that construction may not be completed on schedule or within budget, that development may be affected by governmental regulations (including delays or failure to obtain the requisite licences, permits or approvals) or that there may be changes in relevant regulations or governmental priorities or attitudes, that long-term financing may not be available on completion of construction, that developed properties may not be leased or sold on profitable terms and the risk of purchaser defaults. Delays in the process of obtaining the requisite licences, permits or approvals from government agencies or authorities can also increase the cost, or delay or prevent the pre-sale or completion, of a project. Construction delays can result in the loss of revenues. The failure to complete construction of a project to its planned specifications or schedule may result in liabilities for the SIIC Group, reduced project efficiency and lower returns.

***The Hong Kong Property Market***

Historically, the Hong Kong property market has been cyclical and Hong Kong property values have been affected by supply and demand of comparable properties, the rate of economic growth in Hong Kong and political and economic developments in the PRC.

In the latter part of 1996 and first three quarters of 1997, Hong Kong property prices and rents for residential, commercial and industrial properties increased significantly. Since then, rents and property values in Hong Kong have declined significantly as a result of the general economic downturn in Asia, the slowdown in the Hong Kong economy, the increase in supply of new properties and other factors. There can be no assurance that rents and properties values will not decline or that interest rates will not rise in the future. Since 2001, the rental market in Hong Kong has slowed down, and the slowdown was further affected by the events of 11 September 2001 in the United States. In the event of further economic decline, the Group may experience market pressures that affect Hong Kong property companies, such as pressures from tenants or prospective tenants to provide rent reductions or reduced market prices for sale properties. Rental values are also affected by factors such as political developments, governmental regulations and changes in planning or tax laws, interest rate levels and inflation. Additional supply of new residential and office properties is also scheduled for completion over the next few years and such additional supply could also adversely affect residential and office rents and occupancy rates as well as sale prices for new residential units.

In common with general practice in Hong Kong, the majority of the leases over investment properties in Hong Kong held by the SIIC Group are generally for terms of two years or more. It is possible for a disproportionate number of lease maturity or rent review dates to fall within certain years. The ability of the SIIC Group to maintain or increase rental revenue from such leases will be dependent on market conditions at the time of renewal or rent review. The SIIC Group's income would be affected if the SIIC Group were unable to lease significant amounts of space in its investment properties or to let such space on economically favourable terms. In addition, from time to time, and especially during the economic downturn in Asia which began in 1997, the Group has experienced pressure from existing and prospective commercial tenants to provide rent reductions or longer rent free periods than previously given. This has had an impact on the Group's rental income from its investment properties in the past and the recurrence of such market conditions in the future may have an adverse effect on the Group's business, operating results and financial condition.

***The PRC Property Market***

The Guarantor believes that current property development and investment activity in the PRC is substantial and is being conducted by a large number of organisations. Reliable and up-to-date statistics for residential properties are not available, however, with respect to the amount or nature of investment activity, the demand and absorption rates for development, or the supply of new properties being developed in the PRC. Consequently, no predictions can be made about the effect of such activity on the value or success of the SIIC Group's developments or investments in the PRC.

In many countries, the availability of land for developments is restricted by zoning and other land use laws and regulations. These restrictions often have a consequential effect of diminishing competition by creating barriers to new development. To date, the PRC government has implemented few such laws and regulations. Accordingly, developers of PRC projects cannot rely on such laws or regulations to limit the supply of development sites. In addition, private ownership of property in the PRC is still in its early stages of development and, therefore, it may be difficult to predict demand. The lack of an established secondary market for residential properties in most regions of the PRC and the limited amount of mortgage financing available to individuals in the PRC may inhibit demand for the SIIC Group's projects.

All of the SIIC Group's current PRC property developments are located in Shanghai. The Guarantor believes that after a long period of undersupply, the Shanghai property market has entered into a period of oversupply of residential and office space targeted at international purchasers and investors. Vacancy rates have increased and rents have declined over recent years. Substantial high-grade office space is under construction in Shanghai, which has had the effect of increasing vacancy rates and reducing rental and other prices. Although the Guarantor believes that its unique relationship with the Shanghai Municipal Government will allow it to develop its properties in Shanghai at costs which will allow it to be competitive in the Shanghai property market, there can be no assurance that the Guarantor will be able to find tenants for its existing and new development properties at commercially reasonable rates.

***Limitations of Property Valuations***

This Offering Circular contains valuations of the SIIC Group's properties as at 31 December 2002. These valuations are based upon certain assumptions, and are not a prediction of the actual value likely to be achieved by the SIIC Group from these investments. Unanticipated changes in relation to particular properties, or changes in general or local economic conditions or other relevant factors, could affect such values.

**Risks Relating to the PRC**

***General***

The Group currently has a significant portion of its assets in the PRC and expects to make further investments in the PRC in the future. Furthermore, a significant part of the sales of the Group is made in the PRC and therefore the results of operations and financial position of the Group are subject, to a significant degree, to the political and economic situation and legal developments in the PRC.

***Economic, Political and Social Conditions in the PRC***

The PRC economy differs from the economies of most developed countries in many respects, including:

- amount of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has experienced significant growth in the past years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Group. For example, the Group's financial condition and results of operations may be adversely affected by governmental control over capital investments or changes in tax regulations that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to have significant control over PRC economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

***Legal System in the PRC***

The PRC's legal system is based on written statutes under which prior court decisions may not be cited for reference and have limited preferential value. Since 1979, the PRC government has been

developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisations and governance, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty. These uncertainties could adversely affect the Group's business and the interests of investors.

***Government Control of Currency Conversion***

The Renminbi is currently not a freely convertible currency. Under existing foreign exchange regulations, most foreign exchange transactions under the capital account continue to be subject to regulations and require the prior approval of the State Administration of Foreign Exchange. These requirements could affect the Group's ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, uncertainty exists as to whether the PRC government may restrict access to foreign currency for current account transaction if foreign currency becomes scarce in the PRC.

***Tax Incentives***

Certain of the Sino-foreign joint ventures in which the Group has an interest (together the "Joint Ventures") enjoy tax benefits in the PRC that are offered to all FIEs, such as full exemption from national enterprise income tax for two years starting from the first profit-making year, followed by a 50% reduction in national income tax rate for the next three years. Local enterprise income tax is often waived during this tax holiday/incentive period. In addition, 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 PRC rules. No assurance can be given that the tax benefits provided to these joint ventures, subsidiaries, jointly owned entities and associates will remain effective or will not change. If the tax advantages offered are abolished or materially reduced, the tax liability of the Group in the PRC would be increased accordingly.

**Risks Relating to the Bonds**

***Lack of Public Market for the Bonds***

There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, Shanghai Industrial's operations and the market for similar securities. The Managers are not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Managers. Although an application has been made to have the Bonds listed on the HKSE, no assurance can be given as to the liquidity of, or trading market for, the Bonds.

***Potential Dilution of the Ownership Interest of Existing Shareholders***

The exchange of some or all of the Bonds will dilute the ownership interests of existing shareholders of Shanghai Industrial. Any sales in the public market of the Shares to be delivered upon such exchange could adversely affect prevailing market prices for the Shares. In addition, the existence of the Bonds may encourage short selling of the Shares by market participants.

***Hong Kong Corporate Disclosure and Accounting Standards***

There may be less publicly available information about Hong Kong private companies, such as the Guarantor, and Hong Kong public companies, such as Shanghai Industrial, than is regularly made available by public companies in certain other countries, including the United States. In addition, except as set forth below, each of Shanghai Industrial's and the Guarantor's financial statements are prepared and presented in accordance with HKFRS, which differ in certain significant respects from IFRS. See "Summary of Significant Differences Between HKFRS and IFRS".

## RECENT DEVELOPMENTS

On 26 February 2004, the ICAC in Hong Kong issued a press release relating to an operation to disable a cigarette smuggling ring. The press release stated that 20 persons had been arrested in an operation which began on Monday 23 February 2004 for allegedly facilitating the smuggling of cigarettes worth HK$116 million in return for over HK$11 million in bribes. According to the press release, the bribes related to the preferential allocation of sales quotas of cigarettes.

On 27 February 2004, Shanghai Industrial announced that amongst those arrested were three employees of Nanyang Tobacco, a wholly-owned subsidiary of Shanghai Industrial. One of these individuals possibly involves a Director and Executive Deputy CEO of Shanghai Industrial, who is also a Director of the Guarantor (the "Relevant Director").

It is believed that those arrested included employees of certain customers of Nanyang Tobacco.

Shanghai Industrial is cooperating fully with the ICAC in respect of its continuing investigations.

As a result of the arrests, the Group has:

- suspended from all duties each of the individuals concerned;
- appointed an experienced vice general manager of Nanyang Tobacco to take over the management responsibilities of the Relevant Director in relation to Nanyang Tobacco;
- established a working committee of senior executives from the Group's companies to monitor developments and supervise the business operations of Nanyang Tobacco pending the completion of the ICAC investigations; and
- mandated a leading Hong Kong law firm to review the internal control procedures of Nanyang Tobacco.

While the Guarantor cannot predict the outcome of the investigation by the ICAC or its eventual impact on the Group, the Guarantor (to the best of its knowledge) believes that:

- the investigation is limited, so far as the Group is concerned, to the activities of the three individuals concerned; and that there is no indication that the investigation will extend to the Group's other employees or to the business activities of the Group;
- there is no reason to suppose that the activities of the three individuals have any impact on the historical financial statements of Nanyang Tobacco or otherwise involve accounting irregularities;
- the business of Nanyang Tobacco is continuing as usual; and
- neither the investigations nor their outcome will have any material adverse effect on the operations of Shanghai Industrial or the Group as a whole.

# USE OF PROCEEDS

The Issuer intends to lend the net proceeds of the issue of the Bonds, which are expected to amount to approximately HK$2,283 million (or up to approximately HK$2,665 million if all of the Optional Bonds are issued), to the Guarantor, which intends to use such funds to repay outstanding indebtedness and for general corporate purposes.

## MARKET PRICE INFORMATION

The Shares have been listed on the HKSE since 30 May 1996. The table below sets forth the high, low and closing prices and the daily trading volume of the Shares on the HKSE for the periods indicated:

| | Closing Share Price | | | Total Trading |
|---|---|---|---|---|
| | High | Low | End of Period | Volume of Shares |
| | HK$ | HK$ | HK$ | (in millions) |
| 2000 | | | | |
| First Quarter | 16.25 | 14.55 | 15.75 | 243 |
| Second Quarter | 15.55 | 12.90 | 14.10 | 125 |
| Third Quarter | 18.70 | 13.65 | 15.10 | 236 |
| Fourth Quarter | 15.25 | 13.25 | 14.20 | 83.9 |
| 2001 | | | | |
| First Quarter | 15.90 | 12.50 | 12.70 | 160 |
| Second Quarter | 15.35 | 11.65 | 13.80 | 193 |
| Third Quarter | 13.75 | 9.45 | 10.65 | 96 |
| Fourth Quarter | 14.70 | 10.90 | 14.30 | 127 |
| 2002 | | | | |
| First Quarter | 16.40 | 14.25 | 15.75 | 109 |
| Second Quarter | 16.75 | 14.50 | 15.05 | 84.7 |
| Third Quarter | 15.20 | 11.20 | 11.85 | 104 |
| Fourth Quarter | 12.45 | 10.75 | 10.75 | 115 |
| 2003 | | | | |
| First Quarter | 12.60 | 10.80 | 11.45 | 96.3 |
| Second Quarter | 11.70 | 9.20 | 11.00 | 125 |
| Third Quarter | 15.10 | 10.90 | 13.95 | 163 |
| Fourth Quarter | 18.15 | 14.20 | 17.75 | 122 |
| 2004 | | | | |
| January | 20.40 | 17.50 | 20.40 | 87.4 |
| February | 21.25 | 19.50 | 20.45 | 54.8 |
| March (through 10 March 2004) | 19.55 | 17.95 | 18.40 | 43.6 |

*Source:* Bloomberg

# CAPITALISATION OF THE GUARANTOR

The table below sets out the consolidated capitalisation and short-term debts of the Guarantor as at 30 June 2003.

| | As at 30 June 2003 | |
|---|---|---|
| | Actual | |
| | HK$ | US$ |
| | (millions) | |
| Short-term debts | | |
| Short-term bank loans and overdrafts | 3,477 | 446 |
| Long-term borrowings — due within one year | 1,771 | 227 |
| Amounts due to minority shareholders | 264 | 34 |
| Total short-term debts | 5,512 | 707 |
| Capitalisation | | |
| Long-term debts | | |
| Guaranteed floating rate notes | 970 | 124 |
| Long-term borrowings — due after one year | 7,482 | 959 |
| Loans from shareholders | 675 | 87 |
| Other long-term payable | 205 | 26 |
| Total long-term debts | 9,332 | 1,196 |
| Shareholders' equity | | |
| Share capital (authorised and issued 1,000,000 shares of HK$10 each) | 10 | 1 |
| Reserves | 8,520 | 1,093 |
| Total shareholders' equity | 8,530 | 1,094 |
| Capitalisation and short-term debts | 23,374 | 2,997 |

*Notes:*

(1) Amounts in US dollars have been translated at the rate of HK$7.7986 = US$1.00, which was the prevailing rate on 30 June 2003.

(2) No adjustment has been made to reflect the operation results of the SIIC Group since 30 June 2003 or the issue of the Bonds.

(3) The above table should be read in conjunction with the unaudited interim consolidated management accounts of the Guarantor as of and for the six months ended 30 June 2003 appearing herein.

(4) Save as disclosed herein, the Guarantor is not aware of any material adverse change in the consolidated capitalisation and short-term debt of the SIIC Group since 30 June 2003 except that,

(i) the SIIC Group had drawn down a substantial amount of long-term borrowings which was utilised to repay the short-term bank loans and the long-term borrowings — due within one year. As a result, the amount of SIIC Group's long-term borrowings — due after one year has increased subsequent to 30 June 2003.

(ii) in accordance with the SIIC Group's accounting policy, the investment properties and hotel properties of the SIIC Group are carried at their open market value at fiscal year end based on valuations conducted by independent professional valuers. Accordingly, no revaluation of such properties were performed at 30 June 2003. Any surplus or deficit arising from the revaluation of the aforementioned properties will be dealt with in the SIIC Group's reserves at 31 December 2003.

# CAPITALISATION OF SHANGHAI INDUSTRIAL

The table below sets out the consolidated capitalisation and short-term debt of Shanghai Industrial as at 30 June 2003.

| | As at 30 June 2003 | |
|---|---|---|
| | Actual | |
| | HK$ | US$ |
| | (millions) | |
| Short-term debt | | |
| Short-term debt and other borrowings | 831 | 107 |
| Total short-term debt | 831 | 107 |
| Capitalisation | | |
| Long-term debt | | |
| Unsecured long-term bank borrowings | 800 | 103 |
| Total long-term debt | 800 | 103 |
| Shareholders' equity | | |
| Share capital | 93 | 12 |
| Share premium and reserves | 13,706 | 1,757 |
| Total shareholders' equity | 13,799 | 1,769 |
| Capitalisation and short-term debt | 15,430 | 1,979 |

*Notes:*

(1) Amounts in US dollars have been translated at the rate of HK$7.7986 = US$1.00, which was the prevailing rate on 30 June 2003.

(2) No adjustment has been made to reflect the operation result of the SIHL Group since 30 June 2003.

(3) The above table should be read in conjunction with the financial statements of Shanghai Industrial and the notes thereto, incorporated by reference herein.

(4) The authorised share capital of Shanghai Industrial as at 30 June 2003 was HK$200,000,000 divided into 2,000,000,000 shares of HK$0.10 each at par value, of which 936,358,000 shares were outstanding.

(5) Save as disclosed herein, the Guarantor is not aware of any material adverse change in the consolidated capitalisation and short-term debt of Shanghai Industrial since 30 June 2003.

# EXCHANGE RATES

The market exchange rate of the HK dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of Hong Kong currency in the form of banknotes, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. Exchange rates between the HK dollar and other currencies are influenced by the linked rate between the US dollar and the HK dollar.

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in Hong Kong dollars per US dollar, derived from Datastream:

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| | **Low** | **Average** | **High** | **Period End** |
| | | **(HK$ per US$)** | | |
| **Year** | | | | |
| 2001 | | | | |
| First Quarter | 7.7990 | 7.7999 | 7.8003 | 7.8003 |
| Second Quarter | 7.7983 | 7.7996 | 7.8003 | 7.8000 |
| Third Quarter | 7.7984 | 7.7998 | 7.8003 | 7.7996 |
| Fourth Quarter | 7.7970 | 7.7994 | 7.8004 | 7.7980 |
| 2002 | | | | |
| First Quarter | 7.7970 | 7.7994 | 7.8000 | 7.8000 |
| Second Quarter | 7.7990 | 7.7998 | 7.8095 | 7.8000 |
| Third Quarter | 7.7996 | 7.8002 | 7.8080 | 7.7998 |
| Fourth Quarter | 7.7980 | 7.7992 | 7.8000 | 7.7988 |
| 2003 | | | | |
| First Quarter | 7.7987 | 7.7993 | 7.8001 | 7.7995 |
| Second Quarter | 7.7980 | 7.7992 | 7.7998 | 7.7984 |
| Third Quarter | 7.7444 | 7.7945 | 7.7999 | 7.7445 |
| Fourth Quarter | 7.7085 | 7.7563 | 7.7692 | 7.7640 |
| 2004 | | | | |
| January | 7.7632 | 7.7662 | 7.7775 | 7.7775 |
| February | 7.7687 | 7.7745 | 7.7855 | 7.7838 |
| March (through 10 March 2004) | 7.7831 | 7.7897 | 7.7936 | 7.7924 |

*Source:* Datastream

The noon buying rate quoted by the Federal Reserve Bank of New York as derived from Datastream on 10 March 2004 for selling Hong Kong dollars against US dollars was HK$7.7924 = US$1.00.

# DIVIDENDS

Subject to the Companies Ordinance (Chapter 32 of the laws of Hong Kong) and the Articles of Association of Shanghai Industrial, Shanghai Industrial in general meeting may declare dividends, but no dividends shall exceed the amount recommended by the Board of Directors of Shanghai Industrial. No dividend shall be payable except out of profits of Shanghai Industrial and no dividends shall carry interest.

The table below sets out certain statistics on ordinary dividends paid on the Shares in respect of the years indicated:

| Year ended 31 December | Interim Ordinary Dividend per Share | Final Ordinary Dividend per Share | Total Ordinary Dividend per Share | Interim Ordinary Dividend | Final Ordinary Dividend | Total Ordinary Dividend |
|---|---|---|---|---|---|---|
| | | | | (HK$ million, except per share data) | | |
| 2001 ..... | HK14 cents | HK34 cents | HK48 cents | HK$126 | HK$ 313 | HK$ 439 |
| 2002 ..... | HK15 cents | HK30 cents | HK45 cents | HK$141 | HK$ 281 | HK$ 422 |
| 2003 ..... | HK18 cents | N/A | N/A | HK$170 | N/A | N/A |

*The following discussion should be read in conjunction with the audited consolidated financial statements of each of the Guarantor and Shanghai Industrial, the Guarantor's interim unaudited consolidated management accounts and Shanghai Industrial's interim unaudited consolidated financial statements, together with the notes thereto, if any, included elsewhere in this Offering Circular and incorporated by reference, as the case may be. The Guarantor and Shanghai Industrial prepare their financial statements in accordance with HKFRS, which differ in certain significant respects from IFRS. The management accounts of the Guarantor appearing in, and Shanghai Industrial's interim unaudited consolidated financial statements incorporated by reference by, this Offering Circular have been prepared on a consistent basis with the financial statements of the Guarantor and Shanghai Industrial, respectively. See "Summary of Significant Differences Between HKFRS and IFRS". The financial data for the years ended 31 December 2001 and 2002 have not taken account of the necessary adjustments arising from the "SSAP12 Deferred taxation (Revised)" which is effective from 1 January 2003. This accounting standard has been adopted in the preparation of the financial data for the six months ended 30 June 2002 and 2003. References to "Fiscal 2001" and "Fiscal 2002" are to the fiscal years ended 31 December 2001 and 2002, respectively, and references to "First Half 2002" and "First Half 2003" are to the six-month periods ended 30 June 2002 and 2003, respectively.*

## The Guarantor

### *Introduction*

The Guarantor is a diversified holding company with interests focused on various businesses involved in infrastructure and logistics, medicine and health food, manufacturing of consumer products, merchandise trading, property development and investment, hotel investment and operation and securities investment. In addition, the SIIC Group holds interests in a number of significant jointly controlled entities and associates which are engaged in the business sectors of information technology and automotive parts.

The SIIC Group's turnover and operating profits for the years ended 31 December 2001 and 2002 and for the six months ended 30 June 2002 and 30 June 2003 were derived from the diversified ranges of businesses conducted by the SIIC's subsidiaries as follows:

(i) the manufacture and sale of consumer products mainly through Shanghai Industrial and 90.57% owned The Tien Chu (Hong Kong) Company Limited;

(ii) the infrastructure investments including elevated road projects and logistics business through Shanghai Industrial;

(iii) the manufacture and sale of medicine and health food and other bio-technology related businesses mainly through SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a company previously listed on the Growth Enterprise Market ("GEM") of the HKSE until 17 September 2003, when it was privatised by Shanghai Industrial, and the SIIC Group's A-share subsidiary listed on the Shanghai Stock Exchange, Shanghai Industrial United Holdings Co., Ltd. ("SI United");

(iv) the merchandising trading business mainly through the SIIC Group's PRC subsidiary, Shanghai SIIC International Trade (Group) Co., Ltd. and its subsidiaries;

(v) the property management and development business through various subsidiaries under SIIC Investment Co., Ltd. in Hong Kong and two wholly-owned PRC incorporated subsidiaries, namely Shang Shi Real Estate Holding (Shanghai) Co., Ltd. and Shanghai SIIC Investment & Development Co., Ltd. (上海上實投資發展有限公司) in the PRC. From 2003 onwards, Shanghai Industrial Development Co., Ltd., a newly acquired A-share company listed on the Shanghai Stock Exchange, has acted as the SIIC Group's major contributor in the real estate business sector in the PRC.

(vi) hotel investment and operation mainly through South Pacific Hotel Holdings Ltd., which indirectly holds one hotel property and one guest house in Hong Kong and one hotel property in Shanghai, PRC. These include:

- the South Pacific Hotel, a 29-storey plus two-level basement three-star hotel with 276 guest rooms situated in Wanchai, Hong Kong, being held and managed by South Pacific Hotel (Hong Kong) Ltd.;

- the West Hotel, a 21-storey guest house with 114 guest rooms situated in Jordan, Hong Kong and being indirectly held by SIIC Estate Co., Ltd.; and

- the Shanghai Four Seasons Hotel, a 38-storey plus three-level basement high-class hotel with 439 guest rooms situated in Shanghai, PRC, being directly held by Shanghai SIIC South Pacific Hotel Co., Ltd. ("SIIC South Pacific"). This hotel commenced business in March 2002 and is managed by the Four Seasons Hotel Group, a reputable international hotel management group which is also an indirect strategic shareholder of SIIC South Pacific; and

(vii) the trading of securities investments and dividend income from several PRC financial institutions through a number of wholly-owned subsidiaries directly managed by the headquarter of the SIIC Group in Hong Kong and Shanghai, PRC.

***First Half 2003 compared to First Half 2002***

*Turnover.* The Guarantor's turnover increased by 8.3% to HK$5,049 million (US$647 million) in First Half 2003 from HK$4,660 million in First Half 2002. Turnover of the SIIC Group in First Half 2002 and First Half 2003 mainly derived from proceeds from the sales of consumer products, medicine and health food, merchandise trading, infrastructure and logistics, securities investment and property and hotel investment, which accounted for 13.8%, 23.8%, 29.2%, 5.6%, 21.9% and 5.0%, respectively, of the SIIC Group's turnover in First Half 2003, as compared to 22.7%, 10.2%, 24.1%, 7.6%, 20.5% and 14.1%, respectively, of the SIIC Group's turnover in First Half 2002. An analysis of turnover by principal activities of the SIIC Group for First Half 2002 and First Half 2003 is as follows:

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2002 | 2003 | |
| | HK$ | HK$ | US$ |
| | | (thousands) | |
| Consumer products | 1,056,544 | 696,404 | 89,299 |
| Medicine and health food | 474,726 | 1,199,605 | 153,823 |
| Merchandise trading | 1,124,369 | 1,473,446 | 188,937 |
| Infrastructure and logistics | 354,323 | 283,019 | 36,291 |
| Security investment | 956,830 | 1,104,719 | 141,656 |
| Property and hotel investments | 657,399 | 250,749 | 32,153 |
| Others | 35,382 | 41,040 | 5,262 |
| | 4,659,573 | 5,048,982 | 647,421 |

Turnover from sales of consumer products decreased by 34.2% to HK$696 million (US$89 million) in First Half 2003 from HK$ 1,057 million in First Half 2002, primarily as a result of the disposal of Shanghai Orient Shopping Centre Ltd. ("Orient Shopping Centre"), a subsidiary of Shanghai Industrial. Excluding the turnover of Orient Shopping Centre for First Half 2002, the turnover from sales of consumer products for First Half 2003 rose by 12.3% over First Half 2002.

Turnover from sales of medicine and health food increased by 152.6% to HK$1,200 million (US$154 million) in First Half 2003 from HK$475 million in First Half 2002. The increase was primarily as a result of: (i) the significant growth in the sales of Chia Tai Qingchunbao Pharmaceutical Co. Ltd. ("Chia Tai Qingchunbao") as held by SIIC MedTech; (ii) that the newly acquired Xiamen Traditional Chinese Medicine Co. Ltd. ("Xiamen Chinese Medicine") and Hangzhou Huqingtang Drugstore Co., Ltd., both held by SIIC MedTech, began to make contribution to the SIIC Group's turnover; and (iii) that the turnover of 常州藥業股份有限公司, held by SI United, was consolidated into the results of the Group in First Half 2003 as a result of acquisition of an additional interest in the company from 42% to 55.75% in the second half of 2002, prior to which it was accounted for as an associate and its results were accounted for by equity method.

Turnover from sales of merchandise trading increased by 31.0% to HK$1,473 million (US$189 million) in First Half 2003 from HK$1,124 million in First Half 2002 as a result of significant growth in the turnover of SIIC International Trade (Group) Co., Ltd..

Turnover from infrastructure and logistics fell by 20.1% to HK$283 million (US$36 million) in First Half 2003 from HK$354 million in First Half 2002. The income for First Half 2003 represented a one-off cash compensation as a result of the two elevated road projects previously held by the SIIC Group's joint venture company being sold back at the carrying value of the project investment of US$702 million to the joint venture partners upon the cancellation of guaranteed fixed return on investment projects of foreign entities by the PRC State Council.

Turnover from securities investment increased by 15.5% to HK$1,105 million (US$142 million) in First Half 2003 from HK$957 million in First Half 2002. The turnover comprised sale of trading investment securities of Hong Kong blue-chip stock or large market capitalisation stock and dividend income from several PRC financial institutions held by the SIIC Group (which dividend amounted to HK$11 million (US$1 million) in First Half 2003, as compared HK$63 million in First Half 2002). The increase in turnover from securities investment in First Half 2003 was mainly due to the increase in the trading volume of securities investments in First Half 2003.

Turnover from property and hotel investment decreased by 61.8% to HK$251 million (US$32 million) in First Half 2003 from HK$657 million in First Half 2002. The decrease is principally due to the decrease in the proceeds from the sale of development projects by 86.9%, as no development project was completed or sold in First Half 2003, while the turnover from property and hotel investment in First Half 2002 was mainly attributable to the completion and recognition of sales from a residential development project named "Yu Jing Garden" ("御景園") situated in the Pudong District, Shanghai. Such decrease was partly offset by the increase in the turnover from hotel and guesthouse operations in First Half 2003 by 25.0% compared to First Half 2002. In addition, the Shanghai Four Seasons Hotel commenced trial operation in March 2002 with only 109 rooms available initially, which then operated in full capacity with 439 rooms available during First Half 2003.

*Profit from operations.* The SIIC Group's operating profits decreased by 22.4% to HK$583 million (US$75 million) in First Half 2003 from HK$751 million in First Half 2002. The SIIC Group's segment profit decreased by 11.8% to HK$663 million (US$85 million) in First Half 2003 from HK$752 million in First Half 2002, as a result of the following:

(i) the segment results from the sales of consumer products decreased by 39.2% to HK$87 million (US$11 million) in First Half 2003 from HK$143 million in First Half 2002, mainly attributable to the disposal of Orient Shopping Centre in First Half 2003;

(ii) the segment results from infrastructure and logistics decreased by 20.3% to HK$282 million (US$36 million) in First Half 2003 from HK$354 million in First Half 2002;

(iii) the segment results from securities investment decreased slightly by 1.1% to HK$91 million (US$12 million) in First Half 2003 from HK$92 million in First Half 2002. In First Half 2002, the profit included a dividend income from several PRC financial institutions held by the SIIC Group amounting to HK$63 million, compared to HK$11 million (US$1 million) in First Half 2003; and

(iv) other revenues, which mainly include interest income, gain on disposals of non-current investment securities and other non-operating income, decreased in First Half 2003 compared to First Half 2002, as a result of the decrease in interest income by 43.3% to HK$34 million (US$4 million) in First Half 2003 from HK$60 million in First Half 2002. Further, there was no other non-operating income recorded in First Half 2003, compared to a gain in First Half 2002 related to the disposals of a PRC investee company of the SIIC Group.

Such decrease in the profits of the above segments was in part offset by the increased profits in the following segments:

(i) the segment results from the sales of medicine and health food increased by 35.0% to HK$135 million (US$17 million) in First Half 2003 from HK$100 million in First Half 2002 as a result of the growth of sales of the Chia Tai Qingchunbao and the acquisition of several subsidiaries during First Half 2003; and

(ii) the segment results from property and hotel investment increased by 15.0% to HK$46 million (US$6 million) in First Half 2003 from HK$40 million in First Half 2002, principally due to the decrease in the loss from hotel operation by 68.8% to HK$5 million (US$1 million) in First Half 2003 from HK$16 million in First Half 2002.

*Gain (loss) on disposal of investments.* Gain on disposal of investments, which represents the gain on disposals of the SIIC Group's subsidiaries, jointly controlled entities and associates amounted to HK$163 million (US$21 million) in First Half 2003, whereas a loss of HK$92 million was incurred in First Half 2002. Gain on disposal of investments in First Half 2003 consisted of a profit of HK$80 million (US$10 million) made on the disposal of Orient Shopping Centre and the gain on deemed disposal of interest in an associate held by SI United, Lianhua Supermarket Holdings Company Limited, upon its listing on the Main Board of the HKSE, which resulted in a dilution of SI United's interest from 31.73% to 23.31% and generated a profit of HK$83 million (US$11 million). The loss on disposal of investments incurred in First Half 2002 was mainly related to the loss on deemed disposals of Shanghai Industrial as a result of new issue of shares through the exercise of share options by the option scheme holders of Shanghai Industrial.

*Finance costs.* Finance costs decreased by 17.5% to HK$297 million (US$38 million) in First Half 2003 from HK$360 million in First Half 2002. The SIIC Group repaid its exchangeable bonds due 2003 in the amount of HK$943 million in February 2003 with the proceeds from other bank loans which were obtained at a more favourable interest rate. In addition, with a general decline in market interest rate during First Half 2003, the SIIC Group's finance costs were reduced significantly in First Half 2003 as compared to First Half 2002.

*Share of results of jointly controlled entities.* Share of results of jointly controlled entities in First Half 2003 increased by 7.1% to HK$105 million (US$13 million) from HK$98 million in First Half 2002. The increase was primarily attributable to the growth in profit of Huizhong Automotive and the increase in the share of investment income of one of the associates of Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical"). This was in part offset by the fact that Bright Dairy and Food Co., Ltd. ("Bright Dairy") was accounted for as an associate instead of a jointly controlled entity after its listing in August 2002, the profit contribution of which was consequently excluded from the share of results of jointly controlled entities in First Half 2003.

*Share of results of associates.* Share of results of associates in First Half 2003 increased by 58.5% to approximately HK$103 million (US$13 million) from HK$65 million in First Half 2002. The increase was primarily due to the growth in profit of Shanghai SIIC Transportation Electric Co., Ltd. ("Shanghai Transportation"), the inclusion of Bright Dairy as an associate upon its listing and the increase in profit of a newly acquired associate, 深圳康泰生物製品股份有限公司, in which SI United holds a 28.0% interest. In addition, the share of profit of Lianhua Supermarket Holdings Company Limited increased by HK$14 million (US$2 million) in First Half 2003. This was, however, in part offset by the increase in share of loss of SMIC for First Half 2003.

*Profit before tax.* Principally as a result of the foregoing, profit before tax increased by 42.4% to HK$658 million (US$84 million) in First Half 2003 from HK$462 million in First Half 2002.

*Taxation.* Taxation increased by 40.7% to HK$152 million (US$19 million) in First Half 2003 from HK$108 million in First Half 2002. The effective tax rate, as computed by dividing the tax by the profit before tax, were 23% for both First Half 2002 and First Half 2003.

*Minority interests.* The share of profit by the minority interests increased by 38.2% to HK$387 million (US$50 million) for First Half 2003 from HK$280 million for First Half 2002. The increase was mainly due to the share of the gain on deemed disposal of the Lianhua Supermarket Holdings Company Limited by the minority shareholders of SI United.

*Profit attributable to shareholders.* Profit attributable to shareholders increased by 58.7% to HK$119 million (US$15 million) in First Half 2003 from HK$75 million in First Half 2002.

*Assets and liabilities.* As at 30 June 2003, the total assets of the SIIC Group increased by 3.8% to HK$34,476 million (US$4,421 million) from HK$33,215 million (US$4,259 million) as at 31 December 2002, and total liabilities and minority interests increased by 4.5% to HK$25,946 million (US$3,327 million) from HK$24,825 million (US$3,183 million) as at 31 December 2002. Net asset increased by 1.7% to HK$8,530 million (US$1,094 million) from HK$8,390 million (US$1,076 million) as at 31 December 2002. This increase in net assets was attributable to the net profit recorded in First Half 2003 and the adjustment for booking exchange rate of Renminbi per Hong Kong dollar from 1.07 to 1.06.

As at 30 June 2003, total outstanding borrowings of the SIIC Group increased by 2.7% to HK$13,905 million (US$1,783 million) from HK$13,539 million (US$1,736 million) as at 31 December 2002. Accordingly, the net debt-to-equity ratio increased to 0.96 time as at 30 June 2003 from 0.93 time as at 31 December 2002. Interest coverage, which is calculated by dividing the sum of the profit before tax and interest expenses by interest expenses, was 3.22 times as at 30 June 2003, as compared to 2.28 times as at 30 June 2002. The improvement in interest coverage was attributable to the reduction of interest as a result of the decrease in interest rate and the repayment of loan with higher interest cost, such as the repayment of the exchangeable bonds due 2003 in February 2003.

The SIIC Group has pledged its land and buildings, machinery, deposits in financial institutions and other assets to secure its borrowings. As at 30 June 2003 and 31 December 2002, the SIIC Group had pledged such assets with an aggregate net book value of HK$5,198 million (US$667 million) and HK$3,526 million (US$452 million), respectively.

***Fiscal 2002 compared to Fiscal 2001***

*Turnover.* The Guarantor's turnover increased by 12.5% to HK$10,375 million (US$1,330 million) in Fiscal 2002 from HK$9,219 million in Fiscal 2001. Turnover of the SIIC Group in Fiscal 2001 and Fiscal 2002 mainly comprised of proceeds from sales of consumer products, medicine and health food, merchandise trading, infrastructure and logistics, securities investment and property and hotel investment, which accounted for 19.2%, 13.8%, 28.7%, 6.8%, 20.4% and 9.6%, respectively, of the SIIC Group's turnover in Fiscal 2002, as compared to 21.7%, 8.8%, 20.9%, 7.8%, 34.1% and 5.1%, respectively, in Fiscal 2001. An analysis of turnover by principal activities of the SIIC Group for Fiscal 2001 and Fiscal 2002 is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2001 | 2002 | |
| | HK$ | HK$ (thousands) | US$ |
| Consumer products | 1,997,781 | 1,994,115 | 255,698 |
| Medicine and health food | 815,531 | 1,427,852 | 183,088 |
| Merchandise trading | 1,927,534 | 2,980,113 | 382,130 |
| Infrastructure and logistics | 719,493 | 704,718 | 90,364 |
| Security investment | 3,143,856 | 2,118,998 | 271,712 |
| Property and hotel investments | 472,117 | 1,000,577 | 128,300 |
| Others | 142,717 | 149,117 | 19,121 |
| | 9,219,029 | 10,375,490 | 1,330,413 |

Turnover from sales of consumer products in Fiscal 2002 decreased slightly by 0.2% to HK$1,994 million (US$256 million) from HK$1,998 million in Fiscal 2001.

Turnover from sales of medicine and health food increased by 75.0% to HK$1,428 million (US$183 million) in Fiscal 2002 from HK$816 million in Fiscal 2001. The increase was primarily as a result of: (i) the significant increase in the sales of Chia Tai Qingchunbao (held by SIIC MedTech) by HK$114 million (US$15 million) in Fiscal 2002 as a result of increased marketing activities through a series of promotional campaigns during Fiscal 2002 which helped increase the sales of the SIIC Group's healthcare products; and (ii) the turnover of 常州藥業股份有限公司, a company held by SI United, being consolidated into the SIIC Group following the acquisition of an additional interest in the company from 42.0% to 53.8% in the second half of 2002. In Fiscal 2001, the results of 常州藥業股份有限公司 were accounted for by equity method.

Turnover from sales of merchandise trading increased by 54.6% to HK$2,980 million (US$382 million) in Fiscal 2002 from HK$1,928 million in Fiscal 2001. The increase was attributable to significant growth in turnover of SIIC International Trade (Group) Co., Ltd. in Fiscal 2002.

Turnover from income from infrastructure and logistics fell by 1.9% to HK$705 million (US$90 million) in Fiscal 2002 from HK$719 million in Fiscal 2001. The turnover for Fiscal 2001 and Fiscal 2002 were mainly derived from the two elevated road projects held by the SIHL Group which generated a guaranteed fixed return based on the carrying value of the investment.

Turnover from securities investment decreased by 32.6% to HK$2,119 million (US$272 million) in Fiscal 2002 from HK$3,144 million in Fiscal 2001. The turnover from securities investment comprised dividend income from various PRC financial institutions held by the SIIC Group amounting to HK$105 million (US$13 million) in Fiscal 2002 and HK$121 million in Fiscal 2001. Decrease in the turnover from securities investment was mainly due to the decrease in the trading volume of tradable securities investments in Fiscal 2002.

Turnover from property and hotel investment increased by 112.1% to HK$1,001 million (US$128 million) in Fiscal 2002 from HK$472 million in Fiscal 2001, principally as a result of proceeds from the sales of development projects having increased by 150.6% in Fiscal 2002 over Fiscal 2001. In Fiscal 2002, the turnover from property and hotel investment was mainly attributable to the completion and recognition of sales of a project named Yu Jing Garden (御景園) (which is held by 上海上實置業有限公司) with sales amounting to HK$529 million (US$68 million). In Fiscal 2001, the turnover from property and hotel investment was mainly attributable to the sale of a reclamation development project in Shanghai with turnover of HK$182 million.

Turnover from hotel and guesthouse operations increased by 164.3% to HK$222 million (US$28 million) in Fiscal 2002 from HK$84 million in Fiscal 2001, principally due to the commencement of the operation of the Shanghai Four Seasons Hotel in March 2002.

*Profit from operations.* The SIIC Group's operating profits in Fiscal 2002 increased slightly by 0.7% to HK$1,656 million (US$212 million) from HK$1,645 million in Fiscal 2001. The segment profit increased by 6.2% to HK$1,514 million (US$194 million) in Fiscal 2002 from HK$1,425 million in Fiscal 2001, as a result of the following:

(i) the segment results from the sale of consumer products increased by 180.8% to HK$219 million (US$28 million) in Fiscal 2002 from HK$78 million in Fiscal 2001. Excluding the impairment loss on the stock and trade receivables of HK$80 million for certain subsidiaries which were engaged in textiles products in Fiscal 2001, the segment profit for consumer products increased by 38.6% in Fiscal 2002. The increase was mainly contributed by the increase in profit for Nanyang Tobacco (amounting to HK$120 million (US$15 million) in Fiscal 2002, compared to HK$92 million in Fiscal 2001 or an increase by 30.4%) and The Wing Fat Printing Company, Limited ("Wing Fat") (amounting to HK$86 million (US$11 million) in Fiscal 2002, compared to HK$70 million in Fiscal 2001 or an increase by 22.9%); and

(ii) the segment results from the sale of medicine and health food increased by 45.2% to HK$273 million (US$35 million) in Fiscal 2002 from HK$188 million in Fiscal 2001 as a result of the increased sales in Fiscal 2002.

Such increase in the profits of the above segments was in part offset by the decreased profits in the following segments:

(i) the segment results from infrastructure and logistics fell by 2.2% to HK$702 million (US$90 million) in Fiscal 2002 from HK$718 million in Fiscal 2001;

(ii) the segment results from securities investment decreased by 65.6% to HK$78 million (US$10 million) in Fiscal 2002 from HK$227 million in Fiscal 2001. The profit included dividend income from a number of PRC financial institutions held by the SIIC Group amounting to HK$105 million (US$13 million) in Fiscal 2002 and HK$121 million in Fiscal 2001. The loss incurred from the trading of investment securities were mainly attributable to the unrealised loss arising from using the year end market value as the carrying value of the tradable investment securities in Fiscal 2002;

(iii) the segment results from property and hotel investment decreased by 3.1% to HK$188 million (US$24 million) in Fiscal 2002 from HK$194 million in Fiscal 2001. The segment profit from property investment and development decreased by 27.8% to HK$ 192 million (US$25 million) in Fiscal 2002 from HK$266 million in Fiscal 2001. Despite the increase in turnover in Fiscal 2002, the segment profit decreased as the profit margin for the reclamation project in Fiscal 2001 was comparatively higher than that of the development projects in Fiscal 2002;

(iv) interest income decreased by 58.9% to HK$106 million (US$14 million) in Fiscal 2002 from HK$258 million in Fiscal 2001.

*Gain on disposal of investments.* Gain on disposal of investments decreased by 50.3% to HK$74 million (US$9 million) in Fiscal 2002 from HK$149 million in Fiscal 2001. The gain on disposal of investment in Fiscal 2002 was mainly attributable to the gain arising from the deemed disposal of interests in jointly controlled entities and loss on deemed disposal of subsidiaries. The gain arising

from the deemed disposal of the interests in jointly controlled entities primarily arose from the listing of Bright Dairy on the A share market of the Shanghai Stock Exchange in August 2002, which resulted in a dilution of interest held by Shanghai Industrial from 40.0% to approximately 30.8% and generated a gain of HK$220 million (US$28 million). The deemed disposal of the subsidiaries in Fiscal 2002 derived primarily from the issue of additional shares by Shanghai Industrial upon the exercise of share options by Shanghai Industrial's share option scheme holders which resulted in the dilution of interest held by the SIIC Group in Shanghai Industrial from 61.0% to 58.5% and generated a loss of HK$149 million (US$19 million). The gain on disposal of investments in Fiscal 2001 was mainly attributable to the listing of Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa") on the A share market of the Shanghai Stock Exchange in March 2001, which resulted in a dilution of interest held by Shanghai Industrial from 40.0% to approximately 28.2% and generated a gain of HK$156 million.

*Finance cost.* Finance costs in Fiscal 2002 decreased by 25.5% to HK$655 million (US$84 million) from HK$879 million in Fiscal 2001, primarily attributable to the general decline in market interest rate and the SIIC Group's repayment of those loans with interest cost higher than prevailing market offered rate, such as the repayment of the exchangeable bonds due 2002 by another new loan which had more favourable interest terms.

*Share of results of jointly controlled entities.* Share of results of jointly controlled entities decreased by 45.3% to HK$152 million (US$19 million) in Fiscal 2002 from HK$278 million in Fiscal 2001. The decrease was mainly attributable to the reduced profit of Huizhong Automotive and the unfavourable results of Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications"). In Fiscal 2001, through the Compass Fund in which Shanghai Industrial had an interest, a share of profit was recorded as a result of the listing of Clear Media Ltd., which was held by Compass Fund, on the Main Board of the HKSE.

*Share of results of associates.* Share of results of associates decreased by 31.1% to HK$71 million (US$9 million) in Fiscal 2002 from HK$103 million in Fiscal 2001, mainly due to the share of loss of SMIC.

*Profit before tax.* Principally as a result of the foregoing, profit before tax in Fiscal 2002 slightly increased by 0.2% to HK$1,298 million (US$166 million) from HK$1,296 million in Fiscal 2001.

*Taxation.* Taxation increased by 58.7% to HK$265 million (US$34 million) in Fiscal 2002 from HK$167 million in Fiscal 2001. The effective tax rate, as computed by dividing the tax by the profit before tax, increased to 20% in Fiscal 2002 from 13% in Fiscal 2001.

*Minority Interests.* The share of profit by minority interests decreased by 13.2% to HK$659 million (US$85 million) in Fiscal 2002 from HK$759 million in Fiscal 2001, primarily due to the decreased profit attributable to shareholders from Shanghai Industrial in Fiscal 2002 compared to Fiscal 2001.

*Profit attributable to shareholders.* As a result of the foregoing, profit attributable to shareholders increased by 1.1% to HK$374 million (US$48 million) in Fiscal 2002 from HK$370 million in Fiscal 2001.

*Assets and liabilities.* As at 31 December 2002, the total assets of the SIIC Group increased by 6.1% to HK$33,215 million (US$4,259 million) from HK$31,309 million as at 31 December 2001, and total liabilities and minority interests increased by 6.7% to HK$24,825 million (US$3,183 million) from HK$23,276 million as at 31 December 2001. Net assets increased by 4.4% to HK$8,390 million (US$1,076 million) from HK$8,033 million as at 31 December 2001, primarily attributable to the net profit recorded in Fiscal 2002.

As at 31 December 2002, the total outstanding borrowings decreased by 1.9% to HK$13,539 million (US$1,736 million) from HK$13,795 million as at 31 December 2001. Cash and bank balance, however, also decreased by 11.9% to HK$5,773 million (US$740 million) as at 31 December 2002 from HK$6,551 million as at 31 December 2001. Accordingly, the net debt-to-equity ratio slightly increased to 0.93 times as at 31 December 2002 from 0.90 times as at 31 December 2001. Interest coverage, which is calculated by dividing the sum of the profit before tax and interest expenses by

interest expenses, was 2.98 times as at 31 December 2002 as compared to 2.47 times as at 31 December 2001. The improvement in interest coverage was attributable to the reduction of interest as a result of the decrease in interest rate and the repayment of loans with higher interest cost such as the repayment of the exchangeable bonds due 2002 in June 2002.

The SIIC Group has pledged its land and buildings, machinery, deposits in financial institutions and other assets to secure its borrowings. As at 31 December 2002 and 31 December 2001, the SIIC Group had pledged such assets with an aggregate net book value of HK$3,526 million (US$452 million) and HK$4,052 million, respectively.

***Liquidity and Capital Resources***

To date, the SIIC Group has financed its operations mainly with internally generated funds and bank borrowings and, to a more limited extent, by accessing the capital markets.

The short-term borrowings of the SIIC Group are in the form of bank and other loans and overdrafts, the SIIC Group has not experienced difficulties in obtaining short-term financing in the past and believes it will be able to obtain such financing in the future. However, there can be no assurance that the SIIC Group can obtain such financing at commercially reasonable rates.

In December 2002, a subsidiary of the Guarantor, SIIC (Cayman) Limited issued floating rate notes with an aggregate principal amount of US$125 million (the "FRN") which were guaranteed by SIIC and carry interest at a margin over LIBOR for six months U.S. dollars deposit payable semi-annually in arrear commencing from June 2001. The FRN are redeemable under certain specified conditions at any time, in whole but not in part, at their principal amount. Unless previously redeemed, purchased and cancelled, the FRN will be redeemed at their principal amount in December 2005.

As at 30 June 2003, the SIIC Group had available aggregate banking facilities of approximately HK$16,230 million (US$2,081 million) with various banks, of which approximately HK$1,404 million (US$180 million) is secured by certain properties and other fixed assets with an aggregate net book value of approximately HK$5,198 million (US$667 million). The SIIC Group also had other unsecured loan facilities of approximately HK$14,825 million (US$1,901 million) as at 30 June 2003.

As at 30 June 2003, the SIIC Group had utilised a total of HK$12,710 million (US$1,630 million) of the above facilities, HK$11,306 million (US$1,450 million) of which were unsecured bank loans and overdrafts, HK$1,404 million (US$180 million) were secured bank loans and overdrafts. Of these utilised facilities, approximately HK$5,248 million (US$673 million) is repayable within one year and approximately HK$7,462 million (US$957 million) is repayable between one to five years.

As at 30 June 2003, the SIIC Group had outstanding commitments and contingent liabilities of approximately HK$6,977 million (US$895 million). The outstanding capital commitments amounted to approximately HK$746 million (US$96 million) and consisted of approximately HK$567 million (US$73 million) of outstanding capital commitments in respect of acquisition of land, fixed assets and investment in an associate, together with approximately HK$179 million (US$23 million) of outstanding capital contributions to jointly controlled entities and associates. The outstanding of other commitments amounted to approximately HK$6,022 million (US$772 million) and consisted of approximately HK$5,008 million (US$642 million) of outstanding interest rate hedging contracts to hedge the floating interest rate risk of the SIIC Group's bank loans and approximately HK$1,014 million (US$130 million) of outstanding foreign currency contracts to hedge the SIIC Group's bank loans. The contingent liabilities amounted to approximately HK$209 million (US$27 million) and consisted of approximately HK$144 million (US$19 million) of guarantees for banking and other facilities granted to associates and approximately HK$65 million (US$8 million) of guarantees for banking facilities granted to affiliated companies.

***Cash flow***

Net cash from operating activities decreased by 72.7% to HK$708 million in Fiscal 2002 from HK$2,596 million in Fiscal 2001. The decrease was primarily due to the net cash movements in respect of investments in securities grouped under current assets. There was a net cash outflow of

HK$1,006 million in respect of investment in securities in Fiscal 2002, compared to a net cash inflow of HK$660 million in Fiscal 2001. Excluding the factor of net cash flow of investments in securities, the Guarantor's net cash inflow from operating activities decreased by 11.5% to HK$1,714 million in Fiscal 2002 from HK$1,936 million in Fiscal 2001.

In Fiscal 2002, the net cash used in the investment activities decreased by 8.0% to HK$967 million from HK$1,051 million in Fiscal 2001.

In Fiscal 2002, the consideration and deposits paid for the acquisition of investment properties, properties, plant and equipment and land for development fell by 6.0% to HK$807 million from HK$ 858 million in Fiscal 2001.

In Fiscal 2002, bank and other loans raised by the SIIC Group increased by approximately 4 times to HK$17,531 million from HK$3,522 million in Fiscal 2001. The amount of loan repayment including the redemption of exchangeable bonds increased by approximately 2.14 times to HK$17,450 million from HK$5,560 million in Fiscal 2001. The significant increase in the new loan was primarily attributable to a new five-year term and revolving loan raised by Shanghai Industrial. The increase in loan repayment was mainly attributable to the repayment of a long term syndication loan of HK$1,170 million by Shanghai Industrial and the repayment of 2002 exchangeable bonds due in June 2002 by the SIIC Group.

As at 31 December 2002, the cash and bank balance held by the SIIC Group decreased by 11.9% to HK$5,773 million (US$740 million) from HK$6,551 million as at 31 December 2001.

**Shanghai Industrial**

***First Half 2003 compared to First Half 2002***

*Turnover.* Turnover of the SIHL Group for First Half 2003 decreased approximately 14.9% compared with First Half 2002. An analysis of turnover by principal activities for First Half 2002 and First Half 2003 is as follows:

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2002 | 2003 | |
| | HK$ | HK$ | US$ |
| | | (thousands) | |
| Consumer products and automobile and parts | 946,095 | 607,522 | 77,902 |
| Medicine and bio-technology | 419,884 | 572,748 | 73,442 |
| Infrastructure and modern logistics | 354,322 | 283,019 | 36,291 |
| | 1,720,301 | 1,463,289 | 187,635 |

During First Half 2003, turnover of medicine and bio-technology business grew by 36.4% over First Half 2002, due primarily to the increase in turnover of Chia Tai Qingchunbao.

During First Half 2003, turnover of consumer products and automobile and parts business decreased 35.8% over First Half 2002. The decrease in the turnover of consumer products and automobile and parts was primarily due to the disposal of all of Shanghai Industrial's 51% stake in Orient Shopping Centre in First Half 2003, as a result of which the turnover of Orient Shopping Centre was included in First Half 2002 but not for First Half 2003.

Turnover from infrastructure and modern logistics fell 20.1% as compared with First Half 2002 due to the cancellation of guaranteed fixed return of two infrastructure projects, the SIHL Group received full reimbursement of the carrying value of two infrastructure projects and an after tax compensation of RMB300 million.

*Profit from Ordinary Activities Before Taxation.* Profit from ordinary activities before taxation increased by 2.3% from HK$629 million in First Half 2002 to HK$643 million (US$82 million) in First Half 2003. Gross profit margin (excluding income from infrastructure projects) for First Half 2003 increased from 40.9% in First Half 2002 to approximately 53.5%.

*Investment income.* Investment income for First Half 2003 increased by 17.8% from approximately HK$43 million for First Half 2002 to approximately HK$51 million (US$7 million), primarily due to increased gains in the amount of approximately HK$18 million from the disposal of securities investment. However, after taking into account the decrease in interest income from bank deposits of approximately HK$8 million, the investment income increased by only approximately HK$8 million.

*Finance costs.* Finance costs decreased by 56.1% from HK$42 million in First Half 2002 to HK$18 million (US$2 million) in First Half 2003, primarily due to the repayment of a syndicated loan of HK$1,170 million in mid-2002 and the entering into of a new syndicated loan of HK$1,600 million at more favourable interest rate. These together with the benefits from a general decline in market interest rate during the period helped to save finance costs significantly as compared to First Half 2002.

*Net gain on disposal of interest in a subsidiary and an associate*. A net gain of HK$25 million (US$3 million) on disposal of interest in a subsidiary and an associate was recorded in First Half 2003. The gain was primarily derived from the disposal of Shanghai Industrial's stake in Orient Shopping Centre.

*Share of results of jointly controlled entities.* Share of results of jointly controlled entities for First Half 2003 increased by 5.1% from approximately HK$87 million in First Half 2002 to approximately HK$92 million (US$12 million), primarily due to the increase in profit of Huizhong Automotive and the increase in Sunve Pharmaceutical's share of investment income of one of its associates. In addition, Bright Dairy became an associate instead of a jointly controlled entity after its listing in August 2002. The profit contributed by Bright Dairy was therefore excluded from the share of results of jointly controlled entities for the period. Offsetting the effect of such factor, the share of results of jointly controlled entities increased by only approximately HK$4 million.

*Share of results of associates.* Share of results of associates for First Half 2003 increased 93.1% from approximately HK$28 million in First Half 2002 to HK$54 million (US$7 million), mainly due to the increase in profit of Shanghai Transportation and the fact that Bright Dairy has become an associate. Such increase was, however, in part offset by the increase in share of loss of SMIC.

*Assets.* As at 30 June 2003, the SIHL Group had total assets of approximately HK$16,683 million (US$2,139 million), compared to approximately HK$16,463 million (US$2,111 million) as at 31 December 2002.

*Loans and Capital.* As at 30 June 2003, the SIHL Group's short-term borrowings were reduced by HK$12 million (US$2 million) to approximately HK$831 million (US$107 million), from HK$843 million as at 31 December 2002, primarily as a result of repayment of part of its short-term loans.

***Fiscal 2002 compared to Fiscal 2001***

*Turnover.* Turnover of the SIHL Group for Fiscal 2002 increased approximately 5.6% over Fiscal 2001. An analysis of turnover by principal activities for Fiscal 2001 and Fiscal 2002 of the SIHL Group is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2001 | 2002 | |
| | HK$ | HK$ | US$ |
| | | (thousands) | |
| Consumer products and department retail .. | 1,756,014 | 1,832,933 | 235,031 |
| Medicine and bio-technology ..... | 723,911 | 842,386 | 108,016 |
| Infrastructure and modern logistics ..... | 719,493 | 704,718 | 90,363 |
| | 3,199,418 | 3,380,037 | 433,410 |

During Fiscal 2002, turnover of the medicine and bio-technology business grew by 16.4% over Fiscal 2001, with one third of such growth derived from projects newly acquired and new products launched during Fiscal 2002. The increase was also due primarily to the significant growth in the sales of Chia Tai Qingchunbao during Fiscal 2002 in the amount of approximately HK$114 million (US$15 million), which is largely as a result of the efforts made by Chia Tai Qingchunbao in enhancing its marketing activities through a series of promotional activities conducted during the year, which drove up sales in healthcare products. "Qingchunbao Anti-ageing Tablets" broke sales records in Fiscal 2002, achieving a revenue of over HK$328 million (US$42 million), representing an increase of approximately 37% over Fiscal 2001. As for prescription drugs, sales of "Shen Mai Injection" and "Dan Shen Injection" increased by approximately 7.5% and 10.3%, respectively, during Fiscal 2002.

During Fiscal 2002, turnover of consumer products and department retail business rose by approximately 4.4% over Fiscal 2001 primarily because Nanyang Tobacco successfully consolidated its Singapore market and expanded into the Taiwan market, coupled with its steady exports and domestic sales which led to the overall increase in sales. Wing Fat has developed a number of new tobacco packs for use by Nanyang Tobacco and tobacco pack orders from European Tobacco Inc. also increased.

*Profit from Ordinary Activities Before Taxation.* Profit from ordinary activities before taxation decreased by 2.6% from HK$1,490 million in Fiscal 2001 to HK$1,452 million (US$186 million) in Fiscal 2002. Gross profit margin (excluding income from infrastructure projects) for Fiscal 2002 increased from 37.9% in Fiscal 2001 to approximately 42.2%.

*Investment income.* Investment income for Fiscal 2002 fell significantly by 53.5% from approximately HK$202 million for Fiscal 2001 to approximately HK$94 million (US$12 million), representing a decrease of approximately HK$108 million. This was primarily due to the significant decrease in interest income from bank deposits of approximately HK$87 million during Fiscal 2002 resulting from the significant reduction in bank deposit rates in the U.S. and Hong Kong since the second half of 2001. In addition, gains from disposal of securities investments also fell by approximately HK$17 million.

*Finance costs.* Finance costs for Fiscal 2002 decreased by 32.0% from approximately HK$94 million in Fiscal 2001 to HK$64 million (US$8 million), primarily due to the SIHL Group's repayment in Fiscal 2001 of a long-term bank loan of approximately HK$585 million, which became due in Fiscal 2001. The syndicated loan of HK$1,600 million raised during Fiscal 2002 had a more favourable interest rate than that of the repaid loan.

*Gain on deemed disposal of interest in a jointly controlled entity.* Gain on deemed disposal of interest in a jointly controlled entity recorded in Fiscal 2001 was derived from the listing of Shanghai Jahwa, a jointly controlled entity of the SIHL Group's subsidiary, SIIC MedTech, of which SIIC MedTech held a 40% interest, on the A share market of Shanghai Stock Exchange in March 2001, which generated an exceptional gain of approximately HK$156 million for SIIC MedTech, of which approximately HK$100 million was attributed to the SIHL Group. During Fiscal 2002, gain on the

SIHL Group's deemed disposal of interest in a jointly controlled entity was derived from the listing of Bright Dairy on the A share market of Shanghai Stock Exchange in August 2002 which resulted in a dilution of interest from 40.0% to approximately 30.8% and generated an exceptional gain of approximately HK$220 million for the SIHL Group.

*Share of results of jointly controlled entities.* Share of results of jointly controlled entities for Fiscal 2002 decreased from approximately HK$267 million in Fiscal 2001 to approximately HK$142 million (US$18 million). The decrease was primarily attributable to the decrease in profit of Huizhong Automotive and the unfavourable results of Shanghai Optical Communications compared to Fiscal 2001. There was also a share of the Compass Fund's exceptional gain in Fiscal 2001 attributable to the listing of Clear Media Ltd., held by the Compass Fund, on the Main Board of the HKSE.

*Share of results of associates.* Share of results of associates for Fiscal 2002 decreased 90.3% from approximately HK$72 million in Fiscal 2001 to HK$7 million (US$1 million). Decrease in attributable profits during Fiscal 2002 was mainly due to the share of loss of SMIC.

*Impairment loss recognised in respect of interest in a jointly controlled entity.* During Fiscal 2002, full provision was made for the diminution in the investment value of Shanghai Pharmaceutical Business Network Co. Ltd., a member of SIIC MedTech, in accordance with HKFRS which resulted in an exceptional loss of HK$15.3 million (US$2 million).

*Assets.* As at 31 December 2002, the SIHL Group had total assets of approximately HK$16,463 million (US$2,111 million), compared to approximately HK$14,836 million as at 31 December 2001.

*Loans and Capital.* The SIHL Group's short-term loan was reduced by HK$383 million (US$49 million) in Fiscal 2002 over Fiscal 2001 to approximately HK$843 million (US$108 million), primarily as a result of the SIHL Group's repayment of a long-term syndication loan of approximately HK$1,170 million that became due during Fiscal 2002. During Fiscal 2002, a new five-year term and revolving loan of HK$1,600 million was raised, of which the revolving portion of HK$800 million was classified as short-term loan. Long-term loan increased by approximately HK$800 million (US$103 million) in Fiscal 2002 being the long-term portion of the five-year loan of HK$1,600 million.

# DESCRIPTION OF THE GUARANTOR

## Introduction

The Guarantor, a diversified holding company with interests focused on businesses involved in manufacturing of consumer products and merchandise trading, medicine and health food, infrastructure and logistics, securities investment, property and hotel development and investment, automotive parts and information technology, is the largest commercial enterprise established by the Shanghai Municipal Government outside the PRC. The Guarantor has interests in more than 200 entities, including joint ventures and co-operative enterprises. The Guarantor's principal subsidiary is Shanghai Industrial. As of 10 March 2004, the Guarantor beneficially owned approximately 58% of the issued share capital of Shanghai Industrial. Shanghai Industrial itself is also a diversified holding company and has interests in a range of businesses concentrated in Shanghai, Hong Kong and other parts of the PRC, including customer products and automobile and parts, medicine and biotechnology, infrastructure and modern logistics and information technology. Based on the closing price of Shanghai Industrial's shares on the HKSE on 10 March 2004, Shanghai Industrial had a market capitalisation of approximately HK$17,446 million on such date.

The Guarantor was incorporated on 17 July 1981 as the "window" company in Hong Kong for the Shanghai Municipal Government. The State-owned Assets Administration Commission of the Shanghai Municipal Government ( 上海市國有資產管理委員會 ) beneficially owns all of the issued share capital of the Guarantor. The Guarantor is the largest commercial enterprise established by the Shanghai Municipal Government outside the PRC. In addition to its operations in Shanghai and other provinces in the PRC and Hong Kong, the Guarantor also has other subsidiaries in various overseas countries.

For the six months ended 30 June 2003, the SIIC Group's unaudited consolidated turnover and profit attributable to shareholders were approximately HK$5,049 million (US$647 million) and approximately HK$119 million (US$15 million), respectively. As at 30 June 2003, the SIIC Group had unaudited consolidated net assets of approximately HK$8,530 million (US$1,094 million), including properties held for hotel operation, rental and self-use purposes, with an aggregate net book value of approximately HK$4,509 million (US$578 million). For the year ended 31 December 2002, the SIIC Group's turnover and profit attributable to shareholders were approximately HK$10,375 million (US$1,330 million) and approximately HK$374 million (US$48 million), respectively. As at 31 December 2002, the SIIC Group had net assets of approximately HK$8,390 million (US$1,076 million), including properties held for hotel operation, rental and self-use purposes, with an aggregate net book value of approximately HK$4,540 million (US$582 million).

The registered address of the Guarantor is 27th Floor, Harcourt House, 39 Gloucester Road, Hong Kong. The Guarantor is incorporated as a company with limited liability under the Companies Ordinance of Hong Kong with registered number 100465.

## History

In 1981, the Guarantor was incorporated to gradually assume management control and ownership of a number of the Shanghai Municipal Government's investments in Hong Kong, including Nanyang Tobacco, Wing Fat and The Tien Chu (Hong Kong) Company Limited (formerly known as "The Tien Chu Ve-Tsin Chemical Industries (H.K.) Limited"). The SIIC Group has grown significantly since its establishment. From its establishment in 1981 until 1993, the SIIC Group was principally involved in manufacturing and property investment.

In 1993, the SIIC Group redefined its business strategy and began to diversify into a range of non-manufacturing industries including property development and investment, import and export trading, hotels and tourism and finance.

In May 1996, the SIIC Group transferred the operations of Nanyang Tobacco (cigarette business) and Wing Fat (printing and packaging materials businesses) to the SIHL Group. These two businesses, together with the businesses of Sunve Pharmaceutical (pharmaceutical business) and Shanghai Jahwa (personal care and cosmetics businesses), comprised the business of the SIHL Group when the shares of Shanghai Industrial were first listed for trading on the HKSE in May 1996 (see "Description of Shanghai Industrial — History").

In January 1997, the Guarantor became the sole "window" company outside the PRC for the Shanghai Municipal Government.

In December 1998, the Shanghai Municipal Government granted the Guarantor the exclusive right to develop and operate a land project covering approximately 84 square kilometres in Chongming Island, the third largest island in the PRC.

In February 1999, the Guarantor completed the process of consolidating its interests in SI United, a biomedicine company listed on the Shanghai Stock Exchange. SI United became a subsidiary of the SIIC Group upon completion of the consolidation. SI United is regarded as the listed arm of the Guarantor in the PRC.

In December 2000, the SIIC Group acquired approximately 16% interest in Haitong Securities Co. Ltd. ("Haitong"), one of the largest securities firms in the PRC, for a total consideration of RMB600 million and became its largest shareholder. In November 2002, Haitong had allotted new shares to its existing and new shareholders which resulted in a dilution of the SIIC Group's interest in Haitong from 16% to approximately 9.16%. To date, the SIIC Group holds approximately 9.16% interest in Haitong and remains as the largest shareholder of Haitong.

In March 2002, the Four Seasons Hotel Shanghai (the "Four Seasons Hotel") was opened. The SIIC Group holds approximately 75.78% interest in the Four Seasons Hotel, and signed a management agreement with Four Seasons Hotel Inc., a reputable international hotel management company, to operate the Four Seasons Hotel in collaboration with the SIIC Group.

In February 2003, the SIIC Group acquired a 73.28% interest in Shanghai Pudong Stainless Sheet Co., Ltd. ("SPSS"), an A-share company listed on the Shanghai Stock Exchange, at a consideration of approximately HK$1,070 million, pursuant to the terms of a share acquisition agreement dated 25 September 2002. Upon completion of the acquisition, SPSS became a subsidiary of the SIIC Group and its name was changed to Shanghai Industrial Development Co., Ltd. ("SIDC"). SIDC will be principally engaged in real estate development and investment.

**Business Overview of the Group**

The SIIC Group (including the SIHL Group) is engaged in a wide range of businesses, which comprise the following business segments:

1. *Manufacturing of consumer products and merchandise trading:*

   — manufacture and sale of cigarettes, food products, packaging materials and printed products; operation of a shopping centre; import and export of textile; industrial products and general merchandise.

2. *Medicine and health food:*

   — manufacture and sale of Chinese medicine, pharmaceutical products and health food.

3. *Infrastructure and logistics:*

   — investment in elevated road projects and modern logistic projects.

4. *Securities investment:*

   — securities dealing and investment including investment in financial institutions in the PRC.

5. *Property and hotel development and investment:*

— development and investment in properties and hotels.

6. *Automotive parts:*

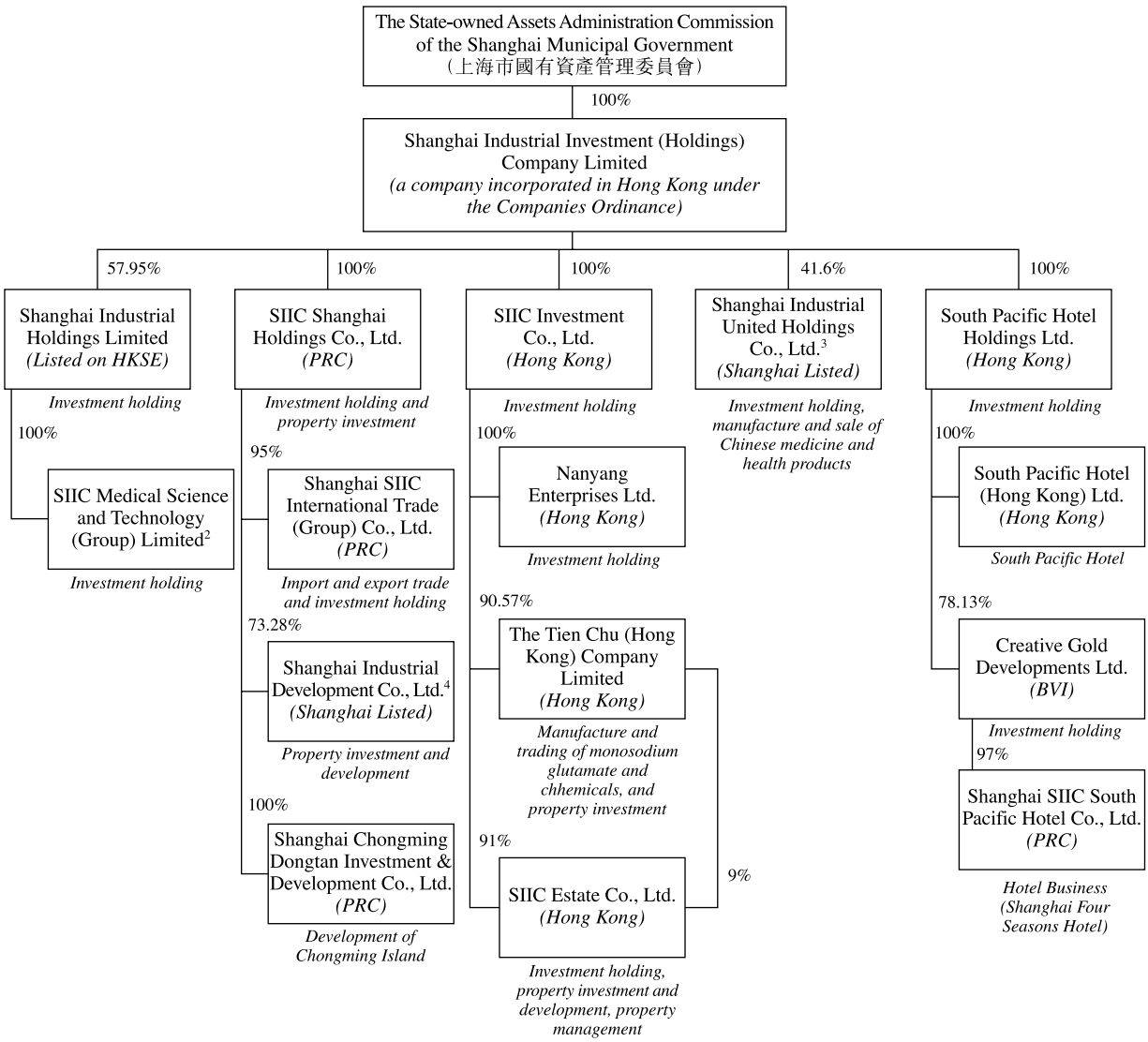
— manufacture and sale of automotive components and spare parts.

7. *Information technology:*

— development of communication infrastructure and information technology businesses.

A significant portion of the SIIC Group's activities are carried on through the SIHL Group (see "Description of Shanghai Industrial"). Outside the SIHL Group, the SIIC Group has businesses and investments in manufacturing of customer products and merchandise trading, securities investment and property and hotel development and investment.

In addition to Shanghai Industrial, the principal subsidiaries of the SIIC Group as at 31 December 2003 are illustrated in the following chart[1]:




*Notes:*

1. The chart of principal subsidiaries for the SIIC Group as at 31 December 2003 has omitted the intermediate investment holding companies.

2. SIIC MedTech was previously listed on the GEM of HKSE. Its listing status had been withdrawn on 17 September 2003 upon the completion of the privatisation scheme proposed by Shanghai Industrial. Shanghai Industrial had acquired approximately 34% of the shareholding of SIIC MedTech not already owned by Shanghai Industrial from outside shareholders through the scheme and SIIC MedTech became a wholly-owned subsidiary of Shanghai Industrial upon completion of the privatisation scheme.

3. In May 2003, Shanghai Industrial entered into an agreement to acquire a 56.63% interest in SI United, including the 41.6% interest already held by SIIC Group. The agreement is awaiting approval by the PRC authorities. SI United is deemed to be the subsidiary of the SIIC Group as the SIIC Group controls the composition of the board of the directors of SI United.

4. In February 2003, the SIIC Group acquired a 73.28% interest in an A-share company listed on the Shanghai Stock Exchange, namely, Shanghai Pudong Stainless Sheet Co., Ltd., which was subsequently renamed as Shanghai Industrial Development Co., Ltd. ("SIDC"). The SIIC Group intends to conduct its real estate development business in the PRC mainly through SIDC. Prior to the acquisition of SIDC, the SIIC Group mainly conducted its real estate development business in PRC through two wholly-owned subsidiaries incorporated in the PRC, namely, Shang Shi Real Estate Holding (Shanghai) Co., Ltd. and Shanghai SIIC Investment & Development Co., Ltd. (上海上實投資發展有限公司).

**Principal Shareholders of the Guarantor**

The State-owned Assets Administration Commission of the Shanghai Municipal Government (上海市國有資產管理委員會) beneficially owns all of the issued share capital of the Guarantor.

**Relationship with the Shanghai Municipal Government**

While the power to manage the Guarantor has been given to its directors, the Shanghai Municipal Government has currently intended that the management strategy of the Guarantor should take into account the current and long-term development plan for Shanghai City.

The Shanghai Municipal Government directly appoints the senior management of the Guarantor. The Guarantor's management is well-acquainted with the personnel and procedures of the Shanghai Municipal Government, with some of its directors having held senior positions in the different departments of the Shanghai Municipal Government. In addition, prior to joining the Guarantor, key managers of the Guarantor acquired substantial work experience in relevant administration and business management institutions in Shanghai, including those in the public as well as commercial sectors.

As of 10 March 2004, the Shanghai Municipal Government, through the Guarantor and its subsidiaries, beneficially owned approximately 58% of the issued share capital of Shanghai Industrial. As a result, the Shanghai Municipal Government is able to control the composition of a majority of the board of directors of Shanghai Industrial and, in general, to determine the outcome of most corporate transactions and other matters submitted to the shareholders of Shanghai Industrial for approval (subject to compliance with the requirements of the Companies Ordinance and the Listing Rules).

**Strategy**

As the PRC economy grows, the Guarantor believes that Shanghai will continue to develop into an international centre for industry, commerce, finance and transport. Through its presence in Hong Kong, the SIIC Group intends to position itself as an important link between enterprises and investments in Shanghai and its neighbouring regions and the international markets accessible through Hong Kong. To achieve this objective, the SIIC Group will endeavour to (i) manage and operate its existing businesses efficiently via advanced technology; (ii) enter into mergers, acquisitions and dispositions as attractive opportunities arise; (iii) develop and maintain a portfolio of investments in sectors which reflect the Shanghai economy as a whole, such as transportation infrastructure, manufacturing, property, trading, financial services and retail; and (iv) use Shanghai and Hong Kong as its bases and expand its activities into other parts of the PRC and the world.

**Manufacturing of Consumer Products and Merchandise Trading**

***Manufacturing***

A significant portion of the SIIC Group's manufacturing activities are conducted through the SIHL Group (see "Description of Shanghai Industrial — Business Overview").

In respect of the subsidiaries of the Guarantor outside of the SIHL Group, a number of them are principally engaged in the manufacture of a wide range of products, including food seasoning, chemicals, garments, electronics and biochemical products.

*The Tien Chu (Hong Kong) Company Limited ("Tien Chu")*

Tien Chu is engaged in the manufacture, distribution and sale of various types of chemical products, including monosodium glutamate, sodium hypochlorite, hydrochloric acid, liquid caustic soda, liquid detergent and stone cleaner. The Guarantor owns a 90.57% interest in Tien Chu and its manufacturing process is carried out in Hong Kong with its production facilities situated in Tsing Yi (which occupies a total gross floor area of approximately 245,616 sq.ft.). Some of its products, including its monosodium glutamate which is marketed under the well-known brandname of "Finger Citron", are sold throughout the world.

Tien Chu is also engaged in the sale of packed fresh vegetables through a reputable supermarkets chain in Hong Kong.

***Merchandise Trading***

The SIIC Group is engaged in the business of import, export and re-export of goods between Shanghai and other parts of the world. Goods are imported mainly from Canada, members of the European Union, Japan, the United States and Korea. In addition, goods are also distributed to various cities and provinces in the PRC, mainly Shanghai, Jiangsu and Zhejiang.

Goods imported and exported by the SIIC Group principally include chemical materials, wood and carbonic materials, transportation equipment, metal materials and plastic materials.

More than eight enterprises and regional headquarters have been set up by the SIIC Group to engage in import and export trading of goods throughout the world. SIIC Shanghai International Trade (Group) Co., Ltd. and its several subsidiaries based in Shanghai act as the principal trading units of the SIIC Group. Prior to entering into any business relationship with a third party, the principal trading units will carefully consider, among other things, the financial standing of such party and adopt appropriate control mechanism, including the security of the titles to the goods.

The modes of trading conducted by the SIIC Group include the following:

- trading through the establishment of joint venture companies with manufacturers of certain goods. In this way, any profit and loss arising from the trading of the goods will be shared between the SIIC Group and its joint venture partners;

- direct trading in the goods. Goods are purchased from the manufacturers and are then sold to third party purchasers by the SIIC Group directly; and

- acting as import and export agent. A commission or agency fee will be received by the SIIC Group where it acts as an import or export agent of a manufacturer.

**Securities Investment**

The SIIC Group is engaged in the trading of securities through some of its wholly-owned subsidiaries which are directly managed by the SIIC headquarters in Hong Kong. The securities investments include securities of listed companies which are constituent stocks of the Hang Seng Index and of listed companies with large market capitalisation. In addition, the SIIC Group directly and indirectly holds shares in several financial institutions in the PRC as its strategic investments.

Details of the SIIC Group's principal investment in financial institutions are summarised below.

***Financial Investments***

As at 30 June 2003, the SIIC Group held interests in various financial institutions with a total carrying value of HK$980 million. The portfolio of financial investments includes the following:

1. *Commercial Banking — Shanghai Pudong Development Bank*

As at 30 June 2003, the SIIC Group directly and indirectly held an aggregate of 7.97% equity interest in the Pudong Development Bank with a total carrying value of HK$301 million.

2. *Investment Banking and Securities Firms*

- Shanghai Shenyin Wanguo Securities

The SIIC Group invested approximately RMB34 million in two companies within the Shenyin Wanguo Holdings Ltd. ("Shenyin Wanguo") group of companies and as at 30 June 2003, the SIIC Group held approximately 1.31% of the issued share capital of Shenyin Wanguo.

- Haitong Securities Co. Ltd. ("Haitong")

As at 30 June 2003, the SIIC Group held a 9.16% interest in Haitong with an investment cost of RMB740 million. The SIIC Group is the largest shareholder of Haitong. Haitong is one of the largest domestic securities firms operating in the PRC and had a registered share capital of RMB8,734 million as at 31 December 2002.

In 2002, the SIIC Group reassessed its investment strategies regarding investments in financial institutions and as a result, the SIIC Group disposed of certain investments in financial institutions in which it had insignificant shareholdings. In line with this strategy, the SIIC Group disposed the following investments in their entirety in 2002 to a domestic independent third party for a total consideration of RMB347 million:

- Everbright Bank of China

Prior to the disposal, the SIIC Group held a 1.74% equity interest in Everbright Bank of China, with an original investment cost of RMB151 million.

- Bank of Communications

Prior to the disposal, the SIIC Group held a 0.20% equity interest in Bank of Communications, with an original investment cost of RMB60 million.

- A minor portion of equity interest in the Shanghai Pudong Development Bank.

As a result of the above disposals, the SIIC Group recorded a gain on disposal of HK$111 million in 2002.

3. *Venture Capital Investment*

The Guarantor has also invested in a venture fund, Dragon Tech Ventures Fund, in April 2000 which was established to provide capital for information technology and bio-technology ventures. As at 30 June 2003, the fund size amounted to US$33 million and the SIIC Group had invested US$10 million into this venture capital fund.

**Property and Hotel Development and Investment**

The SIIC Group is engaged in the business of property and hotel development and investment through its interests in various subsidiaries.

***Property Development and Investment***

The SIIC Group is engaged in the business of property development, management and leasing of a portfolio of existing properties for rental purposes.

The SIIC Group mainly conducts its property development business in Hong Kong through various subsidiaries held by SIIC Investment Co., Ltd., a wholly-owned subsidiary of the Guarantor. Prior to 2002, the SIIC Group mainly conducted its property development business in Shanghai through two wholly-owned subsidiaries incorporated in the PRC, namely, Shang Shi Real Estate Holding (Shanghai) Co., Ltd. and Shanghai SIIC Investment & Development Co., Ltd. (上海上實投資發展有限公司). Since February 2003, the SIIC Group mainly conducts its property development business through its PRC subsidiary, SPSS, an A-share listed company on the Shanghai Stock Exchange. The SIIC Group acquired a 73.28% interest in SPSS in February 2003. Upon completion of the acquisition, SPSS changed its name to Shanghai Industrial Development Co., Ltd..

During 2001 and 2002 and the six months ended 30 June 2003, the following property development projects have been completed or are currently being developed by the SIIC Group:

- a site in Tokwawan which is being developed into six blocks of 58-storey buildings (namely, the "Sky Tower") together with a proposed hotel project (for further details, see "Principal Properties and Property Development of the SIIC Group — Properties under Development" in the Appendix);

- several residential projects are being developed by SIDC in Shanghai;

- completion and sale of a 35-storey residential building located at Pokfulam, Hong Kong during the second half of 2003. Total sale proceeds derived from the project amounted to approximately HK$320 million;

- A residential project named "Yu Jing Garden" in the district of Pudong with a gross floor area of approximately 1,146,912 sq.ft. had been substantially sold during the period of presale in 2001. A total sum equivalent to approximately HK$529 million was received from the presale and was recognised as sale proceeds in 2002 upon the certification of completion of the project by relevant governmental authorities; and

- Golden Bell Plaza, a commercial building with a total gross floor area of 9,879,270 sq.ft. which is comprised of office space, shopping arcade and carpark space. The office space was substantially sold in 2000. The shopping arcade, carpark space and remaining office space of 517,985 sq.ft. are currently owned by the SIIC Group for leasing to third parties and self-use.

Apart from the above-mentioned development projects, the SIIC Group was granted the exclusive right to develop a land site of 84.68 sq.km. (equivalent to 911,488 sq.ft.) at the eastern tip of Chongming Island, the third largest island in PRC which is located in the central section of the PRC's golden coastline and the estuary of the Yangtze River. The SIIC Group is currently drafting a long term development plan and conducting other relevant preparatory work in order to capitalise on potential business opportunities arising from future infrastructure development on Chongming Island.

In 1998, the Shanghai Municipal Government allocated certain land sites in Shanghai to SIIC Shanghai Holdings Co., Ltd., the Shanghai headquarters of the SIIC Group. The allocation of the land sites was not based on any specified lease terms. An aggregate value of approximately RMB2,607 million was ascribed to these land sites based on a valuation carried out by a local property appraiser. This amount had been accounted for as a capital contribution to a subsidiary of the SIIC Group by the Shanghai Municipal Government. However, any assignment, lease or mortgage of the land sites remains subject to the prior approval of the Shanghai Municipal Government. In making this allocation, the Shanghai Municipal Government had agreed that any rights and benefits arising from the allocation in favour of the relevant subsidiary be vested with the SIIC Group.

***Property Management and Leasing***

As at 30 June 2003, the SIIC Group had a portfolio of commercial properties and some staff quarters located in Hong Kong and Shanghai which was held for leasing and self-use purposes. As at 30 June 2003, the net book value of the property portfolio held by the SIIC Group amounted to approximately HK$2,873 million. (For details of the principal properties held by the SIIC Group, see "Principal Properties and Property Development of the SIIC Group — Portfolio of Existing Buildings in Hong Kong and Shanghai" in the Appendix).

***Hotel Investment***

The SIIC Group is engaged in the business of hotel investment and management in Hong Kong and Shanghai. In Hong Kong, the SIIC Group owns and operates the South Pacific Hotel, a 29-storey plus two-level basement three-star hotel with 276 guest rooms situated in Wanchai, and the West Hotel, a 21-storey guest house with 114 guest rooms situated in Jordan.

In Shanghai, the SIIC Group indirectly holds a 75.79% interest in the Shanghai Four Seasons Hotel, a 38-storey plus three-level basement hotel with 439 guest rooms. The Shanghai Four Seasons Hotel commenced business in March 2002 and is managed by the Four Seasons Hotel Group, a reputable international hotel management group which also has an interest in the Shanghai Four Seasons Hotel.

For details of the hotel properties held by the SIIC Group, see "Principal Properties and Property Development of the SIIC Group — Portfolio of Existing Buildings in Hong Kong and Shanghai" in the Appendix.

**Management and Employees**

**Directors**

The Board of Directors of the Guarantor has ultimate responsibility for the management of the business and affairs of the Guarantor. The following are brief details of each of the directors of the Guarantor:

***Executive Directors***

The following are the executive directors of the Guarantor:

**Mr. Cai Lai Xing**, aged 61, is the Chairman of each of the Guarantor, Shanghai Industrial and Shanghai Overseas Enterprises Corporation. He graduated from Tong Ji University, and formerly served as Deputy Secretary General of the Shanghai Municipal Government, responsible for fiscal planning, finance and research. He was the Deputy Director of the Shanghai Planning Committee and Pudong Development Office and Director of the Shanghai Municipal Government Research Office. He has decades of experience in economics, finance and enterprise management. In 1988, he was awarded the title of State-Class Economist for his outstanding contribution to the field. He is also a National Committee Member of the Chinese People's Political Consultative Conference, Vice President of the Hong Kong Chinese Enterprises Association, Deputy Chairman of Shanghai-Hong Kong Council for the Promotion and Development of Yangtze, and a part-time doctorate supervisor at Shanghai Jiao Tong University.

**Mr. Chen Wei Shu**, aged 57, a professor, graduated from Fudan University with a master's degree in Economics. He is the Vice Chairman of the Guarantor, Chairman of SIIC Shanghai (Holdings) Co., Ltd., Chairman of SIIC Finance Holding Co., Ltd., and Chairman of Shanghai Industrial Development Co., Ltd.. He held the posts of Deputy Department Head in the Department of World Economics and Department Head in the Department of Financial Studies at Shanghai Fudan University, and was the Vice President at Shanghai Pudong Development Bank. Professor Chen has over 40 years' experience in economics and financial research, banking and enterprise management.

**Mr. Zhang Zhi Qun**, age 54, a postgraduate, is Vice Chairman of the Guarantor. He served formerly at Sichuan Chengdu University of Science & Technology, Institute of Science & Technology Information Research of Shanghai, Shanghai Science & Technology Committee and Chinese Academy of Sciences. He has also served as a bureau director in the Shanghai Municipal Government and as Deputy Secretary-General of the Shanghai Municipal Committee. He has over 30 years' experience in technology development and economic administration.

**Mr. Wang Rong Feng**, aged 53, is President and Executive Director of the Guarantor. He graduated from East China Normal University in February 1982. He formerly served at the Office of Shanghai Municipal Government and the Shanghai Municipal Government Research Office for many years. He was also the Vice President of the Shanghai Exhibition Center, and the Vice President of each of China Shanghai (Group) Corporation for Foreign Economic and Technological Cooperation and the Guarantor. He has over 30 years' experience in administrative management, economics research and enterprise management.

**Mr. Lu Da Yong**, aged 56, an Engineer, is an Executive Director of the Guarantor, Executive Director and Executive Deputy CEO of Shanghai Industrial, Chairman of SIIC Management (Shanghai) Limited and Chairman of Nanyang Tobacco. He was formerly the Factory Managing Director of Shanghai Cigarette Factory, Deputy General Manager of Shanghai Tobacco (Holdings) Company, Chairman of Tien Chu and Chairman of SIIC Investment Co., Ltd.. He has over 36 years' experience in enterprise management.

**Mr. Qu Ding**, aged 54, an economist with a university degree, is an Executive Director of the Guarantor as well as the Vice Chairman and Executive President of SIIC Shanghai (Holdings) Co., Ltd.. He was formerly Director of the Public Officials Training Centre of Shanghai Municipal Personnel Bureau, Director of Shanghai Municipal Professional Examinations Centre, Director of the Department of International Exchange & Cooperation of Shanghai Municipal Personnel Bureau, as well as General Manager of the Office and Assistant President of the Guarantor. He has over 30 years' experience in human resources management and economic administration.

**Mr. Zhu Ming Hua**, aged 59, a professor-level senior engineer (receiver of special allowance from State Council) with a university degree, is an Executive Director of the Guarantor and Chairman of SIIC Investment (Shanghai) Co., Ltd.. He was formerly Director of Production Technology Office of Shanghai Textile Industrial Bureau, Director of Institute of Textile Standards and Measurement, Managing Director of Shanghai United Wooltex Corp Ltd., Director of Shanghai United Wooltex Hong Kong Office Ltd., General Manager of Enterprise Management Department of the Guarantor, Chairman and President of SIIC Investment Co., Ltd. and Chairman of Tien Chu. He has over 36 years' experience in economic administration and enterprise management.

**Mr. Ding Zhong De**, aged 54, a senior economist, graduated from Shanghai Fudan University with a master's degree in 1982. He is an Executive Director of the Guarantor, Vice Chairman of SIIC Shanghai (Holdings) Co., Ltd., Executive Director of Shanghai Industrial, as well as Chairman of SI United. He was formerly Deputy Division Director, Division Director and Deputy Director of CCP Shanghai Municipal Committee Research Office, Executive Director and Vice President of SIIC Shanghai (Holdings) Co., Ltd., and Vice Chairman of SI United. He has over 30 years' experience in economics research and enterprise management.

***Non-Executive Directors***

The following are the non-executive directors of the Guarantor:

Mr. Liu Xiao Shan
Mr. Chen Shao Qing
Mr. Lu Bing Sun
Mr. Wen Song Quan

**Senior Management**

The directors of the Guarantor are responsible for the overall management of the SIIC Group, but they have delegated certain day-to-day management responsibilities to the senior managers, including those listed below:

**Mr. Lu Ming Fang**, aged 47, a senior economist with a master's degree in Economics, is Vice President of the Guarantor, and Executive Director and the CEO of Shanghai Industrial. He formerly served in Shanghai Corporation of Chinese Traditional Drugs, Shanghai Pharmaceutical Administration Bureau, Wen Hui Bao Ltd. and Wan Guo Securities Company. He joined the Guarantor in July 1995 and served as Deputy General Manager of the Assets Management Department of the Guarantor and Executive Deputy General Manager of Shanghai S.I. Capital Co., Ltd., Managing Director of SI United, and then as Assistant President and Planning and Finance Department General Manager of the Guarantor. He has over 20 years' experience in management, including over 10 years' service in investment banks and listed companies.

**Mr. Bao Ji Ming**, aged 51, a professor with a Ph.D in Management Science and a Ph.D (Post) in Economics, is Vice President of the Guarantor, President of Shanghai Overseas Enterprises Corporation, and Deputy Chairman of Shanghai Management Science Society. He was formerly Principal of the Technical School of Shanghai Auxiliaries Manufactory Co., Ltd., Secretary-General of the Development Research Institute of Shanghai Fudan University, and Deputy Director of

Shanghai Municipal Education Commission. He was the General Manager of the Overseas Business Department, General Manager of Enterprise Management Department and Assistant President of the Guarantor. He has over 30 years' experience in economics research, enterprise management and overseas business management.

**Mr. Yang Xi Sheng**, aged 49, a postgraduate, an economist, is Vice President and Supervisory Office Director of the Guarantor. He was formerly Human Resources Department General Manager and Enterprise Management Department General Manager of the Guarantor, as well as Executive Director and Vice Chairman of SIIC Shanghai (Holdings) Co., Ltd.. He has over 20 years' experience in corporate human resources management and economic administration.

**Mr. Xu Jian Yu**, aged 52, a senior economist with a master's degree, is Vice President and Planning and Finance Department General Manager of the Guarantor. He was formerly Factory Managing Director of Shanghai Auto Gear Factory, General Manager of Shanghai Automotive Industry Sales Corp, Assistant to the President and Finance Department General Manager of Shanghai Automotive Industry Corporation (Group), and the Executive Director, Vice President and Planning and Finance Department General Manager of SIIC Shanghai (Holdings) Co., Ltd.. He has over 30 years' experience in corporate finance and economic administration.

**Mr. Li Wei Da**, aged 56, a senior economist with a university degree, is Vice President and Human Resources and Administration Department General Manager of the Guarantor, the Chairman of SIIC Investment Co., Ltd., and Chairman of Tien Chu. He was formerly Deputy General Manager of Shanghai Bearing Co., Ltd., Managing Director of SIIC Investment Co., Ltd., Vice President of Shanghai Industrial, as well as Managing Director and Vice Chairman of SIIC MedTech. He has over 36 years' experience in enterprise management.

**Mr. Ma Cheng Liang**, aged 46, a senior economist and doctoral candidate, is Vice President of the Guarantor, and Vice Chairman and President of Shanghai Chongming Dongtan Investment & Development Co., Ltd.. He was formerly Vice President of the Labour Union of Shanghai Petrochemical General Plant, Deputy General Manager of Shanghai Waigaoqiao Free Trade Zone Xin Development Co., Ltd., General Manager of Shang Shi Real Estate Holding (Shanghai) Co., Ltd., Vice Chairman of SIIC Investment Co., Ltd., and Vice President of SIIC Shanghai (Holdings) Co., Ltd.. He has over 20 years' experience in real estate business and enterprise management.

**Mr. Pan Lian Sheng**, aged 57, an economist, a college graduate, is Chief Representative of the Shanghai Representative Office of the Guarantor, General Manager of the office of the Guarantor and Vice President of SIIC Shanghai (Holdings) Co., Ltd.. He formerly served in Shanghai Textile Industry Bureau and Jie Fang Daily. He was also the Factory Deputy Managing Director of Shanghai No.12 Towel Factory, Director of Shanghai Municipal News Office and Executive Director of SIIC Shanghai (Holdings) Co., Ltd.. He has over 40 years' experience in news reporting and enterprise management.

The business address of each of the directors of the Guarantor is 27th Floor, Harcourt House, 39 Gloucester Road, Hong Kong.

**Staff**

As at 31 December 2003, the SIIC Group, excluding the SIHL Group, employed approximately 3,059 full-time employees.

The SIIC Group has approximately 386 full-time employees in Hong Kong and approximately 2,673 full-time employees in the PRC. The directors consider the SIIC Group's relationship with its employees to be excellent. The SIIC Group, excluding the SIHL Group, operates and participates in a retirement benefits scheme.

The SIIC Group provides employee benefits including paid annual leave allowances, bonuses and certain medical expenses allowances.

# DESCRIPTION OF SHANGHAI INDUSTRIAL

## Introduction

Shanghai Industrial is a diversified holding company with interests in a wide range of businesses concentrated in Shanghai, Hong Kong and other parts of the PRC. Shanghai Industrial's business interests include consumer products & automobile and parts, medicine and bio-technology, infrastructure and modern logistics and information technology.

Shanghai Industrial's major shareholder is the Guarantor, the "window" company in Hong Kong established in 1981 by the Shanghai Municipal Government. The Guarantor is the largest overseas enterprise established by the Shanghai Municipal Government outside the PRC, with interests in over 200 entities, including joint ventures and co-operative enterprises. See "Description of the Guarantor".

For the six months ended 30 June 2003, the SIHL Group's unaudited consolidated turnover and profit were approximately HK$1,463 million (US$188 million) and approximately HK$491 million (US$63 million), respectively. As at 30 June 2003, the SIHL Group had unaudited consolidated net assets of approximately HK$13,799 million (US$1,769 million). For the year ended 31 December 2002, the SIHL Group's audited consolidated turnover and profit were approximately HK$3,380 million (US$433 million) and approximately HK$1,126 million (US$144 million), respectively. As at 31 December 2002, the SIHL Group had consolidated net assets of approximately HK$13,498 million (US$1,731 million).

As of 10 March 2004, the Guarantor held approximately 58%, of the issued share capital of Shanghai Industrial. Based on the closing price of the shares of Shanghai Industrial on the HKSE on 10 March 2004, Shanghai Industrial had a market capitalisation of approximately HK$17,446 million.

Shanghai Industrial is a company listed on the HKSE and was incorporated with limited liability on 9 January 1996 under the Companies Ordinance of Hong Kong with registered number 535594. The registered address of Shanghai Industrial is 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong.

## History

Shanghai Industrial was established on 9 January 1996 by the Guarantor to hold certain operations of the Guarantor, including the tobacco, printing and packaging materials, pharmaceuticals, and personal care and cosmetics businesses. Shanghai Industrial's interests in these four businesses were transferred to it by the Guarantor as part of a reorganisation which was completed in May 1996. The reorganisation coincided with an initial public offering of 129,000,000 shares in Shanghai Industrial and their listing on the HKSE on 30 May 1996.

In December 1996, Shanghai Industrial acquired joint venture interests in several additional businesses, including automotive components, transportation infrastructure, dairy products and retail. In connection with these acquisitions, Shanghai Industrial issued 162,000,000 new shares to raise approximately US$400 million in new capital. All but one of these acquisitions involved the transfer of interests from the Guarantor.

In April 1997, the SIHL Group acquired an interest in an additional transportation infrastructure joint venture for a consideration of approximately US$600 million. At the same time, and in part to contribute towards the financing of this investment, Shanghai Industrial issued 139,470,000 shares to raise approximately US$600 million in new capital.

In January 1998, Shanghai Industrial became a constituent stock of Hong Kong's benchmark Hang Seng Index as well as a constituent stock of the Hang Seng London Reference Index. Shanghai Industrial's shares are quoted on the SEAQ International system of the London Stock Exchange.

In November 1998, Shanghai Industrial raised HK$750 million by an equity placement for additional investment in Huizhong Automotive and Bright Dairy (formerly known as Shanghai Bright Dairy and Food Co., Ltd.) and for the acquisitions of certain projects with high potential for earnings growth, including one medical and pharmaceutical project — Chia Tai Qingchunbao and three high technology projects — Shanghai Optical Communications, Shanghai Communications Technologies Centre ("Shanghai Communications Technologies") and Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech").

In October 1999, Shanghai Industrial was selected as one of Standard & Poor's Asia Pacific 100 Index Stocks. In December 1999, the SIHL Group spun off Chia Tai Qingchunbao and Shanghai Jahwa (formerly named Shanghai Jahwa Co., Ltd.) to form SIIC MedTech, the shares of which were listed on the GEM of the HKSE until 17 September 2003.

In July 2000, the SIHL Group invested HK$940 million, together with a HK$50-million share option, to acquire 20% interest in Shanghai Information Investment Inc.

In 2001, Shanghai Industrial established the American Depository Receipts ("ADR") Program (Level One). Each ADR represents 10 Shares. Trading of the ADRs on the over-the-counter market commenced on 16 March 2001.

In March 2001, Shanghai Jahwa was listed on the Shanghai's "A" share market, raising RMB830 million. In April of the same year, the SIHL Group invested US$110 million in Semiconductor Manufacturing International Corporation ("SMIC"). In September 2001, the SIHL Group increased its investment size in SMIC to about HK$1.4 billion, with approximately 17% shareholding in SMIC.

In August 2002, Bright Dairy was listed on Shanghai's "A" share market, raising RMB950 million.

In May 2003, the SIHL Group disposed of its 51% stake in Orient Shopping Centre to the Shanghai Yibai Group. During the same month, the SIHL Group proposed to privatise SIIC MedTech. In May 2003 the SIHL Group also entered into an agreement with a number of vendors, including the SIIC Group, to acquire from them non-publicly tradable shares of SI United, representing an aggregate of approximately 56.63% of the issued share capital of SI United. This transaction is awaiting approval by the relevant government authorities in the PRC.

Subsequent to 30 June 2003, the following significant events occurred:

On 11 August 2003, the proposed privatisation of SIIC MedTech by the SIHL Group by way of a scheme of arrangement was approved by the shareholders at the Court Meeting and the Extraordinary General Meeting. The listing status of SIIC MedTech on the GEM of the HKSE was withdrawn with effect from 17 September 2003.

On 26 August 2003, the SIHL Group entered into a heads of agreement with China Energy Conservation Investment Corporation and China National Environmental Protection Corp. to establish a joint venture company for the joint investment and operation of water-related businesses in the PRC. The joint venture company will have a registered capital of RMB500 million. The SIHL Group will own 50% interest in the joint venture company, which will engage in businesses including investment, construction and operation of water supply and waste water treatment plants.

On 29 August 2003, the SIHL Group entered into two agreements to dispose of its investments in certain infrastructure projects in the PRC, namely, the Yanan Elevated Road and the Inner Ring Road and North-South Elevated Expressway and received full reimbursement of the carrying value of the infrastructure projects. The proceeds derived from the disposal amounted to approximately US$702 million together with an after-tax compensation of RMB300 million.

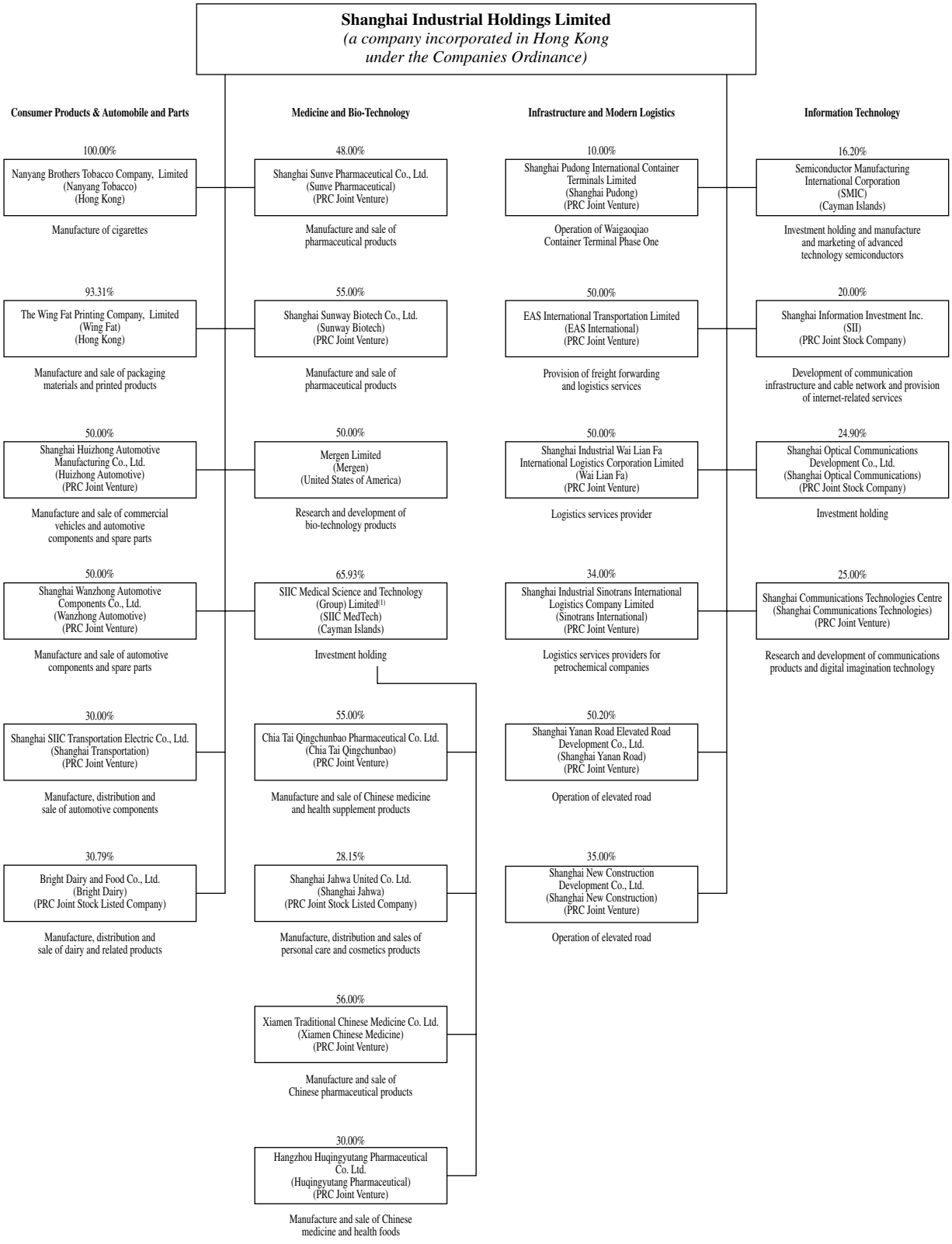
On 29 August 2003, the SIHL Group signed a letter of intent for the acquisition of the entire interests in Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. for a consideration of RMB2 billion. In return, Shanghai Industrial has been granted the right to operate the Shanghai-Nanjing Expressway (Shanghai Section) for a period of 25 years.

In September 2003, SMIC completed a US$629 million private placement. The SIHL Group increased its investment in SMIC by US$32 million via this private placement. Its equity stake in SMIC was subsequently diluted to approximately 12% with a further private placement of shares.

**Business Overview**

In June 2003, the SIHL Group reorganised its businesses into four main areas for financial reporting purposes, which consist of consumer products & automobile and parts, medicine and bio-technology, infrastructure and modern logistics and information technology.

The following diagram sets out a simplified overview of the SIHL Group and its principal businesses as at 30 June 2003:




*Note:*

(1) SIIC MedTech was previously listed on the GEM of HKSE. Its listing status had been withdrawn on 17 September 2003 upon the completion of the privatisation scheme proposed by Shanghai Industrial. Shanghai Industrial had acquired approximately 34% of the shareholding of SIIC MedTech not already owned by Shanghai Industrial from outside shareholders through the scheme and SIIC MedTech became a wholly-owned subsidiary of Shanghai Industrial upon completion of the privatisation scheme.

**Strategy**

Earnings capability has always been an important criterion for selecting new investment projects by Shanghai Industrial. While some projects provide immediate returns and others contribute earnings only after the investment period, the overall objective is to maintain consistency in earnings growth and at the same time expand the value of its assets via mergers and acquisitions. Apart from acquiring new projects, Shanghai Industrial also makes use of advanced technology and employs staff with high level of management skills and extensive market knowledge to enhance productivity and economic efficiency of its existing businesses by lowering operating costs, increasing product range and enlarging market share.

Shanghai Industrial has been actively driving the transformation of its businesses during the past few years. In line with its strategy to maintain consistent earnings growth, Shanghai Industrial has developed various new business sectors which it believes will help to set a good foundation for future development. These new businesses include infrastructure and modern logistics, medicine and bio-technology and information technology. Shanghai Industrial's business development strategy focuses not only on developing and cultivating new businesses with high growth potential and consolidating existing investment projects with competitive advantages, but also on divesting from its non-core businesses. The overall objectives are to optimise resources allocation within the SIHL Group, enhance earnings capability of investment projects and optimise returns for shareholders.

Since its listing, Shanghai Industrial has also broadened its presence in international capital markets. In May 2001, Shanghai Industrial completed its global round-the-clock securities trading platform as it implemented its American Depository Receipts program (Level One). Coupled with its participation in the London Automated Quotation System for Hong Kong stocks, Shanghai Industrial has advanced the globalisation of trading of its shares.

While many regional economies are still facing uncertainties, the PRC economy has maintained a consistent growth track. Many cities in the PRC, especially Shanghai, has become focal points for attracting foreign investment. Shanghai Industrial has been actively developing its businesses in Shanghai and the Yangtze River Delta, which the company believes will benefit from the robust economic growth in this region. Endowed with its unique competitive edge brought forth by its historical development of Hong Kong-Shanghai synergy, Shanghai Industrial believes that it will be able to capture even more business opportunities and create greater return for its shareholders.

A. **Consumer Products & Automobile and Parts**

***Consumer Products***

*Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco")*

Shanghai Industrial is engaged in the manufacture, distribution and sale of cigarettes through its wholly-owned subsidiary, Nanyang Tobacco.

Nanyang Tobacco is a well-known tobacco manufacturer and supplier in Hong Kong. Nanyang Tobacco was transferred to the SIHL Group by the Guarantor in May 1996 as part of a group reorganisation. It has a diversified product line with "Double Happiness" as its flagship product which was launched in 1909. In addition, Nanyang Tobacco is also the distributor in Hong Kong for Zhonghua (China) and Mudan (Peony) brands of cigarettes, which are produced in the PRC.

Nanyang Tobacco's cigarette production process, which starts from tobacco processing and ends in packing in cases, is highly automated and fully integrated. Nanyang Tobacco has established a separate quality control department and has implemented stringent inspection procedures at every stage of the production process. Nanyang Tobacco's cigarettes are sold in soft packs, hard flip-top boxes and cans, in regular length and super long sizes. Nanyang Tobacco owns a modern production complex in Tuen Mun, Hong Kong, featuring advanced production technology, with the entire production process computerised and the quality of cigarette products closely monitored, ensuring consistency in flavour and adherence to customer requirements.

*The Wing Fat Printing Company, Limited ("Wing Fat")*

Shanghai Industrial is engaged in the printing and packaging business through its approximately 93.3% interest in Wing Fat. Approximately 60 other unrelated small shareholders hold the remaining 6.7% of the shares in Wing Fat. Shanghai Industrial's interest in Wing Fat was transferred to the SIHL Group by the Guarantor in May 1996 as part of a group reorganisation. The business owned by Wing Fat has been carried on since 1920.

Wing Fat is principally engaged in the printing and manufacturing of cigarette packaging. The sale of cigarette packaging accounted for a substantial majority of its turnover. A majority of the cigarette packaging manufactured by Wing Fat is sold to Nanyang Tobacco. Wing Fat is also engaged in the printing and manufacturing of other printed products such as multi-coloured packaging, books and magazines, pictorials and catalogues, high quality calendars and other packaging material such as foil tissue paper and stamping foil.

In recent years, Wing Fat has been successful in developing new techniques and new products. It has also adopted modern management practices, replacing traditional print-shop management, and in 1998 received ISO 9002 quality certification. To facilitate development in the PRC market, and to cut down on production costs, Wing Fat has built new production facilities in Dongguan, Guangdong province, which is expected to commence production in the first half of 2004.

*Bright Dairy and Food Co., Ltd. ("Bright Dairy")*

The SIHL Group is engaged in the business of manufacturing dairy and related products through its 30.79% interest in Bright Dairy. Bright Dairy produces, distributes and sells dairy products, including liquid milk, long-life milk, pasteurised milk and milk powder. Most of Bright Dairy's products are sold under the "Bright" brand name.

Bright Dairy is a PRC joint stock company and was listed on the Shanghai "A" share market in August 2002. During 2002, Bright Dairy had been actively expanding its market share via a number of acquisitions and mergers. It had acquired an interest in Guangzhou Danone Yoghurt Co., Ltd. with a view to fully capitalise on the well-known "Danone" brandname in the Guangzhou dairy product market which complements with its own brand "Bright" and gradually expand into Hong Kong, Macau and overseas markets. Bright Dairy also invested in Hunan Bright Paipai Dairy & Food Co., Ltd. in Changsha, acquired a stake in Tianjin Bright & Mengde Dairy Co., Ltd. in Tianjin, and, subsequent to the year end date, acquired a 51% interest in Jiangxi Bright Hero Dairy Co., Ltd. To date, the company has established over 10 production bases in the PRC.

In order to optimise its geographical spread, Bright Dairy developed two dairy resource bases, one in the Inner Mongolian prairie and the other in Heilongjiang province. It also established long-life milk production bases in cities including Xi'an, Beijing, Wuhan, Wuxi, Nanjing and Guangzhou. It is believed that these activities will promote the development of the local dairy industry in these cities while at the same time give impetus to markets in the neighbouring regions in the PRC.

***Automobile and Parts***

*Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Huizhong Automotive")*

Huizhong Automotive is a sino-foreign equity joint venture enterprise between the SIHL Group and Shanghai Automotive Company Limited ("Shanghai Automotive"), a state-owned enterprise. The SIHL Group acquired a 50% interest in Huizhong Automotive in December 1996. The term of the joint venture is 30 years.

Huizhong Automotive is principally engaged in the manufacture and sale of automotive components and spare parts, including chassis, front suspensions, front and rear axles, steering parts, pistons, brake parts and shock absorbers. Huizhong Automotive is one of the largest automotive parts manufacturers in China and is an original-equipment manufacturer ("OEM") of components for the Santana and Passat models of the Shanghai Volkswagen Automotive Co., Ltd. ("Shanghai Volkswagen"), and also Buick Century and Regal models of the Shanghai General Motors Corporation ("Shanghai GM"). A significant majority of its products are designed exclusively for models manufactured by Shanghai Volkswagen and Shanghai GM. In addition to auto parts, Huizhong Automotive is also engaged in the production of heavy-duty trucks and light vehicles.

Huizhong Automotive had established a number of joint ventures with international auto parts manufacturers. Huizhong Automotive produces suspension struts and shock absorbers for various sedans with ZF Sachs AG (Germany); it specialises in steering parts for sedans with ThyssenKrupp Presta France S.A. (France); and specialises in welding ASM, axle, engine cradle, lower control arm and related structural components of the driving axle with Benteler Automobiltechnik.

*Shanghai SIIC Transportation Electric Co., Ltd. ("Shanghai Transportation")*

Shanghai Transportation is a sino-foreign equity joint venture enterprise between the SIHL Group and Shanghai Automotive. The SIHL Group acquired its 30% interest in Shanghai Transportation from the Guarantor in December 1996. The term of the joint venture is 60 years from 30 August 1988.

Shanghai Transportation is principally engaged in the manufacture, distribution and sale of automotive components. The three pillar product categories of Shanghai Transportation are electric motors, automotive electronics devices and digital electronic devices, and its leading products include electric windows, anti-theft systems, windscreen wipers, electric horns, central locks, automatic door shutters and relays. All of Shanghai Transportation's products are sold under the "Sheng Jia" brandname. Shanghai Transportation and its subsidiaries have all passed the ISO 9001, QS 9000, VDA 6.1, ISO/TS16949 and ISO 14001 quality certification.

*Shanghai Wanzhong Automotive Components Co., Ltd. ("Wanzhong Automotive")*

The SIHL Group and Shanghai Automotive formed Wanzhong Automotive to undertake the OEM business of sedans produced by Shanghai Volkswagen and Shanghai GM. The SIHL Group has a 50% equity interest in Wanzhong Automotive.

B. **Medicine and Bio-technology**

Medicine and bio-technology is one of the core businesses of the SIHL Group under its transformation strategy. The SIHL Group's medicine and biotechnology business segment comprises SIIC MedTech, a wholly-owned subsidiary of Shanghai Industrial, together with over 10 medicine and bio-technology companies and joint ventures in Shanghai and the United States of America. SIIC MedTech was previously listed on the GEM of the HKSE prior to its privatisation by Shanghai Industrial which was completed on 17 September 2003.

The SIHL Group engages in the manufacture and sale of pharmaceuticals through its interest in various medicine and bio-technology companies and joint ventures:

***Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical")***

Sunve Pharmaceutical is principally engaged in the manufacture and sale of both raw and finished pharmaceutical products. Sunve Pharmaceutical is a sino-foreign equity joint venture between the SIHL Group and Shanghai Sunve Company, a state-owned enterprise. The SIHL Group acquired a 51% interest in Sunve Pharmaceutical from the Guarantor in May 1996 as part of a group reorganisation. In October 1997, the SIHL Group reduced its interest in Sunve Pharmaceutical to 48%. Sunve Pharmaceutical manufactures over 120 different raw pharmaceuticals, which can be divided into the following categories, including but not limited to, vitamins, anti-infection, cardiac system, neural system, antipyretic and analgesic etc. Sunve Pharmaceutical also produces 5 finished pharmaceutical products including medical and health care products.

***Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech")***

Sunway Biotech's SunGran Injection product, a supplementary cancer chemotherapy drug, is a recombinant human granulocyte colony stimulating factor (rhG-CSF) researched and developed by the Military Academy of Medical Sciences utilising recombinant DNA techniques. This drug is being used in bone marrow transplant trials in the hematology departments of various hospitals. As at 30 June 2003, the SIHL Group held a 55% interest in Sunway Biotech.

In August 2000, Sunway Biotech was awarded GMP certificates by the State Drug Administration, as a result of its high quality control standards and advanced quality supervision systems. In June 2003, Sunway Biotech's anti-tumour drug H101 (Gene-engineering Adenovirus Injection) entered the final stage of Phase 3 clinical trials. Clinical approval for new drug under H103 (Oncolytic Recombinant Adenovirus Injection), a project for activation of human immune system and inhibition of tumour growth, has been obtained.

***Mergen Limited ("Mergen")***

Mergen is a Silicon Valley-based joint venture investment of the SIHL Group. It develops and manufactures DNA chips. The SIHL Group owns a 50% interest in this company. Since its incorporation in 1999, Mergen has developed itself into a manufacturer providing comprehensive services for the design, production and sale of array containing genes in the United States of America. In 2002, Mergen introduced the new human ExpressChip and rats ExpressChip. In 2003, Mergen introduced new bacterial array and developed "multi-arrays" in response to market demand. The company is working on diversifying its technology as well as its product base.

***SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech")***

SIIC MedTech is a company incorporated in the Cayman Islands with limited liability. It was listed on the GEM of the HKSE from December 1999 until 17 September 2003, when it was delisted from the HKSE as a result of privatisation. On 21 May 2003, the SIHL Group announced a proposed privatisation of SIIC MedTech by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands which involved the cancellation and extinguishment of all the company's shares in issue (other than those beneficially owned by the SIHL Group) in consideration of the payment of a price of HK$2.15 per share. The proposed privatisation was approved by the shareholders of SIIC MedTech and it became a wholly-owned subsidiary of the SIHL Group. The listing of SIIC MedTech's shares on GEM was withdrawn on 17 September 2003.

SIIC MedTech is an investment holding company with investments in entities which are principally engaged in the manufacture and sale of pharmaceutical products and health food, medical equipment and personal care products in the PRC. As at 30 June 2003, SIIC MedTech's major underlying investments were Chia Tai Qingchunbao, Shanghai Jahwa, Xiamen Chinese Medicine and Hangzhou Huqingyutang Pharmaceutical Co., Ltd..

(1) *Chia Tai Qingchunbao Pharmaceutical Co. Ltd. ("Chia Tai Qingchunbao")*

Chia Tai Qingchunbao was established in November 1992 as a sino-foreign equity joint venture with a term of 50 years. It is one of the largest pharmaceutical manufacturers with one of the most advanced production facilities in the PRC and is principally engaged in the manufacture and sale of Chinese medicine and health supplement products. As at 30 June 2003, SIIC MedTech held a 55% interest in Chia Tai Qingchunbao.

Chia Tai Qingchunbao is also engaged in research and development and sale of products primarily based on natural herbal ingredients. It produces more than 50 kinds of products in various different dosage forms including injections, tablets, granules and capsules. Eleven of its products have been selected and included on the TCM Administrative Protection List and 36 products have entered the Reimbursement Drug List for Basic Health Insurance. Key prescription drugs manufactured by Chia Tai Qingchunbao include Shen Mai Injection, Dan Shen Injection, Huang Qi Injection and Herba Houttuyniae Injection. They are mainly distributed through hospitals, clinics and drug distributors.

In compliance with the policy on re-classification of medical products, SIIC MedTech applied, and was subsequently approved, to change the product certificates of its health supplement products such as "Qingchunbao Anti-ageing Tablets", "Qingchunbao Oral Tonic" and "Rong Shen Kidney Enhancement Capsules — Yong Pilose Antler and Ginseng" from health supplement products to drugs. Chia Tai Qingchunbao's flagship product is "Qingchunbao Anti-ageing Tablets" which was launched over 20 years ago and has since achieved extensive consumer recognition. The tablets can be used for the treatment of weakness, dysphoris and insomnia for the middle-aged and elderly. Another one of the company's best selling product, "Qingchunbao Beauty Capsule", was launched in 2002. Its key ingredients include aloe powder, pearl powder, lycium barbarum and radix paeoniae alba.

(2) *Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa")*

SIIC MedTech engages in the production of personal care products through its 28.15% interest in Shanghai Jahwa. Shanghai Jahwa was established on 1 December 1995 as a sino-foreign equity joint venture and is engaged in the manufacture, distribution and sale of a wide range of products including personal care, cosmetics and household cleaning products.

In May 1996, the SIHL Group acquired a 51% interest in Shanghai Jahwa from the Guarantor as part of its group reorganisation. In July 1999, the SIHL Group disposed an 11% interest in the registered capital of Shanghai Jahwa to pave way for the restructuring of Shanghai Jahwa as a joint-stock company and the listing of the shares of Shanghai Jahwa on the Shanghai "A" share market. The government approval for the disposal of the 11% interest in Shanghai Jahwa was obtained in October 1999. The SIHL Group injected its shareholding in Shanghai Jahwa into SIIC MedTech in December 1999 and SIIC MedTech was subsequently spun off and listed on the GEM board in December 1999. SIIC MedTech's interest in Shanghai Jahwa was diluted to 28.15% when Shanghai Jahwa was publicly listed in March 2001.

(3) *Xiamen Traditional Chinese Medicine Co. Ltd. ("Xiamen Chinese Medicine")*

SIIC MedTech holds a 56% interest in Xiamen Chinese Medicine. Xiamen Chinese Medicine has over thirty years' experience in the manufacture and sale of Chinese pharmaceutical products. It produces more than 40 traditional Chinese-medicine-based drugs and other health care products, of which six have been selected and included on the TCM Administrative Protection List, 21 were listed as State Basic Medicines and 15 were listed in the Reimbursement Drug List for Basic Health Insurance. Its major products include "Xinhuang Pian", "Haizhu Chuanxiding Pian" and "Shensu Granules", all bearing the renowned "Dinglu" trademark.

(4) *Hangzhou Huqingyutang Pharmaceutical Co., Ltd. ("Huqingyutang Pharmaceutical")*

SIIC MedTech holds a 30% interest in Huqingyutang Pharmaceutical. Huqingyutang Pharmaceutical has the exclusive royalty-free licence to manufacture and sell proprietary Chinese medicines and health foods in the PRC under the renowned "Huqingyutang" trademark. It has been granted Good Manufacturing Practice ("GMP") certificates for the production of tablets, capsules, granules, mixtures (including oral solutions) and syrups. GMP certification procedures for its pills, powders, soft capsules and eye drops production facilities are in progress while the Zhejiang Drug Administrative Bureau has granted preliminary approval for these facilities. Huqingyutang Pharmaceutical is authorised to manufacture more than 170 Chinese medicines. Three of its products have been certified for the TCM Administrative Protection List, and 40 products are included in the Reimbursement Drug List. Its major markets are in Eastern China. Huqingyutang's flagship product is "Stomach Rejuvenation Tablets", which can strengthen the functioning of the spleen, increase vital energy, activate blood circulation and detoxify blood. It is used for the treatment of chronic superficial gastritis and for adjuvant treatment of gastric carcinoma after chemotherapy or radiotherapy.

***Shanghai Industrial United Holdings Co., Ltd. ("SI United")***

SI United is a joint stock company incorporated under the laws of the PRC in December 1991. The shares of SI United were listed on the Shanghai's "A" share market in March 1992. The SI United Group is principally engaged in bio-medicine related operations and commercial retail operations in the PRC.

In June 1997, the SIIC Group took over a significant equity interest of SI United. In May 2003, the SIHL Group entered into an agreement with a number of vendors, including the SIIC Group, to acquire from them the non-publicly tradable shares of SI United representing an aggregate of approximately 56.63% of the issued share capital of SI United. This transaction is awaiting approval from the relevant government authorities in the PRC.

## C. Infrastructure and Modern Logistics

### *Infrastructure Facilities*

Shanghai Industrial focuses on three types of infrastructure projects — toll roads, water services and port facilities.

*Toll Roads*

Yanan Elevated Road, Inner Ring Road and North-South Elevated Expressway

The Shanghai Inner Ring Road, the North-South Elevated Expressway and the Yanan Elevated Road are three of the principal traffic routes within a network of expressways and major boulevards in Shanghai City, all being infrastructure projects invested by the SIHL Group. The SIHL Group participated in the Inner Ring Road and North-South Elevated Expressway project through its 35% equity interest in Shanghai New Construction Development Co., Ltd. ("Shanghai New Construction"). Shanghai New Construction has the right to operate the Inner Ring Road and North-South Elevated Expressway for a period of 20 years commencing 1 May 1997.

The SIHL Group held 50.20% equity interest in Shanghai Yanan Road Elevated Road Development Co., Ltd. ("Shanghai Yanan Road"), which has the right to operate the eastern and western sections of the Yanan Elevated Road for a period from 28 November 1995 to 31 December 2017 (eastern section) and from 28 July 1996 to 31 December 2017 (western section).

In August 2003, the SIHL Group underwent an important business re-organisation. In response to a notice issued by the State Council of the PRC in September 2002 which required local governments to settle properly all guaranteed fixed return investment projects involving foreign entities by 31 December 2002, the SIHL Group entered into agreements to dispose all its investment in Shanghai New Construction and Shanghai Yanan Road to its joint venture partners. In return, Shanghai Industrial received full reimbursement of the carrying value of the two project investments amounting to approximately US$702 million, together with an after-tax compensation of RMB300 million. Proceeds derived from the disposal will be used for new investment projects such as expressways and water-related business.

Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. ("Shanghai Hu-Ning")

On 29 August 2003, the SIHL Group signed a letter of intent with the Shanghai Municipal Engineering Bureau to acquire the entire interest of the Bureau in Shanghai Hu-Ning for a consideration of RMB2 billion. Shanghai Hu-Ning will be granted the right, for a period of 25 years, 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. The Shanghai section of Shanghai-Nanjing Expressway is the 26.04-km section between Huaqiao town, Kunshan City in Jiangsu province and the intersection of Zhenbei Road and Wuning Road in Shanghai. The SIHL Group will also invest in the widening projects of the Shanghai-Nanjing Expressway in the future.

During 2003, Shanghai Industrial also embarked on a series of new investment projects in port facilities and water-related businesses:

*Port Facilities*

Shanghai Pudong International Container Terminals Limited ("Shanghai Pudong")

In 2002, the SIHL Group co-invested with the Shanghai Port Authorities, Hutchison Whampoa and COSCO Pacific to form a joint venture, Shanghai Pudong, to operate the Waigaoqiao Container Terminal Phase One Project. The SIHL Group holds 10% interest in Shanghai Pudong, which commenced formal operations on 1 March 2003. Featuring three container berths, Waigaoqiao Container Terminal Phase One offers 17 international shipping routes.

*Water-related business*

China Water & Sewage Treatment Company Limited ("China Water & Sewage")

In August 2003, the SIHL Group signed heads of agreement with China Energy Conservation Investment Corporation and its wholly-owned subsidiary, China National Environment Protection Corp., to form a joint venture called China Water & Sewage, in which the SIHL Group will have a 50% interest. With a registered capital of RMB500 million, the joint venture will be engaged in businesses including the investment, construction and operation of water supply and waste water treatment plants; the sale, development and supply of water-related environmental protection equipment; research and development of water treatment technology; and related patent transactions. China Water & Sewage had successfully entered into preliminary agreements with local governments in the PRC to develop water projects in Fujian and Jiangsu.

***Modern Logistics***

*EAS International Transportation Limited ("EAS International")*

In line with its business transformation strategy, the SIHL Group acquired a 25% equity stake in EAS International in May 2002, with a total acquisition cost of RMB265 million, to develop and strengthen its market share in the modern logistics business segment. In April 2003, the SIHL Group increased its stake in EAS International to 50% by investing an additional RMB150 million.

Founded in 1985, EAS International was among the first Chinese forwarders recognised by the International Aviation and Transportation Association ("IATA"), and gained the Certification of International Standard ISO 9001 Quality System. With its headquarters in Beijing, EAS International has set up regional distribution centers in Beijing, Shanghai, Guangzhou, Shenzhen, Xiamen, Dalian, Wuhan and Chengdu, and operates via approximately 100 branches and offices. EAS International's logistics services network presently covers 1,100 cities in the PRC and over 200 foreign countries and regions. It provides a full range of logistics services including transportation, warehousing, delivery and packaging, customs processing as well as related value-added services.

EAS International has obtained certain operational rights and permits for providing various logistics services in China, including but not limited to, international forwarder certificate, category one air cargo transportation certificate and containers multi-modal transportation certificate.

*Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited ("Wai Lian Fa")*

Wai Lian Fa was jointly established by the SIHL Group and Shanghai Waigaoqiao Free Trade Zone Joint Development Co. Ltd. with an initial investment of RMB150 million. Each party holds a 50% stake in the joint venture. Wai Lian Fa is located in the Waigaoqiao Free Trade Zone and is characterised with its business in the Waigaoqiao Bonded Area. It is currently expanding into new business sectors such as airfreight forwarding operations in airports and export freight forwarding agency.

*Shanghai Industrial Sinotrans International Logistics Company Limited ("Sinotrans International")*

In partnership with China National Foreign Trade Transportation (Group) Corporation and other investors, the SIHL Group established Sinotrans International which specialises in providing logistics services for petrochemical companies in the Shanghai Chemical Industry Zone located to the southwest of Shanghai downtown. The SIHL Group holds a 34% interest in Sinotrans International.

D. **Information Technology**

***Semiconductor Manufacturing International Corporation ("SMIC")***

The SIHL Group invested approximately US$184 million in SMIC in 2001 and participated in its private placement of US$32 million in September 2003. As at 30 June 2003, the SIHL Group held approximately 16.2% equity interest in SMIC.

SMIC was founded in April 2000 and within three years, it has developed its capabilities to offer a wide range of leading edge integrated wafer manufacturing services, including copper interconnects production capabilities. SMIC operates 8-inch wafer fabrication facilities in the Zhangjiang High-Tech Park in Shanghai and, as a result of its acquisition in 2003, an 8-inch wafer fab in Tianjin. As at 31 December 2003, these fabs had an aggregate production capacity of 49,000 8-inch wafers per month for wafer fabrication and 9,000 wafers per month for copper interconnects, which positions SMIC as a leading foundry in China. SMIC currently provides semiconductor fabrication services using 0.35 micron to 0.13 micron process technology for devices with logic, memory and specialty technologies.

SMIC has applied to list ADSs on the New York Stock Exchange and also applied for listing of its shares on the Hong Kong Stock Exchange.

***Shanghai Information Investment Inc. ("SII")***

SII is a major investor in the "Shanghai Infoport" project. In July 2000, the SIHL Group acquired a 20% equity interest in SII for a consideration of US$120 million in cash and HK$50 million new share subscription options. By this investment, Shanghai Industrial will be participating in the construction of the "Shanghai Infoport" project and gaining an unrivalled advantage in China's currently restrictive telecommunications industry.

SII's investment projects cover the following information infrastructure facilities and other operation, e-commerce and value-added services, software, and system integration. Its investments include:

1. *Shanghai Cable Network ("SCN")*

SCN is SII's cable television network operator, which is responsible for the construction, operation and maintenance of the Shanghai cable television network with over 3,400,000 subscribers. SCN provides a platform for the convergence of data, voice and video services. SII owns a 51% interest in SCN.

2. *Shanghai Information Pipeline Network ("SIP")*

SIP, a wholly-owned subsidiary of SII, is responsible for the detailed organisation and implementation of the construction of Shanghai's information pipeline infrastructure, and the operation and management of the pipeline facilities.

3. *Consumer Credit Information Services ("CIS")*

CIS is PRC's first consumer credit information provider and is approved by the People's Bank of China. CIS is principally engaged in the query, attestation and risk assessment of consumer credit information. SII has a 35% interest in CIS.

4. *Shanghai E&P International Inc. ("E&P International")*

SII is the largest shareholder of E&P International, holding a 22% interest. E&P International is authorised by the Shanghai Municipal Government to construct and operate Shanghai Port's integrated logistics information system. It is involved in key construction projects such as port and customs transaction data platforms and the Yangtze tributary container EDI system.

***Shanghai Optical Communications Development Co., Ltd. ("Shanghai Optical Communications")***

The SIHL Group acquired a 24.9% equity interest in Shanghai Optical Communications in 1998. Shanghai Optical Communications focuses on the development of electronic information equipment in China.

***Shanghai Communications Technologies Centre ("Shanghai Communications Technologies")***

Shanghai Industrial acquired equity interests in Shanghai Communications Technologies in 1998. The company is principally engaged in research and development of digital communications products and digital imaging communication technology. Its products cover three areas, including imaging communications, broadband and data communications, and have been used in radio and television broadcasts, telecommunication networks and public image monitoring.

**Litigation**

None of the Issuer, the Guarantor, Shanghai Industrial or any of their respective subsidiaries or associated companies is involved in any litigation or proceedings the outcome of which might, individually or in the aggregate, adversely affect the financial results, prospects or operations of the Issuer, the Guarantor or Shanghai Industrial and none of the Issuer, the Guarantor or Shanghai Industrial is aware that any such proceedings are pending or threatened.

**Related Party Transactions**

The SIHL Group has entered into and will continue to enter into transactions with the SIIC Group and other entities owned or controlled by the Shanghai Municipal Government. Examples of such transactions include (i) leasing and licensing of buildings, structures and facilities to each other; (ii) the sourcing of products, materials and services from each other; (iii) handling of distribution and imports and exports for each other; (iv) supply of materials, products and services to each other; (v) the provisions of technical support and assistance including research capability to each other and (vi) the procurement by members of the SIIC Group for members of the SIHL Group of loans, other financing arrangements and guarantees.

Shanghai Industrial has given various commitments to the HKSE regarding, inter alia, the procedures to be followed by it before entering into transactions with connected parties. Shanghai Industrial believes that all such transactions have been in the ordinary and normal course of the SIHL Group's business and on normal commercial terms or on terms no less favourable than terms available from or to third parties.

None of the directors of Shanghai Industrial are, or have been, interested in any transactions of the SIHL Group which are or were unusual in their nature or conditions or significant to the business of the SIHL Group. No member of the SIHL Group has loaned to, or provided a guarantee for the benefit of, any director of Shanghai Industrial.

**Management & Employees**

***Directors***

The Board of Directors of Shanghai Industrial has ultimate responsibility for the management of the business and affairs of Shanghai Industrial. The following are brief details of each of the directors of Shanghai Industrial:

*Executive Directors*

**Mr. CAI Lai Xing**, aged 61, is the Chairman of each of Shanghai Industrial, the Guarantor and Shanghai Overseas Enterprises Corporation. He graduated from Tong Ji University, and formerly served as Deputy Secretary General of the Shanghai Municipal Government, responsible for fiscal planning, finance and research. He was the Deputy Director of the Shanghai Planning Committee and Pudong Development Office and Director of the Shanghai Municipal Government Research Office. He has many years of experience in economics, finance and enterprise management. In 1988, he was awarded the title of State-Class Economist for his outstanding contribution to the field. He is also a National Committee Member of the Chinese People's Political Consultative Conference, Vice President of the Hong Kong Chinese Enterprises Association, Deputy Chairman of Shanghai-Hong Kong Council for the Promotion and Development of Yangtze, and a part-time doctorate supervisor at Shanghai Jiao Tong University.

**Mr. LU Ming Fang**, aged 47, a senior economist with a master's degree in Economics, is Executive Director and the CEO of Shanghai Industrial and Vice President of the Guarantor. He formerly served in Shanghai Corporation of Chinese Traditional Drugs, Shanghai Pharmaceutical Administration Bureau, Wen Hui Bao Ltd. and Wan Guo Securities Company. He joined the Guarantor in July 1995 and served as Deputy General Manager of the Assets Management Department of the Guarantor and Executive Deputy General Manager of Shanghai S.I. Capital Co., Ltd., Managing Director of SI United, and then as Assistant President and Planning and Finance Department General Manager of the Guarantor. He has over 20 years' experience in management, including over 10 years' service in investment banks and listed companies.

**Mr. LU Da Yong**, aged 56, an Engineer, is an Executive Director and Executive Deputy CEO of Shanghai Industrial, Executive Director of the Guarantor, Chairman of SIIC Management (Shanghai) Limited and Chairman of Nanyang Tobacco. He was formerly the Factory Managing Director of Shanghai Cigarette Factory, Deputy General Manager of Shanghai Tobacco (Holdings) Company, Chairman of Tien Chu and Chairman of SIIC Investment Co., Ltd.. He has over 36 years' experience in enterprise management.

**Mr. DING Zhong De**, aged 54, a senior economist, graduated from Shanghai Fudan University with a master's degree in 1982. He is an Executive Director of Shanghai Industrial, Executive Director of the Guarantor and Vice Chairman of SIIC Shanghai (Holdings) Co., Ltd., as well as Chairman of SI United. He was formerly Deputy Division Director, Division Director and Deputy Director of CCP Shanghai Municipal Committee Research Office, Executive Director and Vice President of SIIC Shanghai (Holdings) Co., Ltd., and Vice Chairman of SI United. He has over 30 years' experience in economics research and enterprise management.

**Mr. LU Shen,** aged 47, is an Executive Director of the SIHL Group. He is a Director and General Manager of SI United. He is also the Chairman of various subsidiaries of SI United. He graduated from Shanghai Technology University with a Bachelor's Degree in Wireless Engineering and received a Master's Degree in Business Administration from Shanghai Jiaotong University. He is a qualified Senior Economist. He was the Secretary-General of the Communist Youth League Shanghai Party and the Chairman of Shanghai City Hotel. He has over 22 years of experience in enterprise management.

**Mr. LU Yu Ping,** aged 51, is a Deputy CEO of the SIHL Group. He is the President and a Director of EAS International, the Chairman of Wai Lian Fa and Vice Chairman of Sinotrans International. He is also the Chairman of Shanghai Optical Communications, the Vice Chairman of Shanghai Communications Technologies. Mr. Lu graduated from Shanghai Finance and Economics University where he majored in Finance. He furthered his study at Heriot-Watt University in U.K. and received Master's Degrees in International Finance and Financial Management and is a qualified Senior Economist. He had worked with a number of financial institutions, including Industrial and Commercial Bank of China, China International Trust and Investment Corporation and Deutsche Bank. He has over 27 years of experience in business finance, investment and enterprise management.

**Mr. QIAN Shi Zheng,** aged 51, is a Deputy CEO of the SIHL Group. He is a Director of Nanyang Tobacco and Mergen. He graduated from Shanghai Fudan University with a Master's Degree in Economics and a Doctorate Degree in Management. He was the Deputy Head and Deputy Professor of the Faculty of Accountancy of Shanghai Fudan University. He joined the Guarantor in January 1998, and he served as Chief Accountant and General Manager of the Internal Audit Department of the Guarantor. He has over 20 years' experience in finance and accounting theory and practice.

**Mr. GE Wen Yao,** aged 57, is an Executive Director of the SIHL Group. He is the Chairman of Shanghai Jahwa Joint-Stock Corporation. He graduated from Shanghai Finance and Economics University where he majored in Economics and received a Master's Degree in Enterprise Management. He was the Factory Director of Shanghai Daily Chemicals Factory and Deputy General Manager of Shanghai Johnson Co., a Sino-American joint venture. He has over 27 years of management experience in cosmetics industry.

**Mr. YAO Fang,** aged 34, is an Executive Director of the SIHL Group and the General Manager of SIIC Management (Shanghai) Limited. He is also a Director of Shanghai S. I. Capital Company Limited, SIDC, Shanghai Hu-Ning and SII and the Vice Chairman of Bright Dairy. He graduated from the Chinese University of Hong Kong with a Master's Degree in Business Administration. He had worked for Bank of Communications (Shanghai branch) and Shanghai Wanguo Holdings Ltd. (now knows as Shenyin & Wanguo Securities Co., Ltd.). He joined the Guarantor in April 1996. He has over 10 years' experience in money and capital markets operations.

*Non-executive Directors*

**Dr. LO Ka Shui,** aged 57, graduated with B. Sc. from McGill University and M. D. from Cornell University. He is also certified in Cardiology. He has more than 24 years' experience in property and hotel development investment, both in Hong Kong and overseas. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited, and a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Phoenix Satellite Television Holdings Limited and China Mobile (Hong Kong) Limited. He is also a Vice President of The Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, a member of the Council of Advisors on Innovation and Technology, a Board Member of the Airport Authority and the Ex-Chairman of the Hospital Authority. He is also a Director of Hong Kong Exchanges and Clearing Limited, and he served as Chairman of the Listing Committee for the Main Board from 1992 to 1996 and for the GEM from 1999 to 2003.

**Professor WOO Chia-Wei,** aged 66, is currently Senior Advisor of Shui On Holdings Limited and President Emeritus of the Hong Kong University of Science and Technology. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR and also the Chinese People's Political Consultative Conference.

**Mr. LEUNG Pak To, Francis,** aged 49, is presently the Chairman, Asia of Citigroup Global Markets and a Director of Digital China Holdings Limited. He has over 23 years of experience in corporate finance, mergers and acquisitions, corporate restructuring and reorganisation, investments and other general corporate finance advisory activities in Hong Kong and the PRC. In 1980, Mr. Leung graduated with a master's degree in business administration from University of Toronto, Canada.

***Senior Management***

The directors are responsible for the overall management of the SIHL Group, but they have delegated certain day-to-day management responsibilities to the senior managers listed below:

**Mr. ZHOU Jie,** aged 36, is a Deputy CEO of the SIHL Group. He is also the Vice Chairman of Sunve Pharmaceutical and a Director of Sunway Biotech and Mergen. He graduated from Shanghai Jiaotong University with a Master's Degree in Management Engineering. Mr. Zhou joined the Guarantor in May 1996 and he previously held the positions of Chairman and General Manager of Shanghai S. I. Capital Co., Ltd.. He had participated in the preparation for public listing of the SIHL Group and subsequent capital injection exercises. He was formerly the Deputy General Manager of the Investment Banking Head Office of Shanghai Wanquo Holdings Ltd. (now known as Shenyin & Wanguo Securities Co., Ltd.). He has over 11 years' experience in investment banking and capital markets operation.

**Miss WANG Xiao Dong, Shanel,** aged 42, is a Deputy CEO of the SIHL Group. She is also a Director and General Manager of China Water & Sewage. She graduated from Peking University with a Bachelor's Degree in Law. She had worked for the Chinese Securities Market Research and Planning Centre, DBS Asset Management Ltd. and BOC International Holdings Ltd. and served as dealer in bond, capital and stock markets, fund manager of DBSAM and Managing Director of BOCI Asia Ltd. respectively. She has more than 11 years' professional working experience in the field of securities, investment and corporate finance.

**Mr. LEUNG Lin Cheong, Roger,** aged 50, is the Company Secretary of the SIHL Group. Mr. Leung is a Fellow of The Institute of Chartered Secretaries and Administrators, The Chartered Institute of Management Accountants and Hong Kong Society of Accountants. He also holds a Master's Degree in Business Administration from Brunel University in U.K. in conjunction with Henley Management College. He has over 23 years of management experience in listed corporate secretarial practice and administration.

**Mr. ZHAI Pu, Philip,** aged 29, is the Head of Investments of the SIHL Group. He graduated from Tsinghua University with a Bachelor's Degree in Materials Engineering. He obtained his Ph.D. Degree from Cambridge University in the field of Strategic Management. His research interests have been focusing on business strategy for MNCs in the PRC, Sino-foreign joint venture management and investment analysis. Prior to joining the Company, Mr. Zhai worked for Cybercity Investments and Vision Century Corporation, and was responsible for formulating growth strategy, forging strategic alliances and managing direct investments.

**Mr. ZHENG Zhi Ping,** aged 57, is a Director of Nanyang Tobacco. He graduated from Shanghai Fudan University. He was the Deputy Factory Director of Shanghai Cigarette Factory and a Director and Deputy General Manager of Shanghai Gao Yang International Tobacco Co., Ltd.. He is a qualified Senior Engineer in the PRC and a member of the Tobacco Machines Standardisation Committee. In 1996, he was accredited as a State-Class Technical Specialist for his outstanding contribution. He has over 36 years of experience in the technology development and enterprise management in the tobacco industry.

**Mr. HU Jia Hua,** aged 55, is a Director and Deputy General Manager of Nanyang Tobacco. He was the General Manager of China Tobacco Import & Export Shanghai Corporation and the Head of the Supplies Department of Shanghai Tobacco (Group) Corporation. He is a qualified Senior Economist in the PRC and has over 36 years of experience in the administration management of industrial enterprise and organisation.

**Mr. FENG Gen Sheng,** aged 69, is the Vice Chairman and General Manager of Chia Tai Qingchunbao. He is a qualified Senior Economist and a Certified Pharmacist. He also won the first National Outstanding Entrepreneur Award. He has been a Director of Hangzhou No. 2 Chinese Herbal Medicine Factory since 1972 and has over 55 years of experience in the pharmaceutical industry.

**Mr. CHEN Shu Zi,** aged 55, is the Chairman of Xiamen Chinese Medicine, the Vice Chairman of Guangdong Biolight Medical Technology Co. Ltd. and a Director of E-Com Technology Limited. He joined SIIC Shanghai Holdings Co. Ltd. as General Manager of the Enterprise Management Department in October 1998. He graduated from Shanghai Fudan University with a Master's Degree in Economics and Management, and was a Director and Deputy General Manager of Shanghai Rubber Tyre (Group) Limited. He has extensive working experience in Corporate Management.

**Mr. SHEN Wei Jia,** aged 49, is a Director of Shanghai Jahwa, Bright Dairy and Sunve Pharmaceutical. He graduated from Shanghai Fudan University with a Bachelor Degree in Mathematics and was then conferred a Doctorate Degree in Economics. He also holds a Master's Degree in Business Administration awarded by the Catholic University of Leuven (Belgium). He was a MBA Project Supervisor in Shanghai Fudan University., the Managing Director of Shanghai Waigaoqiao Free Trade Zone 3U-Development Co. Ltd. and the General Vice President of Sunve Pharmaceutical.

**Mr. JIN Guo Ming,** aged 43, is a Director and Deputy General Manager of Wing Fat. He graduated from Zhejiang Institute of Metallurgy Economic and is a qualified Economist. Mr. Jin was the Head of the Business Department and the Trading Department of Shanghai Packaging Company. He has over 21 years of experience in the printing industry.

**Mr. CHEN Nai Lang,** aged 56, is a Director and Deputy General Manager of Wing Fat. He graduated from Shanghai TV University and is a qualified Economist. He was the Head of Shanghai Packing and Printing Factory and Shanghai No. 8 Printing Factory and the Deputy General Manager of Shanghai Packaging Company. He has over 34 years of experience in the packaging and printing industry.

**Ms. WANG Jia Feng,** aged 52, is the Chairman and General Manager of Bright Dairy. She graduated from Central TV University with a Degree in Engineering Enterprise Management. She furthered her study at East Normal University and received a Master's Degree in International Economics. She is a qualified Senior Economist. She has over 32 years of experience in enterprise management.

**Mr. ZHOU Qi Ying,** aged 56, is the Vice Chairman and General Manager of Shanghai Jahwa. He is a qualified Senior Economist and holds a Master's Degree in Industrial Economics from Shanghai Finance and Economics University. He has been the Deputy General Manager of Shanghai Jahwa (Holdings) Co., Ltd. since August 1992. He has over 31 years of experience in industrial enterprise management.

**Ms. MEI Li Jun,** aged 48, is a Director and General Manager of Sunve Pharmaceutical and a Director of Shanghai Roche Pharmaceutical Co., Ltd.. She graduated from Shanghai Pharmaceutical Institute and pursued her postgraduate study at Shanghai Finance and Economics Institute. She also holds a Master's Degree in Business Administration from China Europe International Business School. She had been the Deputy General Manager of Shanghai Roche Pharmaceutical Co., Ltd. for five years. She has over 31 years of experience in pharmaceutical industry.

**Mr. ZHANG Hong,** aged 38, is a Director and General Manager of Huizhong Automotive and Wanzhong Automotive. He graduated from Nanchang Institute of Aeronautical Technology with a Bachelor's Degree in Material Engineering and Welding. He served as the Deputy Head of the Technical Section of Shanghai Automobile Chassis Plant and the General Manager of Shanghai Automotive Brake Systems Co., Ltd.. He has over 11 years' experience in the automotive components industry.

**Mr. LIU Jian**, aged 39, is a Director and General Manager of Shanghai Transportation. He graduated from Tong Ji University and holds a Master's Degree in Business Administration. He is a qualified Senior Engineer. He worked for Shanghai Volkswagon and joined Shanghai Transportation in November 2001 as Deputy General Manager.

**Mr. CUI Zhen Jia,** aged 54, is the Vice Chairman and General Manager of Shanghai Optical Communications and the Chairman of Shanghai Communications Technologies. He graduated from China Europe International Business School with a Master's Degree in Business Administration and is a qualified Senior Economist. He was the Deputy Head of Shanghai Alloy Factory and the Head of Shanghai Geological Instrument Co., Ltd.. He also held various senior management positions in Shanghai Instrument Bureau, SVA (Group) Co., Ltd., SVA Co., Ltd., Shanghai Instrument & Electronics Holding (Group) Company. He has extensive experience in enterprise management.

**Mr. HU Fang,** aged 54, is the Vice Chairman and President of Sunway Biotech and a Director of Mergen. He graduated form Shanghai Second Medical University with a Doctorate Degree, and later received a Postdoctorate Degree from University of California, San Francisco. He was the Chairman of Hangzhou Jiu Yuan Gene Engineering Company, the President of Zhong Shi International Biotic Medical Group and the Head of Beijing Sai Yin Biological Technology Research Institute. He has over 24 years of experience in biogenes study.

**Mr. HU Qian Jin,** aged 48, is a Director and Chief Executive Officer of Mergen and a Director of Sunway Biotech. He graduated from Shanghai Fudan University with a Bachelor's Degree in Biology. He also holds a Doctorate Degree from New York State University, Stone Brooks and a Postdoctorate Degree from University of California, San Francisco. Dr. Hu was the Chairman of America HUS Biotic Medical Limited and the Senior Technical Advisor of Zhong Shi International Biotic Medical Group. He has in-depth knowledge in the study of human genome and molecular biology.

**Mr. XIN Pei Fa,** aged 51, is the General Manager of Sinotrans International. He graduated from Huadong Normal University with a Bachelor's Degree and is a qualified Specialist in International Commerce. He was an Engineer and a Director of the Consulting Department of Shanghai Petro-chemistry Science and Technology. He was also the General Manager of Shanghai Ocean-freight Development Co. and Shanghai Huahang World Forwarding Co., Ltd., a Sino-American joint venture.

**Mr. XU Feng,** aged 39, is the President of Wai Lian Fa. He graduated from Dalian Institute of Science & Technology with a Degree in Civil Engineering and later received a Master's Degree in Shipping Management from Shanghai Maritime University. He is a qualified Economist. He was the Manager of the Operations Department and Assistant to General Manager of Shanghai Waigaoqiao United Development Co., Ltd..

**Mr. JIANG Ben Fu,** aged 58, is a Director of SIIC Management (Shanghai) Limited and the General Manager of Shanghai Hu-Ning. He graduated from Jiangxi Finance and Economy Institution where he majored in Accountancy. He is a qualified Accountant and was the Deputy General Manager of CNTIC Nan Fang I&E Co. He has over 31 years of experience in finance, fiscal administration and corporate management.

**Mr. WU Jian Zhuang,** aged 57, is a Director of SIIC Management (Shanghai) Limited. He graduated from East China Normal University with a Master's Degree in Economics. He is a qualified Senior Economist and was the General Manager of Shanghai Dairy Company and Shanghai Agriculture Investment Company. He has over 28 years of experience in corporate administration management.

**Mr. JI Jian Zhong,** aged 48, is the Financial Controller of SIIC Management (Shanghai) Limited. He graduated from Beijing Management Cadre Institute. He is a qualified Senior Accountant and was the Chief of the Accounting Sector of Pu Dong Iron Inc. He has over 23 years of working experience in corporate financial management.

The business address of each of the directors of Shanghai Industrial is 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong.

None of the directors and their associates have any personal, family, corporate or other interests in the securities of Shanghai Industrial or any of its associated corporations as defined in the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong ("SFO") except that, under Shanghai Industrial's share option scheme, certain directors of Shanghai Industrial have personal interests in share options which have been granted to them to subscribe for shares in Shanghai Industrial. For further details, see "Principal Shareholders and Directors' Interest of Shanghai Industrial".

None of the directors of Shanghai Industrial has, or has had since the date of incorporation of Shanghai Industrial, an interest in any transaction which is or was unusual in their nature or conditions or significant to the business of the SIHL Group.

None of the directors of Shanghai Industrial has any outstanding loan granted by any member of the SIHL Group or the benefit of any guarantee from any member of the SIHL Group.

***Staff***

As at 31 December 2003, the SIHL Group employed approximately 3,796 full-time employees, of whom the majority were engaged in production, with the remainder involved in a range of functions including administration, research and development and quality control.

The SIHL Group has approximately 576 full-time employees in Hong Kong and approximately 3,220 full-time employees in the PRC. The directors consider the SIHL Group's relationship with its employees to be excellent. The SIHL Group operates or participates in retirement benefits schemes in Hong Kong and the PRC, respectively.

The SIHL Group provides employee benefits including paid annual leave allowances, bonuses, certain medical expense allowances and participation in Shanghai Industrial's provident fund. Shanghai Industrial has adopted on 17 May 1996 a share option scheme ("Share Option Scheme") for the benefit of employees of Shanghai Industrial and its subsidiaries. During the year 2002, Shanghai Industrial has, in accordance with Chapter 17 of the Listing Rules, terminated the Share Option Scheme and adopted a new share option scheme, as approved by the shareholders of Shanghai Industrial at the extraordinary general meeting of 31 May 2002.

## Subsidiaries and Affiliates

### *Principal Subsidiaries*

The following table sets out certain information with regard to Shanghai Industrial's subsidiaries which principally affect the results, assets or liabilities of the SIHL Group as at 30 June 2003:

| Name of subsidiary | Place of incorporation/ establishment | Nominal value of issued and fully paid share capital/registered capital | Percentage of issued/registered capital held by the subsidiaries | Percentage of issued/registered capital attributable to the SIHL Group | Principal activities |
|---|---|---|---|---|---|
| 正大青春寶藥業有限公司 (Chia Tai Qingchunbao Pharmaceutical Co. Ltd.) *(1)* | PRC | RMB128,500,000 | 55% | 36.26% | Manufacture and sale of Chinese medicine and health supplement products |
| S.I. Infrastructure Holdings Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | 100% | Investment holding |
| SIHL Treasury Limited | Hong Kong | Ordinary shares - HK$2 | 100% | 100% | Investment holding |
| SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech") | Cayman Islands/ Hong Kong | Ordinary shares - HK$62,030,000 | 65.93% | 65.93% | Investment holding |
| Nanyang Tobacco (Marketing) Company, Limited | British Virgin Islands/ PRC and Macau | Ordinary shares - US$1 - HK$100,000,000 | 100% | 100% | Sale and marketing of cigarettes and raw materials sourcing |
| Nanyang Brothers Tobacco Company, Limited | Hong Kong | Ordinary shares - HK$2 | 100% | 100% | Manufacture of cigarettes |
| | | Non-voting deferred shares - HK$8,000,000 | — | — | |
| The Wing Fat Printing Company, Limited | Hong Kong | Ordinary shares - HK$2,000,000 | 93.31% | 93.31% | Manufacture and sale of packaging materials and printed products |
| | | Non-voting deferred shares - HK$1,829,510 | — | — | |

*Notes:*

(1) The company was established in the PRC as a sino-foreign equity joint venture company.

(2) With the exception of S. I. Infrastructure Holdings Limited and SIHL Treasury Limited, all the above subsidiaries are indirectly held by Shanghai Industrial.

(3) None of the deferred shares are held by the SIHL 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.

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

***Principal Jointly Controlled Entities***

The following table sets out certain information with regard to Shanghai Industrial's jointly controlled entities which principally affect the result, assets or liabilities of the SIHL Group as at 30 June 2003:

| Name of jointly controlled entity | Place of incorporation or establishment/ operations | Percentage of registered capital attributable to the Group | Principal activities |
|---|---|---|---|
| Mergen Holdings Ltd. | BVI | 50% | Investment holding in companies engaged in research and development of biotechnology products |
| 上海三維生物技術有限公司 (Shanghai Sunway Biotech Co., Ltd.) | PRC | 55% | Manufacture of medical product and engage in research and development of biotechnology products |
| 上海匯眾汽車製造有限公司 (Shanghai Huizhong Automotive Manufacturing Co., Ltd.) | PRC | 50% | Manufacture and sale of 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 |

*Note:*

(1) All the above jointly controlled entities are indirectly held by Shanghai Industrial.

***Principal Associates***

The following table sets out certain information with regard to Shanghai Industrial's associates which principally affect the results, assets or liabilities of the SIHL Group as at 30 June 2003:

| Name of associate | Percentage of registered capital held by the subsidiaries | Percentage of registered capital attributable to the Group | Principal activities |
|---|---|---|---|
| 大通國際運輸有限公司 (EAS International Transportation Limited) | 50% | 50% | Provision of freight forwarding and logistics services |
| Semiconductor Manufacturing International Corporation | 16.2% | 16.2% | Investment holding and manufacture and marketing of advanced technology semiconductors |
| 上海家化聯合股份有限公司 (Shanghai Jahwa United Co., Ltd.) | 28.15% | 18.56% | Manufacture, distribution and sale of personal care and cosmetics products |
| 光明乳業股份有限公司 (Bright Dairy and Food Co., Ltd.) | 30.79% | 30.79% | Manufacture, distribution and sale of dairy and related products |
| 濟南泉永印務有限公司 (Jinan Quanyong Printing Co., Ltd.) | 48% | 45% | Provision of printing services |
| 上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.) | 29% | 27% | Manufacture of stamping foil |
| 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 |
| 浙江天外烟草印刷有限公司 (Zhejiang Tianwai Tobaccos Printing Co., Ltd.) | 35% | 33% | Provision of printing services |

*Note:* All of the above associates are indirectly held by Shanghai Industrial.

**Changes in Share Capital**

Shanghai Industrial's authorised share capital consists of 2,000,000,000 ordinary shares of par value HK$0.10 each.

Changes in the issued share capital of Shanghai Industrial since its incorporation are set out below:

| Date | Type of issue | Issue Price (HK$) | Number of shares issued | Issued capital |
|---|---|---|---|---|
| 9 January 1996 | On incorporation (shares of par value HK$1.00 each) | — | 2 | 2 |
| 17 May 1996 | Issue of new Shares on acquisition of new subsidiaries (of par value HK$1.00 each) | — | 38,699,998 | 38,700,000 |
| 17 May 1996 | Sub-division of each share into 10 ordinary shares of HK$0.10 each | — | 348,300,000 | 38,700,000 |
| 28 May 1996 | Placing of new Shares to professional and institutional investors and issue of new shares to the public | 7.28 | 129,000,000 | 51,600,000 |
| 3 June 1996 | Placing of new Shares to professional and institutional investors | 7.28 | 19,350,000 | 53,535,000 |
| 10 December 1996 | Issue of new Shares to the Issuer partly to finance the acquisition of associated companies | 19.50 | 72,000,000 | 60,735,000 |
| 27 December 1996 | Issue of new Shares to the Issuer partly to finance the acquisition of associated companies | 19.50 | 90,000,000 | 69,735,000 |
| 3 February 1997 | Issue on exercise of share options | 8.808 | 500,000 | 69,785,000 |
| 25 April 1997 | Issue of new Shares partly to finance acquisition | 34.18 | 139,470,000 | 83,732,000 |
| 4 March 1998 | Issue on exercise of share options | 8.808 | 3,000,000 | 84,032,000 |
| 20 March 1998 | Issue on exercise of share options | 8.808 | 1,000,000 | 84,132,000 |
| 19 November 1998 | Issue of new Shares to Shanghai Investment Holdings Limited to finance capital expenditures and acquisition of new businesses | 19.200 | 40,000,000 | 88,132,000 |
| 21 April 1999 | Issue on exercise of share options | 10.432 | 248,000 | 88,156,800 |
| 3 July 1999 | Issue on exercise of share options | 10.432 | 2,277,000 | 88,384,500 |
| | | 8.808 | 2,000,000 | 88,584,500 |
| 26 August 1999 | Issue on exercise of share options | 10.432 | 35,000 | 88,588,000 |
| 15 December 1999 | Issue on exercise of share options | 10.432 | 200,000 | 88,608,000 |

| Date | Type of issue | Issue Price | Number of shares issued | Issued capital |
|---|---|---|---|---|
| | | (HK$) | | |
| 22 February 2000 | Issue on exercise of share options | 10.432 | 265,000 | 88,634,500 |
| 3 April 2000 | Issue on exercise of share options | 10.432 | 90,000 | 88,643,500 |
| 10 May 2000 | Repurchases of Shares | 12.800 | (1,201,000) | 88,523,400 |
| | | 12.850 | (130,000) | 88,510,400 |
| | | 12.900 | (50,000) | 88,505,400 |
| | | 12.950 | (10,000) | 88,504,400 |
| 29 May 2000 | Repurchases of Shares | 12.800 | (11,000) | 88,503,300 |
| 30 May 2000 | Repurchases of Shares | 12.750 | (50,000) | 88,498,300 |
| | | 12.800 | (142,000) | 88,484,100 |
| 20 June 2000 | Issue on exercise of share options | 8.808 | 11,000,000 | 89,584,100 |
| | | 10.432 | 90,000 | 89,593,100 |
| 13 July 2000 | Issue on exercise of share options | 10.432 | 75,000 | 89,600,600 |
| 8 August 2000 | Issue on exercise of share options | 10.432 | 200,000 | 89,620,600 |
| 5 September 2000 | Issue on exercise of share options | 10.432 | 60,000 | 89,626,600 |
| 31 October 2000 | Issue on exercise of share options | 10.432 | 90,000 | 87,635,600 |
| 9 November 2000 | Issue on exercise of share options | 10.432 | 1,500,000 | 89,785,600 |
| 16 January 2001 | Issue on exercise of share options | 9.568 | 1,000,000 | 89,885,600 |
| | | 10.432 | 900,000 | 89,975,600 |
| 8 March 2001 | Issue on exercise of share options | 10.432 | 1,000,000 | 90,075,600 |
| 13 March 2001 | Repurchases of Shares | 12.600 | (25,000) | 90,073,100 |
| | | 12.650 | (27,000) | 90,070,400 |
| | | 12.700 | (107,000) | 90,059,700 |
| | | 12.750 | (441,000) | 90,015,600 |
| | | 12.950 | (77,000) | 90,007,900 |
| 16 March 2001 | Repurchases of Shares | 12.700 | (152,000) | 89,992,700 |
| | | 12.750 | (718,000) | 89,920,900 |
| | | 12.850 | (24,000) | 89,918,500 |
| 21 May 2001 | Issue on exercise of share options | 10.432 | 96,000 | 89,928,100 |
| 22 May 2001 | Issue on exercise of share options | 10.432 | 60,000 | 89,934,100 |
| 10 July 2001 | Repurchases of Shares | 13.000 | (80,000) | 89,926,100 |
| 11 July 2001 | Repurchases of Shares | 13.000 | (100,000) | 89,916,100 |
| 13 July 2001 | Repurchases of Shares | 13.000 | (351,000) | 89,881,000 |
| 27 July 2001 | Repurchases of Shares | 12.950 | (41,000) | 89,876,900 |
| | | 13.000 | (172,000) | 89,859,700 |

| Date | Type of issue | Issue Price | Number of shares issued | Issued capital |
|---|---|---|---|---|
| | | (HK$) | | |
| 30 July 2001 | Repurchases of Shares | 12.800 | (47,000) | 89,855,000 |
| | | 12.850 | (50,000) | 89,850,000 |
| | | 12.900 | (47,000) | 89,845,300 |
| | | 12.950 | (401,000) | 89,805,200 |
| | | 13.000 | (72,000) | 89,798,000 |
| 31 July 2001 | Repurchases of Shares | 12.900 | (40,000) | 89,794,000 |
| | | 12.950 | (100,000) | 89,784,000 |
| | | 13.000 | (67,000) | 89,777,300 |
| 6 November 2001 | Issue on exercise of share options | 10.432 | 40,000 | 89,781,300 |
| | | 10.496 | 68,000 | 89,788,100 |
| 21 November 2001 | Issue on exercise of share options | 10.432 | 70,000 | 89,795,100 |
| 13 December 2001 | Issue on exercise of share options | 10.496 | 52,000 | 89,800,300 |
| 14 December 2001 | Issue on exercise of share options | 10.432 | 54,000 | 89,805,700 |
| 11 January 2002 | Issue on exercise of share options | 10.432 | 98,000 | 89,815,500 |
| 17 January 2002 | Issue on exercise of share options | 10.496 | 1,000,000 | 89,915,500 |
| 28 January 2002 | Issue on exercise of share options | 10.496 | 80,000 | 89,923,500 |
| 14 March 2002 | Issue on exercise of share options | 10.432 | 15,000 | 89,925,000 |
| 21 March 2002 | Issue on exercise of share options | 9.568 | 1,000,000 | 90,025,000 |
| 28 March 2002 | Issue on exercise of share options | 10.432 | 2,000,000 | 90,225,000 |
| 4 April 2002 | Issue on exercise of share options | 10.432 | 25,000 | 90,227,500 |
| 12 April 2002 | Issue on exercise of share options | 10.432 | 35,000 | 90,231,000 |
| 23 April 2002 | Issue on exercise of share options | 10.432 | 2,800,000 | 90,511,000 |
| 7 May 2002 | Issue on exercise of share options | 10.432 | 3,000,000 | 90,811,000 |
| 13 May 2002 | Issue on exercise of share options | 9.568 | 2,000,000 | 91,011,000 |
| 16 May 2002 | Issue on exercise of share options | 10.432 | 110,000 | 91,022,000 |
| 22 May 2002 | Issue on exercise of share options | 10.432 | 150,000 | 91,037,000 |
| 24 May 2002 | Issue on exercise of share options | 10.432 | 4,000,000 | 91,437,000 |
| | | 9.568 | 1,200,000 | 91,557,000 |
| 28 May 2002 | Issue on exercise of share options | 10.432 | 3,100,000 | 91,867,000 |
| | | 9.568 | 1,000,000 | 91,967,000 |
| 18 June 2002 | Issue on exercise of share options | 10.432 | 4,000,000 | 92,367,000 |
| 5 July 2002 | Issue on exercise of share options | 10.432 | 15,000 | 92,368,500 |
| 17 July 2002 | Issue on exercise of share options | 10.432 | 50,000 | 92,373,500 |

| Date | Type of issue | Issue Price | Number of shares issued | Issued capital |
|---|---|---|---|---|
| | | (HK$) | | |
| 19 July 2002 | Issue on exercise of share options | 10.432 | 62,000 | 92,379,700 |
| | | 9.568 | 1,400,000 | 92,519,700 |
| 23 July 2002 | Issue on exercise of share options | 10.432 | 1,500,000 | 92,669,700 |
| 24 July 2002 | Issue on exercise of share options | 10.432 | 700,000 | 92,739,700 |
| 26 July 2002 | Issue on exercise of share options | 10.432 | 90,000 | 92,748,700 |
| | | 9.568 | 3,200,000 | 93,068,700 |
| 12 September 2002 | Issue on exercise of share options | 9.568 | 3,200,000 | 93,388,700 |
| 16 September 2002 | Issue on exercise of share options | 9.568 | 8,300,000 | 94,218,700 |
| 20 September 2002 | Issue on exercise of share options | 10.496 | 35,000 | 94,222,200 |
| 24 September 2002 | Repurchases of Shares | 11.950 | (63,000) | 94,215,900 |
| | | 12.000 | (20,000) | 94,213,900 |
| 25 September 2002 | Repurchases of Shares | 11.900 | (132,000) | 94,200,700 |
| | | 11.950 | (84,000) | 94,192,300 |
| | Issue on exercise of share options | 10.496 | 55,000 | 94,197,800 |
| 26 September 2002 | Repurchases of Shares | 11.950 | (27,000) | 94,195,100 |
| | | 12.000 | (83,000) | 94,186,800 |
| | | 12.050 | (120,000) | 94,174,800 |
| 27 September 2002 | Repurchases of Shares | 11.900 | (131,000) | 94,161,700 |
| | | 11.950 | (127,000) | 94,149,000 |
| | | 12.000 | (15,000) | 94,147,500 |
| | | 12.050 | (10,000) | 94,146,500 |
| 30 September 2002 | Repurchases of Shares | 11.650 | (254,000) | 94,121,100 |
| | | 11.700 | (47,000) | 94,116,400 |
| 3 October 2002 | Repurchases of Shares | 11.300 | (100,000) | 94,106,400 |
| | | 11.350 | (150,000) | 94,091,400 |
| | | 11.400 | (58,000) | 94,085,600 |
| | | 11.450 | (10,000) | 94,084,600 |
| 4 October 2002 | Repurchases of Shares | 11.200 | (110,000) | 94,073,600 |
| | | 11.250 | (210,000) | 94,052,600 |
| | | 11.300 | (100,000) | 94,042,600 |
| 7 October 2002 | Repurchases of Shares | 11.100 | (335,000) | 94,009,100 |
| | | 11.150 | (10,000) | 94,008,100 |
| 8 October 2002 | Repurchases of Shares | 11.250 | (100,000) | 93,998,100 |
| 9 October 2002 | Repurchases of Shares | 11.200 | (3,000) | 93,997,800 |

| Date | Type of issue | Issue Price | Number of shares issued | Issued capital |
|---|---|---|---|---|
| | | (HK$) | | |
| 10 October 2002 | Repurchases of Shares | 11.050 | (62,000) | 93,991,600 |
| | | 11.100 | (103,000) | 93,981,300 |
| | | 11.150 | (385,000) | 93,942,800 |
| 11 October 2002 | Repurchases of Shares | 11.200 | (463,000) | 93,896,500 |
| | | 11.200 | (378,000) | 93,858,700 |
| | | 11.250 | (38,000) | 93,854,900 |
| 29 October 2002 | Repurchases of Shares | 12.100 | (65,000) | 93,848,400 |
| | | 12.150 | (318,000) | 93,816,600 |
| | | 12.200 | (238,000) | 93,792,800 |
| 30 October 2002 | Repurchases of Shares | 12.150 | (63,000) | 93,786,500 |
| | | 12.200 | (332,000) | 93,753,300 |
| | | 12.250 | (131,000) | 93,740,200 |
| 31 October 2002 | Repurchases of Shares | 12.100 | (38,000) | 93,736,400 |
| | | 12.150 | (232,000) | 93,713,200 |
| | | 12.200 | (249,000) | 93,688,300 |
| | | 12.250 | (210,000) | 93,667,300 |
| | | 12.300 | (375,000) | 93,629,800 |
| 20 February 2003 | Issue on exercises of share options | 10.496 | 60,000 | 93,635,800 |
| 4 July 2003 | Issue on exercises of share options | 10.496 | 4,700,000 | 94,105,800 |
| 22 July 2003 | Issue on exercises of share options | 10.432 | 2,500,000 | 94,355,800 |
| 4 August 2003 | Issue on exercises of share options | 10.432 | 1,500,000 | 94,505,800 |
| 3 September 2003 | Issue on exercises of share options | 11.710 | 45,000 | 94,510,300 |
| 4 September 2003 | Issue on exercises of share options | 11.710 | 230,000 | 94,533,300 |
| 7 September 2003 | Issue on exercises of share options | 11.710 | 45,000 | 94,537,800 |
| 8 September 2003 | Issue on exercises of share options | 11.710 | 30,000 | 94,540,800 |
| 10 September 2003 | Issue on exercises of share options | 11.710 | 15,000 | 94,542,300 |
| 16 September 2003 | Issue on exercises of share options | 11.710 | 30,000 | 94,545,300 |
| 17 September 2003 | Issue on exercises of share options | 11.710 | 10,000 | 94,546,300 |
| 22 September 2003 | Issue on exercises of share options | 11.710 | 120,000 | 94,558,300 |
| 6 October 2003 | Issue on exercises of share options | 11.710 | 15,000 | 94,559,800 |
| 7 October 2003 | Issue on exercises of share options | 10.496 | 60,000 | 94,565,800 |
| 12 November 2003 | Issue on exercises of share options | 11.710 | 60,000 | 94,571,800 |
| 2 December 2003 | Issue on exercises of share options | 11.710 | 15,000 | 94,573,300 |
| 16 December 2003 | Issue on exercises of share options | 11.710 | 15,000 | 94,574,800 |
| 9 January 2004 | Issue on exercises of share options | 11.710 | 800,000 | 94,654,800 |

| Date | Type of issue | Issue Price | Number of shares issued | Issued capital |
|---|---|---|---|---|
| | | (HK$) | | |
| 15 January 2004 | Issue on exercises of share options | 11.710 | 90,000 | 94,663,800 |
| 4 February 2004 | Issue on exercises of share options | 11.710 | 15,000 | 94,665,300 |
| 19 February 2004 | Issue on exercises of share options | 11.710 | 800,000 | 94,745,300 |
| 24 February 2004 | Issue on exercises of share options | 11.710 | 700,000 | 94,815,300 |

# THE ISSUER

The Issuer, a wholly-owned subsidiary of the Guarantor, was incorporated under the laws of the British Virgin Islands on 8 May 1997 as Ludgate Agents Limited. The name of the Issuer was changed to Shanghai Industrial Investment Treasury Company Limited in October 1997. Pursuant to the general objects and powers set out in Clause 4 of its Memorandum of Association, the Issuer is a holding company with one subsidiary, SINVHL. Other than holding its interest in SINVHL, the Issuer does not conduct any independent business operations and does not engage in any other activities. The Issuer has agreed that it will not carry on any other business activity other than holding such interests, activities conducted in connection with the Bonds and activities conducted in connection with future issuances of international debt securities; provided that, such international debt securities are not exchangeable into Shares forming part of the Exchange Property. The Issuer's registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its registered number is 230678.

The directors of the Issuer are Wang Rong Feng and Chen Wei Shu. Wang Rong Feng is the President of the Guarantor and Chen Wei Shu is the Vice Chairman of the Guarantor. See "Description of the Guarantor — Management and Employees". The business address of both of the directors of the Issuer is at 26-27th Floors, Harcourt House, 39 Gloucester Road, Hong Kong. None of the directors of the Issuer holds any shares or options to acquire shares of the Issuer.

## Option Agreement

The Shares to be delivered in connection with the exercise of the Bonds will be held by, and are registered in the name of, SINVHL. The Issuer and SINVHL have entered into the Option Agreement which grants the Issuer the option to acquire Shares constituting the Exchange Property. The Issuer and the Guarantor have agreed not to issue any securities exchangeable or convertible into the Exchange Property so long as the Bonds remain outstanding (See "Subscription and Sale"). In addition, SINVHL has agreed to maintain sufficient Shares, free from all liens, claims, equities, charges and encumbrances, as may be necessary to meet any settlement of the Issuer's delivery obligations by means of delivery of Exchange Property pursuant to the Conditions.

## Capitalisation

The authorised share capital of the Issuer is US$50,000.00 divided into 50,000 shares of US$1.00 par value each, one share of which has been issued to the Guarantor, and fully paid.

The following table sets out the unaudited capitalisation of the Issuer as at 30 June 2003 and as adjusted for the proposed issue of the Bonds (assuming no Optional Bonds are issued):

| | As at 30 June 2003 | | |
|---|---|---|---|
| | Actual | As Adjusted | |
| | (HK$) | (HK$) | (US$) |
| | | (millions) | |
| **Borrowings** | | | |
| Intra-group loans | 410 | 410 | 53 |
| The Bonds now being issued | — | 2,330 | 299 |
| | 410 | 2,740 | 352 |

| | As at 30 June 2003 | | |
|---|---|---|---|
| | Actual | As Adjusted | |
| | (HK$) | (HK$) | (US$) |
| | | (millions) | |
| **Shareholder's equity** | | | |
| Issued capital (one share of US$1.00 fully-paid) | — | — | — |
| Accumulated losses | (410) | (410) | (53) |
| Deficiency on shareholder's equity | (410) | (410) | (53) |
| Total capitalisation | — | 2,330 | 299 |

*Note:* On 31 December 2003, SINVHL, a wholly-owned subsidiary of the Issuer, declared a dividend in favour of the Issuer amounting to HK$273 million. Except for the aforementioned, there has been no material change in the capitalisation of the Issuer since 30 June 2003.

As at 30 June 2003 the issued share capital of the Issuer is one share of US$1.00 par value.

## Financial Statements

Since the date of its incorporation, no financial statements of the Issuer have been published. The Issuer is not required by British Virgin Islands law to, and does not intend to, publish financial statements.

**Substantial Shareholders' Interests**

As at 10 March 2004, the interests or short positions of every person, other than the directors and chief executives of Shanghai Industrial, in the shares and underlying shares of Shanghai Industrial as recorded in the register required to be kept under section 336 of the SFO, are set out below:

| Name of shareholder | Capacity | Number of ordinary shares held | % of the issued share capital |
|---|---|---|---|
| **Interests** | | | |
| Shanghai Industrial Investment (Holdings) Company Limited | Corporate | 548,561,000 *(Note (1))* | 57.86 |
| HSBC Holdings plc | Corporate | 104,366,600 *(Note (2))* | 11.01 |
| **Short Positions** | | | |
| Shanghai Industrial Investment (Holdings) Company Limited | Corporate | 103,066,600 *(Note (2))* | 10.87 |

*Notes:*

(1) SINVHL, SIIC Capital (B.V.I.) Limited ("SIIC Capital BVI") and SIIC CM Development Limited ("SIIC CM Development") are the beneficial owners of 468,066,000, 80,000,000 and 10,000 ordinary shares of Shanghai Industrial, respectively. The Guarantor owns 100% of SIIC CM Development and the Issuer, respectively, whereas the Issuer owns 100% of SINVHL which in turns owns 100% of SIIC Capital BVI. The Guarantor indirectly owns 100% of Gem Capital Investment (BVI) Limited which beneficially owns 485,000 ordinary shares of Shanghai Industrial.

(2) The Guarantor was taken to have short positions in respect of 103,066,600 underlying shares in Shanghai Industrial pursuant to a subscription agreement entered into with HSBC Bank plc, a controlled corporation of HSBC Holdings plc, on 18 February 2004 for the issuance of an aggregate of HK$2,330,000,000 Zero Coupon Guaranteed Exchangeable Bonds due March 2009 (subject to an additional HK$389,000,000 in aggregate principal amount of bonds which may be issued pursuant to an option granted to HSBC Bank plc) exchangeable into shares of Shanghai Industrial at an exchange price of HK$26.381 per share (subject to adjustment).

Apart from the above, no other interests or short positions in the shares or underlying shares of Shanghai Industrial were recorded in the register required to be kept under section 336 of the SFO as at 10 March 2004.

**Directors' Interests**

As at 10 March 2004, the interests and short positions of the directors and chief executives of Shanghai Industrial in the shares, underlying shares or debentures of Shanghai Industrial and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, are set out below:

I) ***Interest in Shares of Shanghai Industrial***

| Name of Director | Number of shares of Shanghai Industrial held as personal interests | % of the issued share capital |
|---|---|---|
| Cai Lai Xing | 4,000,000 | 0.42 |
| Lu Ming Fang | 2,700,000 | 0.28 |
| Lu Da Yong | 2,700,000 | 0.28 |

All interests stated above represent long positions.

II) ***Share Options***

The following table discloses movements in the share options of Shanghai Industrial as at 10 March 2004:

| | Month of grant | Exercise price per share | Number of Shanghai Industrial's shares subject to the share options outstanding at the Latest Practicable Date |
|---|---|---|---|
| | | HK$ | |
| **Directors** | | | |
| Lu Ming Fang | July 2001 | 10.432 | 1,500,000 |
| Lu Yu Ping | March 2001 | 10.496 | 1,550,000 |
| Total | | | 3,050,000 |

Note: As at 10 March 2004, the outstanding number of shares issued under Shanghai Industrial's share options granted to the directors of Shanghai Industrial represents less than 0.32% of the then issued share capital of Shanghai Industrial.

Options granted under Shanghai Industrial's share option scheme(s) are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

Apart from the above, no other interests or short positions in the shares, underlying shares or debentures of Shanghai Industrial or any associated corporations as at 10 March 2004 were recorded in the register required to be kept under section 352 of the SFO.

**DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES**

Save as disclosed under the section "Share Options" above, none of Shanghai Industrial or any of its associated corporations was a party to any arrangement to enable the directors or chief executives of Shanghai Industrial (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or underlying shares in, or debentures of, Shanghai Industrial or any other body corporate.

# TERMS AND CONDITIONS OF THE BONDS

*The following (subject to completion and amendment), other than the paragraphs in italics, is the text of the terms and conditions of the Bonds which will be endorsed on the Certificates in definitive form issued in respect of the Bonds:*

The issue of the HK$2,330,000,000 zero coupon Guaranteed Exchangeable Bonds due 2009 (the "Bonds", which term shall include, unless the context requires otherwise, any additional Bonds issued pursuant to an option granted to HSBC Bank plc under a subscription agreement dated 18 February 2004 relating to the Bonds and consolidated and forming a single series therewith (the "Optional Bonds")) of Shanghai Industrial Investment Treasury Company Limited (the "Issuer"), guaranteed by Shanghai Industrial Investment (Holdings) Company Limited (the "Guarantor"), exchangeable into shares of Shanghai Industrial Holdings Limited ("Shanghai Industrial") was authorised by a resolution of the Board of Directors of the Issuer passed on 18 February, 2004. The giving of the Guarantee (as defined below) was authorised by a resolution of the Board of Directors of the Guarantor passed on 18 February, 2004. The Bonds are constituted by a trust deed (the "Trust Deed") to be dated on or about 16 March 2004, and made between the Issuer, the Guarantor and The Hongkong and Shanghai Banking Corporation Limited (the "Trustee", which term shall, where the context so permits, include all other persons or companies acting as trustee or trustees thereof) as trustee for the holders (as defined in Condition 1(D)) of the Bonds. Certain statements set out in these terms and conditions (the "Conditions") are summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer has entered into a paying, transfer and exchange agency agreement to be dated on or about 16 March 2004 (the "Agency Agreement") between the Issuer, the Guarantor, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as principal paying agent and as principal exchange agent, HSBC Private Bank (Jersey) Limited as registrar, and the other paying, exchange and transfer agents appointed under it. The registrar, principal paying agent, principal exchange agent and paying agents, exchange agents, transfer agents for the time being are referred to herein as the "Registrar", the "Principal Paying Agent", the "Principal Exchange Agent", the "Paying Agents" (which expression shall include the Principal Paying Agent), the "Exchange Agents" (which expression shall include the Principal Exchange Agent) and the "Transfer Agents", respectively, each of which expressions shall include the successors from time to time of the relevant persons, in such capacities, under the Agency Agreement, and are collectively referred to herein as the "Agents". Copies of the Trust Deed and the Agency Agreement are available for inspection at the registered office of the Trustee, being at the date hereof at Level 30, HSBC Main Building, 1 Queen's Road Central, Central, Hong Kong and at the specified offices of each of the Agents. The Bondholders (as defined in Condition 1(D)) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

## 1 Status, Guarantee, Form, Denomination and Title

### (A) *Status*

The Bonds constitute senior, unsubordinated, direct, unconditional and, subject to Condition 3, unsecured obligations of the Issuer and shall at all times rank pari passu without preference amongst themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, rank at least equally with all its other present and future unsecured and unsubordinated obligations.

### (B) *Guarantee*

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect (the "Guarantee") are contained in the Trust Deed.

*The Guarantor is a holding company with most of its assets comprised of interests in subsidiaries and associated companies. Claims of the creditors of such subsidiaries and associated companies, including trade creditors and bank lenders, will have priority as to the assets of such subsidiaries and associated companies over claims of the Guarantor and therefore, the holders of the Bonds.*

(C) ***Form and Denomination***

The Bonds are issued in registered form in the denomination of HK$10,000 each. A bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds in the principal amount of HK$10,000 and integral multiples thereof. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register (as defined in Condition 2(A)).

*Upon issue, the Bonds will be represented by the Global Certificate deposited with a common depositary for, and representing Bonds registered in the name of a nominee of, Euroclear and Clearstream. The Conditions are modified by certain provisions contained in the Global Certificate.*

(D) ***Title***

Title to the Bonds passes only by transfer and registration in the Register. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate (if any) issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered in the Register.

2 **Transfers of Bonds**

(A) ***The Register***

The Issuer will cause to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement a register (the "Register") on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding.

(B) ***Transfers***

Subject to the terms of the Agency Agreement, a Bond may be transferred by delivering the Certificate issued in respect of it, with the form of transfer on the back duly completed and signed, to the specified office of the Registrar or any of the Transfer Agents. No transfer of a Bond will be valid unless and until entered on the Register.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

(C) ***Delivery of new Certificates***

Each new Certificate to be issued on transfer of a Bond or Bonds will, within five Business Days of receipt by the relevant Transfer Agent of the duly completed and signed form of transfer, if so requested in the form of transfer, be made available for collection at the specified office of the relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds transferred (free of charge to the holder), to the address specified in the form of transfer.

*Except in the limited circumstances described herein, see "Global Certificate", owners of interests in Bonds represented by the Global Certificate will not be entitled to receive physical delivery of definitive Certificates.*

Where some but not all the Bonds in respect of which a Certificate is issued are to be transferred, exchanged or redeemed, a new Certificate in respect of the Bonds not so transferred, exchanged or redeemed, will, within five Business Days of delivery or surrender of the original Certificate to the relevant Transfer Agent, Exchange Agent or Paying Agent, be made available for collection at the specified office of the relevant Agent or, if so requested by the holder, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, exchanged or redeemed (free of charge to the holder), to the address of such holder appearing on the Register.

In this Condition 2, "Business Day" means a day on which banks are open for business in the city in which the specified office of the Registrar and the relevant Transfer Agent to which the Certificate in respect of the Bonds to be transferred or relevant form of transfer is delivered is situated.

(D) ***Formalities free of charge***

Registration of transfer of Bonds will be effected without charge by or on behalf of the Issuer or any of the Transfer Agents, but only upon payment (or the giving of such indemnity as the Issuer or any of the Transfer Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

(E) ***Closed periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal of or premium on that Bond (ii) after an Exchange Notice (as defined herein) has been delivered with respect thereto, or (iii) after a Put Exercise Notice (as defined in Condition 7(D)) has been deposited in respect of such Bond pursuant to Condition 7(D).

(F) ***Regulations***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

3 **Negative Pledge**

(A) The Issuer and the Guarantor have each undertaken that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed), it will not, and will procure that none of its Subsidiaries (as defined in Condition 3(B)) will, create or permit to subsist or arise any mortgage, charge, pledge or other security interest (other than liens arising by operation of law) (each a "Lien") upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness (as defined in Condition 3(B)) or to secure any guarantee of, or indemnity in respect of, any Relevant Indebtedness unless, at the same time or prior thereto, the obligations of the Issuer and the Guarantor under the Bonds and the Trust Deed (a) are secured equally and rateably therewith or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders PROVIDED that the foregoing restriction shall not apply to any Relevant Indebtedness secured by:

(i) any Lien existing on any property or asset prior to the acquisition thereof by the Issuer, the Guarantor or any of its Subsidiaries (together, the "Group");

(ii) any Lien on any property or asset securing Relevant Indebtedness incurred or assumed for the purpose of financing the price of the purchase thereof by the Issuer, the Guarantor or any of its Subsidiaries (otherwise than from any other member of the Group) or the cost of construction, improvement or repair of all or any part of such property or asset;

(iii) any Lien existing on any property or asset of any company or other business entity which becomes a Subsidiary of the Issuer, the Guarantor or any of their respective Subsidiaries subsequent to the creation of such Lien; or

(iv) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing sub-paragraphs or existing at 18 February, 2004 provided that the amount of such Relevant Indebtedness is not increased.

(B) For the purposes of these Conditions:

"Relevant Indebtedness" means any present or future indebtedness in the form of, or represented by, bonds, notes, debenture stock, loan stock or other securities which (i) are offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash, and (ii) are for the time being quoted, listed, dealt in or traded on, any stock exchange, over-the-counter market or other centrally organised or regulated securities market. For the avoidance of doubt, "Relevant Indebtedness" does not include secured or unsecured transferable loan certificates which are exclusively traded between banks or similar licensed or registered financial institutions.

"Subsidiary" of a person means any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under Hong Kong or other applicable law or regulations and under generally accepted accounting principles in Hong Kong from time to time, should have its accounts consolidated with those of that person.

4 **Exchange**

(A) ***Exchange Right***

(i) Subject as hereinafter provided, each Bondholder shall have the right (the "Exchange Right"), subject to any applicable laws and regulations and in the manner described below, to exchange all or any of its Bonds for Shares (as defined below) and/or such other property as may be available from time to time for exchange as described under Condition 5 below (together the "Exchange Property"). Upon exercise of an Exchange Right, the Issuer shall, as described in Condition 4(G) below, exchange any Bond delivered for a pro rata share (as defined in the Trust Deed) of the Exchange Property calculated on the relevant Exercise Date, for the relevant Bondholder, subject to this Condition 4. The Issuer shall take all steps necessary to transfer title of such portion of the Exchange Property to such Bondholder.

As used in these Conditions the expression "Shares" means shares of par value HK$0.10 each of Shanghai Industrial or shares of any class or classes resulting from any subdivision, consolidation or reclassification of those shares, which as between themselves have no preference in respect of dividends nor of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of Shanghai Industrial and the expression "pro rata share" means, with respect to each Bond, a fraction of the Exchange Property in which the numerator shall be HK$10,000 or otherwise, as appropriate, and the denominator shall correspond to the nominal value of the Bonds (including the Bond or Bonds to which the pro rata share relates) which are outstanding at such time (excluding for this purpose the nominal value of the Bonds in respect of which the Exchange Right has been exercised by a Bondholder but the relevant Exchange Property has not yet been delivered).

If, in consequence of any Offer (as defined in Condition 6) or for any other reason any Shares which previously comprised all or part of the Exchange Property cease to be part of it and are replaced by other securities, the expression "Shares" as used in these Conditions shall thereafter refer to such securities or, in the case of a replacement in part, such securities and/or the Shares thereafter comprising or comprised in the Exchange Property, as the context may require, and if such securities are issued by an entity other than Shanghai Industrial, then the expression "Shanghai Industrial" as used herein shall thereafter refer to such entity or, in the case of a replacement in part as aforesaid, such entity and/or Shanghai Industrial as the context may require.

(ii) Notwithstanding the Exchange Right of each Bondholder in respect of each Bond, at any time when the delivery of Exchange Property deliverable upon exchange of the Bonds is required to satisfy the Exchange Right in respect of an Exchange Notice, the Issuer shall have the option to pay to the relevant Bondholder or the Trustee (as the case may be) an amount of cash in Hong Kong dollars equal to the Cash Settlement Amount (as defined

below) in order to satisfy such Exchange Right in full or in part (in which case the other part shall be satisfied by the delivery of Exchange Property) (the "Cash Settlement Option"). In order to exercise the Cash Settlement Option, the Issuer shall provide notice of the exercise of the Cash Settlement Option (the "Cash Settlement Notice") to the relevant Bondholder or the Trustee (as the case may be) as soon as practicable but not later than the fifth business day following the date of delivery of the Exchange Notice (the "Cash Settlement Notice Date"). The Cash Settlement Notice must specify the pro rata share of the Exchange Property in respect of which the Issuer will make a cash payment in the manner described in this Condition 4(A)(ii). The Issuer shall pay the Cash Settlement Amount no later than five business days from the date of the determination of the Cash Settlement Amount, and in any case, no later than 15 business days following the Cash Settlement Notice Date. If the Issuer exercises its Cash Settlement Option in respect of Bonds held by more than one Bondholder which are to be exchanged on the same Exchange Date, the Issuer shall make the same proportion of cash and pro rata share of the Exchange Property available to such exchanging Bondholders.

"Cash Settlement Amount" means the product of (i) the pro rata share of the Exchange Property otherwise deliverable upon exercise of the Exchange Right in respect of the Bond(s) to which the Exchange Notice applies, and in respect of which the Issuer has elected the Cash Settlement Option and (ii) the Cash Equivalent (as defined below). For the purposes of payments of amounts under the Cash Settlement Option, the Cash Settlement Amount shall, if necessary, be converted into Hong Kong dollars (at the prevailing spot rate at which The Hongkong and Shanghai Banking Corporation sells Hong Kong dollars) on the applicable Cash Settlement Notice Date.

"Cash Equivalent" means an amount in Hong Kong dollars equal to the aggregate of:

(1) the average value of publicly traded Securities (as defined in Condition 7(B)) included in the Exchange Property, for 10 consecutive Trading Days commencing from and including the Cash Settlement Notice Date (provided that if no transaction in respect of the Securities takes place on any such Trading Day, that Trading Day shall be excluded from the 10 consecutive Trading Day period for the purposes of such calculation); and

(2) the average value of all other assets and of publicly traded Securities included in the Exchange Property, for which a value cannot be determined pursuant to (1) above, for 10 consecutive Trading Days commencing from and including the Cash Settlement Notice Date, which shall be deemed to be the average value for such period, as certified by an international merchant bank (in the case of Securities) or independent appraiser (in the case of other assets (other than cash)) of international repute (selected by the Issuer and approved in writing by the Trustee), each acting as an expert; and

(3) the average value of any cash included in the Exchange Property, for 10 consecutive Trading Days commencing from and including the Cash Settlement Notice Date, which shall be deemed to be the average cash amount for such period.

(B) ***Exchange Period***

The Exchange Right in respect of any Bond shall be exercisable at any time, subject to applicable laws and regulations and save as provided in this Condition 4 and in Condition 6, on and after 23 March 2004 and up to the close of business (at the place where the Certificate representing such Bond is deposited in connection with the exercise of the Exchange Right) on 6 March 2009 (or if such date shall not be a Business Day at such place, on the immediately preceding Business Day at such place) (such period being called the "Exchange Period").

Subject to Condition 5(J), the Exchange Right in respect of any Bond in relation to which the conditions required for exchange have not been satisfied by the relevant Bondholder by the end of the eighth day (or, if such date shall not be a Business Day at such place where the certificate representing such Bond may be delivered in connection with the exercise of the Exchange Right, on the immediately preceding Business Day at such place) prior to any date for redemption thereof pursuant to Condition 7(B) below shall, save as provided below, thereupon terminate.

The Exchange Right of a Bondholder with respect to any Bond becoming declared immediately due and payable following an Event of Default and in respect of which the conditions required for exchange have not been satisfied by the relevant Bondholder by the end of the fourteenth day (or, if such date shall not be a Business Day at such place where the certificate representing such Bond may be delivered in connection with the exercise of the Exchange Right, on the immediately preceding Business Day at such place) (the "Expiry Date"), following that upon which notice (specifying the Expiry Date) is given to Bondholders pursuant to Condition 14 below by the Issuer or the Trustee specifying that the Bonds have become immediately due and payable pursuant to Condition 10 below shall, save as provided below, thereupon terminate.

Notwithstanding the foregoing, if there is default in making due payment of the redemption monies in respect of any Bond, the Exchange Right in respect thereof shall extend up to and including the close of business (in the place where the relevant certificate is deposited) on the date falling six days after the date on which notice shall have been duly given in accordance with Condition 14 below that such payment has been received by the Principal Paying Agent or the Trustee (or, if such date shall not be a Business Day at such place, on the immediately preceding Business Day at such place).

(C) ***Exchange Notice***

To exercise the Exchange Right attaching to any Bond, the holder thereof shall complete a notice in the then current form obtainable from the specified office of an Exchange Agent (an "Exchange Notice") and deliver such Exchange Notice to the specified office of any Exchange Agent during normal business hours together with the relevant Certificate and any payment required by Condition 4(E).

An Exchange Notice once given shall be irrevocable and may not be withdrawn without the consent in writing of the Issuer. The Issuer, or the Exchange Agent on its behalf, may reject any incomplete or incorrect Exchange Notice. All costs and expenses incurred or caused by an incomplete or incorrect Exchange Notice shall be for the account of the relevant Bondholder.

(D) ***Exercise Date***

The exercise date in respect of a Bond (the "Exercise Date") must fall at a time when the Exchange Right attaching to that Bond is expressed in these Conditions to be exercisable and will be deemed to be the business day in Hong Kong immediately following the date of the surrender of the Certificate in respect of such Bond and due delivery of the relevant Exchange Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Exchange Right or, in the case of an automatic exchange on redemption pursuant to Condition 4(J), the relevant date fixed for redemption.

(E) ***Stamp and other duties and taxes and exchange costs***

Payment of all stamp duty, reserve, income, transfer and registration tax and any other duties and taxes and any brokers' commissions or other stock exchange transaction costs, together with any value added or other tax thereon, arising on exercise of any Exchange Right and/or on the transfer, delivery or other disposition of Exchange Property by, or on behalf of, the Issuer (or the Trustee pursuant to the Trust Deed) to or to the order of the Trustee or the relevant Bondholder payable in or imposed by the British Virgin Islands, Hong Kong or the People's Republic of China, any state or other political sub-division thereof and any other jurisdiction in which the register in respect of any securities or, if appropriate, other property comprising Exchange Property, is located or in which any property comprising Exchange Property is situated, will be made or procured by the Issuer. If the Issuer shall fail to pay, or procure the payment of, any such taxes, duties or costs, the relevant Bondholder shall be entitled to tender and pay the same. The Issuer has, in the Trust Deed, as a separate and independent stipulation covenanted to reimburse each Bondholder in respect of the payment of such taxes, duties and costs and any penalties paid in respect thereof. A Bondholder exercising Exchange Rights must pay to the relevant Exchange Agent any such taxes, duties or costs arising in any other circumstances.

(F) ***Cash payment instructions***

Upon exercise of Exchange Rights, a Bondholder shall, when delivering the relevant Exchange Notice, give directions to the relevant Exchange Agent for payment of any cash sum which such Bondholder is entitled to receive pursuant to these Conditions and which shall (save in the case of any Equivalent Amount payable pursuant to Condition 4(H)) be paid by way of transfer to a Hong Kong Dollar account maintained by the payee with a bank in Hong Kong.

(G) ***Delivery of Exchange Property***

In order to effect delivery of the Exchange Property the Issuer shall take all other necessary action to procure the transfer of such Exchange Property to exchanging Bondholders, all in accordance with prevailing regulations relevant to the transfer of the Exchange Property to exchanging Bondholders. The Issuer shall procure that Shares or other securities comprised in the Exchange Property, if any, are delivered to the Bondholder or its nominee as provided for in the Exchange Notice, or in the name of the Trustee, through the Central Clearing and Settlement System of Hong Kong ("CCASS") to the extent that such Shares or other securities are already held in CCASS and in accordance with the rules and procedures of CCASS, or a certificate(s) (registered in the name of the Bondholder or its nominee as provided for in the Exchange Notice or in the name of the Trustee, as the case may be) for the Exchange Property in registered form or such other evidence of title to Exchange Property, other than cash, to which any Bondholder shall become entitled in consequence of exercising its Exchange Right shall be delivered, in the case of such Shares or other securities not held in CCASS, or despatched at the risk of the relevant Bondholder (but at the Issuer's risk if to be delivered to the Trustee) not later than 14 days after the Exercise Date (or, where appropriate, the date upon which an executed share transfer form or delivery instruction of CCASS from the relevant Bondholder is received by the Principal Exchange Agent (whichever is later)). The Issuer shall procure the payment of such Exchange Property comprising cash in accordance with directions given to the relevant Exchange Agent by the Bondholder as provided above, or the Trustee, as the case may be, not later than 21 days after the relevant Exercise Date.

Bonds which are exchanged will be cancelled by removal of the Bondholder's name from the register of Bondholders on the relevant Registration Date (as defined below). If the Exchange Price is adjusted with effect (retroactively or otherwise) from a date falling on or before the Registration Date of any Shares issued on exchange of a Bond the Bondholder's entitlement to which was arrived at on the basis of the unadjusted Exchange Price, the Issuer will procure that the provisions of this Condition 4(G) shall be applied, mutatis mutandis, to the number of additional Shares (if any) which would have been required to be issued on exchange of such Bond if the relevant adjustment had been given effect to as at the Exercise Date.

The person or persons specified for that purpose will become the holder of record of the number of Relevant Securities (as defined in Condition 6) to be delivered upon exchange with effect from the date he is or they are registered as such in the register of members of the issuer of such Relevant Securities (the "Registration Date"). The Relevant Securities delivered upon exchange of the Bonds will in all respects rank pari passu with the other such Relevant Securities in issue on the relevant Registration Date. Save as set out in these Conditions, a holder of Relevant Securities delivered on exchange of Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

(H) ***Right to dividends***

Subject as provided herein, the Exchange Property to be delivered on exercise of Exchange Rights shall not include any dividends or other income thereon declared or paid by reference to a record date prior to the relevant Exercise Date. Securities comprising Exchange Property delivered pursuant to exercise of Exchange Rights shall rank for dividends or other distributions by reference to any record date in respect of such dividends or distributions falling on or after the relevant Exercise Date. If the record date for the payment of any dividend or other distribution in respect of any Exchange Property to be delivered to an exchanging Bondholder is on or after the Exercise Date in respect of any Bond but before the Registration Date with the effect that such Bondholder or its nominee or the Trustee, as the case may be, is not entitled to such dividend or distribution, the Issuer will pay, or procure the payment to, the exchanging Bondholder or the Trustee, as the case may be,

in lieu of such dividend or distribution, an amount in HK dollars (the "Equivalent Amount") equal to any such dividend or other distribution to which it would have been entitled had it been a holder of record of such Exchange Property on that record date and will make the relevant payment, or procure that such payment is made, to the relevant Bondholder or the Trustee, as the case may be, at the same time as the issuer of the Relevant Securities makes payment of the dividend or other distribution or by the date 21 days after the Exercise Date, if later. The Equivalent Amount shall be paid by means of a HK dollar cheque drawn on a bank in Hong Kong and sent to the address specified in the relevant Exchange Notice.

(I) ***Fractions arising on exchange***

Fractions of Shares will not be issued on exchange and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 16 March 2004, the Issuer will upon exchange of Bonds pay, or procure the payment of, in cash (in Hong Kong dollars by means of a Hong Kong dollar cheque drawn on a bank in Hong Kong) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Exchange Rights as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds HK$100.

If more than one Bond is deposited by any one Bondholder pursuant to any one Exchange Notice, the amount of property to be delivered and any sum payable in respect of fractions shall be calculated on the basis of the aggregate principal amount of Bonds so deposited.

(J) ***Exchange by the Trustee***

Subject as provided in the Trust Deed, the Trustee may, at its absolute discretion and without being responsible for any loss occasioned thereby or by not so doing, within the period which commences on the date which is six days prior to the date fixed for redemption by the Issuer of any of the Bonds and ends at the close of business on the business day in Hong Kong immediately prior to, elect by notice in writing to the Issuer and the Principal Exchange Agent to exercise the Exchange Rights attaching to all (but not some only) of the Bonds outstanding on such date which have not been duly surrendered for redemption by the close of business in Hong Kong on the date of receipt of such notice by the Issuer, as if such Bonds had been exchanged on the eighth day prior to such redemption date, if the Trustee is satisfied or is advised by a leading independent securities firm or bank selected by the Trustee that:

(i) the net proceeds of sale of the Exchange Property deliverable upon such exchange (disregarding any liability (other than a liability of the Trustee) to taxation consequent thereon) and/or any cash amount payable upon exercise, would (when converted, if necessary, into Hong Kong dollars) be likely to exceed the amount of principal and premium (if any) which would otherwise be payable in respect of such Bonds; and

(ii) all (if any) necessary consents have been obtained.

Subject to Condition 4(G), any such Exchange Property (other than cash amounts comprised therein) shall be sold by, or on behalf of, the Trustee, which shall not be liable for any loss occasioned thereby, as soon as practicable and the net proceeds of sale and/or any such cash amounts shall (if necessary, be converted into Hong Kong dollars (at the relevant prevailing spot rate at which The Hongkong and Shanghai Banking Corporation sells Hong Kong dollars) and after deducting therefrom the expenses incurred by the Trustee in connection with the sale and such amount (if any) as the Trustee shall determine to be necessary to indemnify it against any liability to taxation arising from the sale) be paid to the Principal Paying Agent (whose receipt wherefor shall be an absolute discharge to the Trustee) for distribution rateably and equally to the holders of the said unsurrendered Bonds against due surrender of the relevant Certificates in accordance with Condition 8.

In exercising its powers under this Condition 4(J) the Trustee shall have regard to the economic interests of the holders of the said unsurrendered Bonds as a class and to no other considerations.

5 **Exchange Property**

(A) ***Initial Exchange Property***

The Exchange Property will initially comprise 88,321,140 Shares (subject to increase up to a maximum of 103,066,600 Shares if the option to subscribe for Optional Bonds is exercised) and will continue to be owned by the Guarantor, or by a wholly-owned (direct or indirect) subsidiary of the Guarantor, pending delivery, subject to Condition 4(A)(ii), to an exchanging Bondholder. On exercise of Exchange Rights, Bondholders shall, subject to Condition 4(A)(ii), initially be entitled to receive 379 Shares in respect of each HK$10,000 principal amount of Bonds delivered for exchange.

(B) ***Income arising on the Exchange Property***

Dividends and other income and other benefits and rights (including without limitation voting rights) derived from the Exchange Property prior to exchange shall not comprise part of the Exchange Property, and shall, subject to Condition 4(H), belong to the Guarantor, or a wholly-owned (direct or indirect) subsidiary of the Guarantor, and shall not be available on exchange. The Issuer, or a wholly-owned (direct or indirect) subsidiary of the Issuer, will be entitled to exercise the voting rights attaching to the Relevant Securities comprising the Exchange Property on all matters submitted to the shareholders of the issuer of the Relevant Securities.

(C) ***Exchange Price***

The "Exchange Price" will initially be HK$26.381 per Share but will be subject to adjustment in the manner provided in Condition 5(E). As set out in Condition 5(E) the number of Shares forming the Exchange Property may be altered following an adjustment to the Exchange Price, with additional Shares, cash or other property forming part of the Exchange Property (subject as set out below).

(D) ***Exchange Property calculation***

The number of Shares constituting the Exchange Property on a given date shall be calculated by dividing the aggregate principal amount of the Bonds outstanding on that date (excluding for this purpose the nominal value of the Bonds in respect of which the Exchange Right has been exercised by a Bondholder but the relevant Exchange Property has not yet been delivered) by the Exchange Price.

(E) ***Adjustments to the Exchange Price***

The Exchange Price will be subject to adjustment in the following events:

(i) *Consolidation, subdivision or reclassification:* If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification of Shares, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(ii) *Capitalisation of profits or reserves:*

(a) Subject as provided in (b) below, if and whenever Shanghai Industrial shall issue any Shares credited as fully paid to the holders (the "Shareholders") of shares of Shanghai Industrial of the same class as the Shares by way of capitalisation of profits or reserves, other than Shares paid up out of distributable profits or reserves and/or share premium account issued in lieu of the whole or any part of a cash dividend (the "Relevant Cash Dividend"), being a dividend which the Shareholders concerned

would or could otherwise have received (a "Scrip Dividend") and which would not have constituted an Extraordinary Dividend, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

(b) In the case of an issue of Shares by way of a Scrip Dividend the market value of which Shares exceeds 110% of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted an Extraordinary Dividend, by multiplying the Exchange Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the market value of the Shares issued by way of Scrip Dividend in respect of each existing share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an independent merchant bank of international repute selected by the Trustee and acting as an expert shall certify to the Trustee is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares.

(iii) *Extraordinary Dividend*: If and whenever Shanghai Industrial shall pay or make any Extraordinary Dividend (as defined below) to the Shareholders, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the relevant Dividend of which such Extraordinary Dividend forms part by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price (as defined below) per Share on the dealing day immediately preceding the date of the first public announcement of the relevant Dividend or, in the case of a purchase of Shares, on which such Shares are purchased; and

B is the portion of the Fair Market Value (as defined below) of the Extraordinary Dividend attributable to one Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Shares entitled to receive the relevant Dividend of which the Extraordinary Dividend forms part (or, in the case of a purchase of Shares by or on behalf of Shanghai Industrial, by the number of Shares in issue immediately prior to such purchase).

Such adjustment shall become effective on the date on which such Extraordinary Dividend is made or, if later, the first date upon which the Fair Market Value of the Extraordinary Dividend is capable of being determined as provided herein.

As used in this Condition 5(E)(iii):

"Extraordinary Dividend" means the portion determined as set out below of any Dividend charged or provided for in the accounts of Shanghai Industrial for any financial year, if the Fair Market Value of the proposed Dividend per Share, together with the Fair Market Value per Share of the aggregate of any other Dividend or Dividends on the Shares charged or provided for in the accounts of Shanghai Industrial for such financial year (disregarding for such purpose any amount previously determined to be a Extraordinary Dividend in respect of that financial year) exceeds the amount shown below in respect of such financial year:

| **In respect of the financial year ending** | **Amount** |
|---|---|
| | **(HK$)** |
| 31 December 2003 | 0.5085 |
| 31 December 2004 | 0.5746 |
| 31 December 2005 | 0.6493 |
| 31 December 2006 | 0.7337 |
| 31 December 2007 | 0.8291 |
| 31 December 2008 | 0.9369 |

in which case the amount of such Extraordinary Dividend shall be the amount of such excess.

For the purposes of the above, the Fair Market Value of a Dividend shall (subject as provided in paragraph (a) of the definition of "Dividend" below and in the definition of "Fair Market Value" below) be determined as at the date of the first public announcement of the relevant Dividend.

In making any such calculation, such adjustments (if any) shall be made as an independent merchant bank of international repute selected by the Issuer, approved in writing by the Trustee and acting as an expert, considers appropriate to reflect any consolidation or subdivision of any Shares or the issue of Shares by way of capitalisation of profits or reserves, or any like or similar event.

"Dividend" means any dividend or distribution whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation an issue of Shares or other securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

(a) where a cash Dividend is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the payment of a cash Dividend, then for the purposes of this definition the Dividend in question shall be treated as a Dividend of (i) such cash dividend or (ii) the Fair Market Value (on the date of announcement of such Dividend or date of capitalisation (as the case may be) or if later, the date on which the number of Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined)), of such Shares or other property or assets if such Fair Market Value is greater than the Fair Market Value of such cash Dividend;

(b) any issue of Shares falling within Condition 5(E)(ii) shall be disregarded; and

(c) a purchase or redemption of ordinary share capital by Shanghai Industrial shall not constitute a Dividend unless, in the case of purchases of Shares by or on behalf of Shanghai Industrial, the Volume Weighted Average Price per Share (before expenses) on any one day in respect of such purchases exceeds by more than 5% of the Current Market Price per Share either (1) on that day (or if such day is not a dealing day, the immediately preceding dealing day), or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of shareholders of Shanghai Industrial or any notice convening such a meeting of shareholders) has been made of the intention to purchase Shares at some future date at a specified price, on the dealing day immediately preceding the date of such announcement, in which case such purchase shall be deemed to constitute a Dividend to the extent that the aggregate price paid (before expenses) in respect of such Shares purchased by Shanghai Industrial exceeds the product of (i) 105% of the Current Market Price per Share determined as aforesaid and (ii) the number of Shares so purchased.

"Fair Market Value" means, with respect to any property or asset on any date, the fair market value of that property or asset as determined in good faith by an independent merchant bank of international repute (selected by the Issuer and approved in writing by the Trustee) and acting as an expert, provided, that (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an independent merchant bank of international repute (selected by the Issuer and approved in writing by the Trustee) and acting as an expert), the Fair Market Value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded.

"Volume Weighted Average Price" means, in respect of a Share on any dealing day, the order book volume-weighted average price of a Share appearing on or derived from Reuters page 0363.HK or such other source as shall be determined to be appropriate by an independent merchant bank of international repute (selected by the Issuer and approved in writing by the Trustee) and acting as an expert on such dealing day, provided that on any such dealing day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined.

(iv) *Issue of Shares by way of rights:* If and whenever Shanghai Industrial shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 95% of the Current Market Price per Share on the last dealing day preceding the date of the announcement of the terms of the issue or grant, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

(v) *Issue of other securities by way of rights:* If and whenever Shanghai Industrial shall issue any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price per Share on the last dealing day preceding the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an independent merchant bank of international repute selected by the Issuer, approved in writing by the Trustee and acting as an expert, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

(vi) *Issue of Shares other than by way of rights:* If and whenever Shanghai Industrial shall issue (otherwise than as mentioned in Condition 5(E)(iv) above) wholly for cash any Shares (other than Shares issued on the exercise of Exchange Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in Condition 5(E)(iv) above) options, warrants or other rights to subscribe for or purchase Shares in each case at a price per Share which is less than 95% of the Current Market Price on the last dealing day preceding the date of announcement of the terms of such issue, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such issue by the following fraction:

$$\frac{A+B}{C}$$

where:

A is the number of Shares in issue immediately before the issue of such additional Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by Shanghai Industrial of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares.

(vii) *Issue of Shares upon conversion or exchange:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms of such securities themselves falling within this Condition 5(E)(vii), if and whenever Shanghai Industrial or any of its Subsidiaries (otherwise than as mentioned in Condition 5(E)(iv), 5(E)(v) or 5(E)(vi) above), or (at the direction or request of or pursuant to any arrangements with Shanghai Industrial or any of its Subsidiaries) any other company, person or entity shall issue wholly for cash any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by Shanghai Industrial upon conversion, exchange or subscription at a consideration per Share receivable by Shanghai Industrial or the relevant Subsidiary which is less than 95% of the Current Market Price on the last dealing day preceding the date of announcement of the terms of issue of such securities, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such issue by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such issue;

B is the number of Shares which the aggregate consideration receivable by Shanghai Industrial for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

(viii) *Modification of rights of conversion or exchange:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 5(E)(vii) above (other than in accordance with the terms applicable to such securities) so that the consideration per Share receivable by Shanghai Industrial or the relevant Subsidiary is less than 95% of the Current Market Price on the last dealing day preceding the date of announcement of the proposals for such modification, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by Shanghai Industrial for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an independent merchant bank of international repute, selected by the Issuer and approved in writing by Trustee shall, acting as an expert, consider appropriate (if at all) for any previous adjustment under this Condition 5(E)(viii) or Condition 5(E)(vii) above.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(ix) *Offers for Shares:* If and whenever Shanghai Industrial or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with Shanghai Industrial or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally (meaning for these purposes holders of at least 60% of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Exchange Price falls to be adjusted under Conditions 5(E)(iv) to 5(E)(vii) above), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such issue by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price per Share on the last dealing day preceding the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement, as determined in good faith by an independent merchant bank of international repute selected by the Issuer and approved in writing by the Trustee and acting as an expert, of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

(x) *Other events:* If the Issuer or the Guarantor determines (with the prior written approval of the Trustee) that an adjustment should be made to the Exchange Price as a result of one or more events or circumstances not referred to in this Condition 5(E) (even if the relevant event or circumstance is specifically excluded from the operation of all or any of the other relevant provisions of this Condition 5(E)) the Issuer or the Guarantor, as the case may be, shall, at its own expense, request an independent merchant bank of international repute (selected by the Issuer and approved in writing by the Trustee) to determine (acting as experts) as soon as practicable what adjustment (if any) to the Exchange Price is fair and reasonable to take account thereof, and the date on which such adjustment should take effect and upon such determination by such independent merchant bank such adjustment (if any) (provided that the adjustment would result in a reduction in the Exchange Price) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 5(E)(x) if such independent merchant bank are so requested to make such a determination;

provided that where the circumstances giving rise to any adjustment pursuant to this Condition 5(E) have already resulted or will result in an adjustment to the Exchange Price or where any other circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given rise or will give rise to an adjustment to the Exchange Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5(E) as may be advised by an independent merchant bank of international repute (selected by the Issuer and approved in writing by the Trustee) to be in their opinion appropriate to give the intended result.

For the purposes of these Conditions:

"Current Market Price" means in respect of a Share or other security at a particular date the average of the closing quotations published in the Hong Kong Stock Exchange's Daily Quotation Sheet (or the equivalent quotations sheet of such other stock exchange on which the Shares or such other securities may be listed, as the case may be) for one Share or such security for the five consecutive dealing days ending on the dealing day immediately preceding such date or, for the purposes of Condition 4(A)(ii) only, ending on such date; provided that if at any time during the said five dealing days the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

(x) if the Shares to be issued or, as the case may be, delivered do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; and

(y) if the Shares to be issued or, as the case may be, delivered rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

provided further that if the Shares on each of the said five dealing days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued or, as the case may be, delivered do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share.

Where more than one event which gives or may give rise to an adjustment to the Exchange Price occurs within such a short period of time that in the opinion of the independent merchant bank of international repute (selected by the Issuer and approved in writing by the Trustee), the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such merchant bank to be in their opinion appropriate in order to give such intended result.

If any doubt shall arise as to the appropriate adjustment to the Exchange Price, a certificate of such merchant bank shall be conclusive and binding on all concerned, save in the case of manifest or proven error.

On any adjustment, the resultant Exchange Price, if not an integral multiple of one Hong Kong cent (HK$0.01), shall be rounded down to the nearest integral multiple of one Hong Kong cent. No adjustment shall be made to the Exchange Price where such adjustment (rounded down if applicable) would be less than 1% of the Exchange Price then in effect. Any adjustment not required to be made, and any amount by which the Exchange Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustments shall be given to Bondholders in accordance with Condition 14 as soon as practicable after the determination thereof.

If the Exchange Price shall be adjusted at any time then, subject to the terms of the Trust Deed and as provided below, such additional number of Shares as would be required to be added to the Exchange Property to allow the outstanding Bonds (including, for these purposes, such of the Bonds to which the following paragraph applies) to be exchanged fully for Shares at the adjusted Exchange Price shall form part of the Exchange Property.

If the Exercise Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Exchange Price takes retroactive effect pursuant to any of the provisions referred to above and in the Trust Deed and the relevant Exercise Date falls on a date when the relevant adjustment has not yet been reflected in the then current Exchange Price, the Issuer will procure that the provisions of Condition 4(G) shall be applied, mutatis mutandis, to such pro rata share of the Exchange Property as is equal to the excess of such pro rata share of the Exchange Property which would have been required to be delivered on exchange of such Bond if the relevant retroactive adjustment had been given effect as at the said Exercise Date over the pro rata share of the Exchange Property previously delivered pursuant to such exchange, and in such event and in respect of such pro rata share of the Exchange Property references in Condition 4(G) to the Exercise Date shall be deemed

to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively). Accordingly, any Shares forming part of such pro rata share of the Exchange Property shall be deemed to have been delivered at the same time as the Shares forming part of that pro rata share of the Exchange Property previously delivered pursuant to such exchange and shall for all purposes rank pari passu with such previously delivered Shares.

In the case of any Offer or other circumstance as a result of which the Exchange Property is comprised of property other than Shares, the Issuer will forthwith notify the Bondholders of such event in accordance with Condition 14 and shall execute a trust deed supplemental to the Trust Deed which supplemental trust deed will provide for adjustments to the Exchange Price which will be as nearly equivalent as may be practicable to the adjustments provided for in the foregoing provisions of this Condition 5. The Trustee shall be entitled to require such opinions, consents, documents and other matters in connection with the foregoing as it may consider appropriate. The above provisions of this paragraph will apply in the same way to any subsequent Offers or similar circumstances.

(F) ***Calculation of Exchange Price***

For the purpose of any calculation of the consideration receivable pursuant to Conditions 5(E)(vi), 5(E)(vii) and 5(E)(viii) above, the following provisions shall apply:

(i) the aggregate consideration receivable for Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by Shanghai Industrial for any underwriting of the issue or otherwise in connection therewith;

(ii) (a) the aggregate consideration receivable for the Shares to be issued upon the conversion or exchange of any securities shall be deemed to be the consideration received or receivable by Shanghai Industrial for any such securities, (b) the aggregate consideration receivable for the Shares to be issued upon the exercise of rights of subscription attached to any securities shall be deemed to be that part (which may be the whole) of the consideration received or receivable by Shanghai Industrial for such securities which is attributed by Shanghai Industrial to such rights of subscription or, if no part of such consideration is so attributed or the Trustee so requires by notice in writing to the Issuer and to the Guarantor, the fair market value of such rights of subscription as at the date of the announcement of the terms of issue of such securities (as determined in good faith by an independent merchant bank of international repute, selected by the Issuer and approved in writing by the Trustee and acting as an expert), plus in the case of each of (a) and (b) above, the additional minimum consideration (if any) to be received by Shanghai Industrial upon the conversion or exchange of such securities, or upon the exercise of such rights of subscription attached thereto (the consideration in all such cases to be determined subject to the proviso in Condition 5(F)(i)) and (c) the consideration per Share receivable by Shanghai Industrial upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such securities shall be the aggregate consideration referred to in (a) or (b) above (as the case may be) converted into Hong Kong Dollars if such consideration is expressed in a currency other than Hong Kong Dollars at such rate of exchange as may be determined in good faith by an independent merchant bank of international repute, selected by the Guarantor, approved in writing by the Trustee and acting as an expert to be the spot rate ruling at the close of business on the date of announcement of the terms of issue of such securities, divided by the number of Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate.

(G) ***Notice of Change in Exchange Property***

The Issuer shall give notice to the Bondholders in accordance with Condition 14 below of any change in composition of the Exchange Property as soon as reasonably practicable following such change, and shall give such details in writing as the Trustee may reasonably require of the Exchange Property to which the holder of a Bond would be entitled upon exercise of the Exchange Right relative to such Bond following such change.

(H) ***Release from the Exchange Property***

On the Exercise Date or, in the case of an exchange by the Trustee, to or to the order of the Trustee, upon exercise of any Exchange Right, upon the actual redemption of a Bond, the pro rata share of the Exchange Property attributable to the relevant Bond shall cease to be part of the Exchange Property (notwithstanding any election by the Issuer under Condition 4(A)(ii)) and the Exchange Property shall be reduced accordingly.

(I) ***Trustee not obliged to monitor the Shares***

The Trustee shall not be under any duty to (and will not be responsible for any loss arising from any failure by it to) monitor whether any event or circumstance has happened or exists as described in this Condition 5 and unless it has actual knowledge to the contrary may assume that no such event or circumstance has happened or does exist.

(J) ***Trustee may select expert***

In default of the Issuer selecting an independent merchant bank of international repute, when required for the purposes of this Condition 5, the Trustee shall be entitled to select such a bank.

6 **General Offer**

In the event of an Offer for any Relevant Securities, the Issuer or the Guarantor shall, save as provided below, have absolute discretion to accept such Offer or to reject such Offer or, so long as it does so in respect of all its holding (direct or indirect) of Relevant Securities, the Issuer may accept, or cause to be accepted, any alternative consideration offered by the person making such Offer, provided that any such Offer or alternative consideration may not be accepted prior to the Specified Date in respect thereof. If such Offer is accepted (or if the Relevant Securities are subject to compulsory acquisition), then, with effect from the Final Date, the Exchange Property will consist, in whole or in part, of the cash consideration, if any, and any other consideration received for the Relevant Securities acquired under the Offer or pursuant to such compulsory acquisition or any such alternative consideration and the Relevant Securities shall be released from the Exchange Property and the new assets will become comprised in the Exchange Property pursuant to the terms of the Trust Deed. Where any Bondholder has delivered an Exchange Notice in respect of all or any of its Bonds pursuant to Condition 4(C), then, if an Offer is subsequently accepted prior to the delivery of the relevant Exchange Property, the relevant Bondholder shall be entitled to elect that, rather than receive its pro rata share of the Exchange Property, the Issuer shall redeem the Bonds, and, in the case of that election, the Issuer shall redeem the Bonds at their Early Redemption Amount within 10 days of such election.

Notwithstanding the foregoing, the Issuer, or a wholly-owned (direct or indirect) subsidiary of the Issuer, as the case may be, may not, without the written consent of the Trustee, accept, or cause to be accepted, an Offer from a person or company owned or controlled by the Issuer, any subsidiary of the Issuer or any person or company owned or controlled by such subsidiary, or any person or company which owns or controls the Issuer.

In relation to any scheme of arrangement, re-organisation, amalgamation or reconstruction of any company or companies (whether or not involving liquidation or dissolution), the Issuer, or a wholly-owned (direct or indirect) subsidiary of the Issuer, as the case may be, shall at all times be entitled, in relation to any Relevant Securities, to vote on, exercise its rights in respect of, or otherwise participate in, any such scheme of arrangement, re-organisation, amalgamation or reconstruction as it thinks fit.

The Exchange Rights shall be suspended from (i) the Specified Date until the date the acceptance of the relevant Offer is withdrawn or the relevant Offer lapses or the Final Date in relation to the Offer and (ii) the date any vote is cast in relation to any applicable scheme of arrangement, reorganisation, amalgamation or reconstruction which is approved by the required majority until the same is approved or rejected by the relevant judicial or other authorities.

For the purposes of this Condition 6:

"Offer" means an offer to acquire any Relevant Securities, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all holders of the applicable shares or securities or all such holders other than any holder who is, or is connected with, or is or is deemed to be acting in concert with, the person making such offer;

"Specified Date" means, in relation to any Offer, the fourteenth day following that on which such Offer was made or, where such Offer is open for less than 14 days, the last day of such Offer period;

"Relevant Securities" means the Shares or any other securities of a class comprising Exchange Property from time to time;

"Final Date" means, in relation to any Offer, the date such Offer becomes or is declared unconditional in all respects.

In accepting or rejecting any Offer or in voting on, exercising its rights in respect of, or otherwise participating in any scheme of arrangement, reorganisation, amalgamation or reconstruction, it is possible that the Issuer, or a wholly-owned (direct or indirect) subsidiary of the Issuer, as the case may be, may act having regard to its own interests to the exclusion of and contrary to the interests of the Bondholders.

7 **Redemption and Purchase**

(A) ***Final maturity***

Unless previously redeemed or purchased and cancelled or the Exchange Right having been exercised in respect thereof, each Bond will be redeemed on 16 March 2009 (the "Maturity Date") at 109.10% of its principal amount. For the avoidance of doubt, references in these Conditions to "principal" shall, where the context so permits, be deemed to include references to any premium payable thereon.

(B) ***Redemption at the Option of the Issuer***

On or at any time after 16 March 2007 and prior to the Maturity Date, the Issuer may, having given not less than 30 or more than 60 days' notice to the Bondholders, the Trustee and the Principal Paying Agent (which notice will be irrevocable), redeem all or some only of the Bonds at a redemption price equal to the Early Redemption Amount on the date fixed for redemption, provided, however, that no such redemption may be made unless (i) the value of the Exchange Property on each of the 20 consecutive Trading Days, the last of which occurs not more than five Trading Days immediately prior to the date upon which notice of such redemption is given, shall have exceeded 130% of the aggregate principal amount of the Bonds outstanding on such Trading Day; or (ii) prior to the date on which the relevant notice of redemption is given by the Issuer, less than 10% in aggregate principal amount of the Bonds originally issued (including any additional Bonds issued pursuant to the option to increase the principal amount of the Bonds as described in the Trust Deed) is outstanding.

Where:

The term "Trading Day" means a day on which the Hong Kong Stock Exchange is open for business.

The value of the Exchange Property on any Trading Day shall be an amount in Hong Kong dollars equal to the aggregate of:

(i) the value of publicly traded Securities included in the Exchange Property, which shall be deemed to be the Current Market Price of such Securities on such day, provided that if such day is not a Trading Day then the value of such publicly traded Securities shall be the Current Market Price on the immediately preceding Trading Day; and

(ii) the value of all other assets and of publicly traded Securities for which a value cannot be determined pursuant to (i) above included in the Exchange Property, which shall be

deemed to be the value on such day as certified by an international merchant bank (in the case of Securities) or independent appraiser (in the case of other assets (other than cash)) of international repute (selected by the Issuer and approved in writing by the Trustee), each acting as an expert; and

(iii) the value of cash shall be deemed to be the amount thereof.

"Securities" means shares or other securities (including without limitation any options, warrants, convertible bonds, evidence of indebtedness or rights to subscribe or purchase shares or other Securities).

The "Early Redemption Amount" means an amount equal to 100% of the principal amount of the Bond redeemed plus the applicable Redemption Premium. The applicable Early Redemption Amount for each HK$10,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a Semi-annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-annual Date):

Early Redemption Amount = Previous Redemption Amount x $(1+r/2)^{d/p}$

Previous Redemption Amount = the Early Redemption Amount for each HK$10,000 principal amount on the Semi-annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 16 September 2004, HK$10,000);

| **Semi-annual Date** | **Early Redemption Amount** |
|---|---|
| | **(HK$)** |
| 16 September 2004 | 10,087.50 |
| 16 March 2005 | 10,175.77 |
| 16 September 2005 | 10,264.80 |
| 16 March 2006 | 10,354.62 |
| 16 September 2006 | 10,445.22 |
| 16 March 2007 | 10,536.62 |
| 16 September 2007 | 10,628.81 |
| 16 March 2008 | 10,721.82 |
| 16 September 2008 | 10,815.63 |

r = 1.75% expressed as a fraction.

d = number of days from and including the immediately preceding Semi-annual Date (or if the Bonds are to be redeemed on or before 16 September 2004, from and including the Closing Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 180;

"Issue Price" means 100% of the principal amount of the Bonds;

"Redemption Date" means, with respect to any Bond, (i) the date fixed for redemption of such Bond pursuant to a notice of redemption given by the Issuer in accordance with the provisions of the Trust Deed or (ii) the Maturity Date of such Bond if such Bond has been redeemed, purchased and cancelled or exchanged in accordance with its terms prior to the Maturity Date;

"Redemption Premium" means an amount payable pursuant to the Bonds with respect to a redemption of a Bond that will provide a holder who purchased such Bond at the Issue Price on 16 March 2004 a gross compound yield of 1.75% per annum, calculated on a semi-annual basis.

(C) ***Redemption for taxation reasons***

If, as a result of any amendment to or change in the laws or regulations of the British Virgin Islands, Hong Kong or the PRC or of any political subdivision thereof or in the application of any official or generally accepted practice of any authority therein or thereof having the power to tax or in the application of any official or generally accepted interpretation of such laws or regulations which is proposed and becomes effective on or after 18 February 2004, the Issuer or, if the guarantee were called, the Guarantor has or will become obliged to pay, or cause to be paid, any additional amounts in accordance with Condition 9 and the obligation to pay additional amounts cannot be avoided by the use of reasonable measures available to the Issuer, the Issuer may (having given not less than 30 nor more than 60 days' notice in writing to the Trustee and the Bondholders in accordance with Condition 14) redeem all, but not some only, of the Bonds at their Early Redemption Amount, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be required to pay, or cause to be paid, such additional amounts were a payment in respect of the Bonds then due. Prior to the giving of any notice of redemption pursuant to this Condition 7(C), the Issuer shall deliver to the Trustee (who shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be binding on the Bondholders) (i) a certificate signed by two Directors of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such requirement cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion of independent legal or tax advisors of recognised standing to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective).

(D) ***Redemption for Change of Control or Delisting***

(i) *Change of Control*

Following the occurrence of a Relevant Event, the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holders' Bonds on the Relevant Event Put Date (as defined below) at the Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Put Exercise Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 14. The "Relevant Event Put Date" shall be the fourteenth day after the expiry of such period of 60 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Relevant Event Put Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

The Issuer shall give notice to Bondholders in accordance with Condition 14 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 7(D).

A "Relevant Event" occurs when there is either a Guarantor Change of Control or a Shanghai Industrial Change of Control:

A "Guarantor Change of Control" occurs when any person or persons acting together (other than the Shanghai Municipal Government) acquires control of the Guarantor.

A "Shanghai Industrial Change of Control" occurs when the Guarantor and its subsidiaries cease to hold 30% or more of the voting rights of the issued share capital of Shanghai Industrial.

For the purposes of this Condition 7(D):

"control" means the acquisition or holding of more than 50% of the voting rights of the issued share capital of the Guarantor or the right to appoint and/or remove all or the majority of the members of the Guarantor's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

(ii) *Delisting*

If the Shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange, or if applicable, the Alternative Stock Exchange (a "Delisting") each Bondholder shall have the right (the "Delisting Put Right"), at such Bondholder's option, to require the Issuer to redeem all (but not less than all) of such Bondholder's Bonds on the twentieth business day after notice has been given to Bondholders regarding the Delisting or, if such notice is not given, the twentieth business day after the Delisting (the "Delisting Put Date") at their Early Redemption Amount on the Delisting Put Date.

To exercise its rights to require the Issuer to redeem its Bonds, the Bondholder must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent ("Delisting Put Notice") on any business day prior to the close of business at the location of such Paying Agent and which day is not less than ten business days prior to the Delisting Put Date.

A Delisting Put Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds which form the subject of the Delisting Put Notices delivered as aforesaid on the Delisting Put Date.

The Trustee shall not be required to take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred.

(E) ***Optional purchase***

The Issuer, the Guarantor and any of its affiliates may, in accordance with all applicable laws and regulations, at any time purchase Bonds in the open market or otherwise at any price.

(F) ***Cancellation***

All Bonds redeemed or purchased pursuant to this Condition 7 will forthwith be cancelled and may not be reissued or sold.

8 **Payments**

(A) ***Principal***

Payment of principal and premium (if any) will be made by transfer to the registered account of the Bondholder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder if it does not have a registered account. Payments of principal and premium (if any) will only be made against surrender of the relevant Certificate at the specified office of any of the Agents.

(B) ***Registered accounts***

For the purposes of this Condition 8, a Bondholder's registered account means the Hong Kong Dollar account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the register of Bondholders at the close of business on the second business day (as defined below) before the due date for payment, and a Bondholder's registered address means its address appearing on the register of Bondholders at that time.

(C) ***Fiscal laws***

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to Condition 9. No commissions or expenses shall be charged by the Agents to the Bondholders in respect of such payments.

(D) ***Payment initiation***

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder), on the business day preceding the due date for payment, or in the case of principal and premium (if any), if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

(E) ***Delay in payment***

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 8 arrives after the due date for payment.

(F) ***Business day***

In this Condition 8, "business day" means a day on which commercial banks are generally open for business in both Hong Kong and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

If the amount of principal or premium, if any, which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal or premium, if any, in fact paid.

9 **Taxation**

All payments of principal and premium (if any) in respect of the Bonds shall be made without withholding for or deduction of any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or in the British Virgin Islands, Hong Kong or the PRC or any political subdivision thereof or by an authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that any such withholding or deduction in respect of any such payment is required by law, the Issuer or, as the case may be, the Guarantor shall pay, or cause to be paid, such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the holders of Bonds after such withholding or deduction shall equal the amounts which would have been receivable by them had no such withholding or deduction been required except that no Additional Amounts shall be payable in respect of any Bond:

(i) to a holder (or to a third party on behalf of a holder) where such holder is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of such holder having some connection with the British Virgin Islands, Hong Kong or the PRC otherwise than merely by the holding of the Bond; or

(ii) to a holder (or to a third party on behalf of a holder) who would not be liable or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(iii) if the Certificate in respect of such Bond is surrendered (where such surrender is required) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such Additional Amounts on duly presenting the same for payment on the last day of such period of 30 days; or

(iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

For the purposes of these Conditions, the "Relevant Date" in respect of any such payment means the date on which payment becomes due but, if the full amount of the monies payable has not been received by the Principal Paying Agent or by the Trustee on or prior to such due date, the date on which the full amount of such monies has been so received and notice to that effect shall have been given to the Bondholders in accordance with Condition 14 and cheques shall have been despatched or payment made in accordance with Condition 8.

Any reference herein to principal, premium (if any), or any other amount payable in respect of the Bonds shall be deemed to include any Additional Amounts which may be payable under this Condition 9 or under any obligations undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 **Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders, shall give notice to the Issuer that the Bonds are, and they shall accordingly thereby become, immediately due and repayable (subject as provided below), at their Early Redemption Amount, if any of the following events (each an "Event of Default") shall occur and be continuing:

(i) there is failure to pay the principal of or any premium on any of the Bonds when due and such failure continues for a period of seven days; or

(ii) the Issuer fails to give effect to an Exchange Right which has been exercised by a Bondholder in accordance with the terms of these Conditions and such failure continues for a period of 30 days; or

(iii) the Issuer or the Guarantor does not perform or comply with any of its other obligations in the Bonds or the Trust Deed or the Agency Agreement, which default is incapable of remedy (in which event no such notice as is referred to below shall be required) or, if in the opinion of the Trustee it is capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or, as the case may be, the Guarantor by the Trustee; or

(iv) any other present or future indebtedness of the Issuer or the Guarantor or any of its Principal Subsidiaries (as defined below) for or in respect of any bonds, debentures, notes or similar instruments of indebtedness or any other monies borrowed or raised becomes due and payable prior to its stated maturity otherwise than at the option (as the case may be) of the Issuer or the Guarantor or the relevant Principal Subsidiary, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or the Issuer or the Guarantor or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any such indebtedness provided that the aggregate amount of indebtedness and guarantees and indemnities in respect of which one or more events mentioned above have occurred (the "default amount") equals or exceeds US$15,000,000 or its equivalent in any other currency (such equivalent to be determined, in each case, by the Trustee) provided that the provisions of this paragraph (iv) shall not apply to any alleged default if the Issuer or the Guarantor or the relevant Principal Subsidiary, as the case may be, demonstrates to the satisfaction of the Trustee that it is contesting the matter in good faith; or

(v) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or any part of the property, assets or revenues of the Issuer or the Guarantor or any of its Principal Subsidiaries and is not discharged or stayed within 45 days; or

(vi) the Issuer or the Guarantor or any of its Principal Subsidiaries is insolvent or bankrupt or unable to pay its debts as and when they fall due or the Issuer or the Guarantor or any of its Principal Subsidiaries shall initiate or consent to proceedings relating to itself under any

applicable administration, bankruptcy, composition or insolvency law or scheme of arrangement while insolvent (except, for the avoidance of doubt, for the purposes of a dissolution or winding-up permitted under paragraph (vii)) or make a general assignment for the benefit of, or enter into any composition with, its creditors; or

(vii) an order is made (and not stayed) or an effective resolution passed for the winding-up or dissolution of the Issuer or the Guarantor or any of its Principal Subsidiaries, or any such entity ceases or threatens to cease to carry on all or substantially all or (other than as a result of a disposal on arm's length terms or with respect to a part of such entity's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three years immediately prior to the day on which this paragraph operates) a material part of its business or operations, except (a) for the purposes of or pursuant to and followed by a consolidation or amalgamation with or merger into the Issuer or the Guarantor or any other Subsidiary, (b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than as described in (a) above) the terms of which shall have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Bondholders or (c) by way of a voluntary winding-up or dissolution where there are surplus assets in such entity and such surplus assets attributable to the Issuer and/or the Guarantor and/or any other Subsidiary are distributed to the Issuer and/or the Guarantor and/or any such other Subsidiary; or

(viii) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or substantially all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three years prior to the day on which this paragraph operates) a material part of the assets of the Issuer, the Guarantor or any of its Principal Subsidiaries; or

(ix) an encumbrancer takes possession or a receiver is appointed of the whole or part of the assets or undertaking of the Issuer, the Guarantor or any of its Principal Subsidiaries; or

(x) proceedings shall have been initiated (that is, issued and served) against the Issuer, the Guarantor or any of its Principal Subsidiaries under any applicable administration, bankruptcy, composition or insolvency law or scheme of arrangement while insolvent and such proceedings shall not have been discharged or stayed within a period of 60 days; or

(xi) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or the Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds or the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds or, the Trust Deed, admissible in evidence in the courts of Hong Kong, the PRC, England or the United States of America is not taken, fulfilled or done by the requisite time or, if in the opinion of the Trustee such situation is capable of remedy, within 30 days of the time when the Issuer becomes (or ought reasonably to have become) aware of the same; or

(xii) it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed or the Agency Agreement; or

(xiii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs;

provided that:

(a) an event specified in paragraphs (v) or (ix) above shall not be an Event of Default unless it involves a part of the property, assets, revenues, businesses or operations (as the case may be) which is material (in the opinion of the Trustee) in the context of the business and operations of the Issuer, the Guarantor or such Principal Subsidiary, as the case may be; and

(b) in the case of any such event other than one described in paragraphs (i) and, insofar as they relate to the Issuer, the Guarantor or Shanghai Industrial, (vi), (vii) and (viii), the Trustee shall have certified that such event is materially prejudicial to the interests of the Bondholders.

If the Bonds shall be declared due and repayable as a result of or in connection with a failure by the Issuer to comply with its obligations upon and in respect of an exercise of Exchange Rights by a Bondholder or by the Trustee, each Bond shall be repayable at an amount equal to the value (as defined in Condition 7(B)) of the pro rata share of the Exchange Property which would have been deliverable on exchange had the date of such declaration been the Exchange Date or, if higher, the Early Redemption Amount of the Bond and references in these Conditions and the Trust Deed to the principal amount of the Bonds shall, unless the context otherwise requires, include such amount.

As used in this Condition 10, "Principal Subsidiary" means at any time Shanghai Investment Holdings Limited, Shanghai Industrial Holdings Limited and any Subsidiary of the Guarantor:

(a) whose profits before taxation and extraordinary items ("pre-tax profit") attributable to the Guarantor (consolidated in the case of a Subsidiary which itself has subsidiaries), as shown by its latest audited profit and loss account are at least 10%, of the consolidated pre-tax profit as shown by the latest published audited consolidated profit and loss account of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of associated companies and after adjustments for minority interests; or

(b) whose turnover or (in the case of a Subsidiary which has subsidiaries) consolidated turnover attributable to the Guarantor, as shown by its latest audited profit and loss account is at least 10%, of the sum of (x) the consolidated turnover as shown by the latest published audited consolidated profit and loss account of the Guarantor and its Subsidiaries and (y) the Guarantor and its consolidated Subsidiaries' share of the turnover (consolidated in the case of a Subsidiary which itself has subsidiaries) (as shown by its latest audited profit and loss account) of each Subsidiary whose accounts are not consolidated with the accounts of the Guarantor and after adjustment for minority interests; or

(c) whose gross assets or (in the case of a Subsidiary which has subsidiaries) gross consolidated assets attributable to the Guarantor, as shown by its latest audited balance sheet are at least 10%, of the amount which equals the amount included in the gross consolidated assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries as being represented by the investment of the Guarantor in each Subsidiary whose accounts are not consolidated with the accounts of the Guarantor and after adjustment for minority interests;

provided that, in relation to (a), (b) and (c) above:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Guarantor or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, total assets of the Guarantor and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Guarantor and reviewed by the Auditors (as defined in the Trust Deed) for the purposes of preparing a certificate thereon to the Trustee;

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor and reviewed by the Auditors for the purposes of preparing a certificate thereon to the Trustee; and

(iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraph (a) above.

11 **Prescription**

Claims in respect of principal and premium (if any) or other sums payable hereunder will be prescribed unless made within ten years from the relevant date in relation thereto.

12 **Replacement of Certificates**

If any Certificate is mutilated, defaced, lost, stolen or destroyed it may be replaced at the specified office of the Registrar or any Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, security and indemnity as the Issuer may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13 **Enforcement**

At any time after the Bonds shall have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer, as it may think fit to enforce repayment of the Bonds together with premium (if any), but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure shall be continuing.

14 **Notices**

Notices to Bondholders shall be validly given if (i) mailed to them at their respective addresses in the Register and (ii) so long as the Bonds are listed on the Hong Kong Stock Exchange, published in a newspaper of general circulation in Hong Kong approved by the Trustee, currently expected to be the *South China Morning Post*. Any such notice shall be deemed to have been given on the first date on which both conditions are met.

15 **Meetings of Bondholders, Modification and Waiver and Substitution**

(A) ***Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including any modification of, or arrangement in respect of, these Conditions or of the provisions of the Trust Deed. Meetings of Bondholders convened for the purpose of amending certain terms concerning, inter alia, the amounts payable on any date for redemption of the Bonds, the currency of payment of the Bonds and the Exchange Rights require a quorum of two-thirds (or, at any adjourned meeting, one-third) in principal amount of the Bonds outstanding and a majority of not less than two-thirds of the votes cast. Any resolution duly passed at any such meeting will be binding on all Bondholders, whether present or not.

(B) ***Modification and Waiver by Trustee***

The Trustee may, without the consent of the Bondholders:

(i) agree to any alteration of the provisions of the Trust Deed, the Agency Agreement or the Bonds which, in the opinion of the Trustee, is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Bondholders; and

(ii) waive or authorise any breach or proposed breach by the Issuer or the Guarantor of the provisions of the Trust Deed, the Agency Agreement or the Bonds, or determine that the occurrence of any Event of Default shall not be treated as such, provided that, in the opinion of the Trustee, such waiver, authorisation or determination is not materially prejudicial to the interests of the Bondholders.

Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified by the Issuer to the Bondholders as soon as possible.

(C) ***Substitution***

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds.

(D) ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 15) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

16 **Agents and Registrar**

The names of the initial Agents and their specified offices are set out below. The Issuer reserves the right, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent or to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) when necessary, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Directive on the taxation of savings implementing the provisions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform, to such Directive; (ii) a Principal Paying Agent and a Principal Exchange Agent and (iii) a Registrar. Any such termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 60 nor less than 45 days' notice thereof shall have been given to the Bondholders in accordance with Condition 14 above.

## 17 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment or taking steps to enforce the Exchange Rights unless indemnified to its satisfaction. The Trustee has no responsibility for delivery of Exchange Property to Bondholders nor for the validity or value of the Exchange Property nor for any insufficiency of the Exchange Property resulting from the Trustee or the Issuer being liable for tax in respect of the Exchange Property. The Trust Deed absolves the Trustee from responsibility for loss of the Exchange Property by theft or otherwise. The Trustee has no obligation to insure the Exchange Property. The Trustee is entitled to enter into business transactions with the Issuer or the Guarantor or any entity related to either of them without accounting for any profit.

## 18 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 18 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides and for appropriate adjustments to be made to the composition of the Exchange Property.

## 19 Governing Law and Submission to Jurisdiction

The Trust Deed, the Agency Agreement and the Bonds shall be governed by and construed in accordance with the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Bonds or the Trust Deed ("Proceedings") the Issuer and the Guarantor have in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England. Each of the Issuer and the Guarantor has in the Trust Deed appointed Law Debenture Corporate Services Limited, at its registered office, currently at Fifth Floor, 100 Wood Street, London EC2V 7EX as agent in England to receive service of process in any Proceedings in England. If for any reason such process agent ceases to act as such or no longer has an address in England, each of the Issuer and the Guarantor has agreed to appoint a substitute process agent acceptable to the Trustee and to notify Bondholders of such appointment.

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Right of Third Parties) Act 1999.

# THE GLOBAL CERTIFICATE

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "Conditions" or the "Terms & Conditions") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

**Meetings**

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each HK$10,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

**Cancellation**

Cancellation of any Bond by the Issuer following its redemption, exchange or purchase by the Issuer will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

**Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

**Exchange**

Subject to the requirements of Euroclear and Clearstream (or any Alternative Clearing System), the Exchange Rights attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation thereof to or to the order of the Principal Agent of one or more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Principal Agent together with the relevant Exchange Notice(s) shall not be required. The exercise of the Exchange Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

**Payment**

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

**Notices**

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

**Bondholder's Redemption**

The Bondholder's redemption options in Condition 7(D)(i) and 7(D)(ii) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in the Conditions.

**Registration of Title**

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except if either Euroclear or Clearstream (or any Alternative Clearing System on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

**Transfers**

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

**Enforcement**

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

# DESCRIPTION OF THE SHARES

*Set out below is certain information concerning the Shares and a summary of certain provisions of Shanghai Industrial's Articles of Association (the "Articles") and certain other information concerning Shanghai Industrial. Such summary does not purport to be complete and is qualified in its entirety by reference to the full Articles.*

(a) **Alteration of capital**

Shanghai Industrial may from time to time by ordinary resolution increase the capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe.

Except so far as otherwise provided by the conditions of issue or by the articles of association, any capital raised by the creation of new shares shall be subject to the same provisions with reference to payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise as the shares in the original capital.

Shanghai Industrial may by ordinary resolution (a) consolidate and divide all or any of its capital into shares of larger or smaller amount than its existing shares; (b) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and (c) sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the provisions of the Companies Ordinance.

Shanghai Industrial may by special resolution reduce its capital, any capital redemption reserve fund or any share premium account in any manner authorised and subject to any conditions prescribed by law.

(b) **Modification of rights**

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the articles of association as to general meetings of Shanghai Industrial shall mutatis mutandis apply, but so that the necessary quorum shall be two persons holding or representing by proxy or by authorised representative not less than one-third in nominal value of the issued shares of the class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, that any holder of shares of the class present in person or by proxy or by authorised representative may demand a poll and that at any adjourned meeting of such holders one holder present in person or by proxy or by authorised representative (whatever the number of shares held by him) shall be a quorum.

(c) **Votes of members**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under Section 115 of the Companies Ordinance, shall have one vote, and on a poll every member present in person or by proxy or by duly authorised representative shall have one vote for every fully paid share of which he is the holder and have for every partly paid share of which he is the holder the fraction of one vote equal to the proportion which the nominal amount due and paid up thereon bears to the nominal value of the share (but so that no amount paid up or credited as paid up on a share in advance of calls shall be treated for the purposes of Article 78 of the articles of association as paid up on the share). On a poll a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

A member of Shanghai Industrial, being a recognised clearing house within the meaning of the Securities and Futures (Clearing Houses) Ordinance of Hong Kong or a clearing house recognised by the laws of the jurisdiction in which the shares of Shanghai Industrial are listed or quoted on a stock exchange in such jurisdiction ("the clearing house") may authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of Shanghai Industrial or at any meeting of any class of members of Shanghai Industrial provided that, if more than one person is so authorised, the authorisation must specify the number and class of shares in respect of which each such person is so authorised. A person so authorised shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of Shanghai Industrial.

(d) **Borrowing powers**

The board of Directors may exercise all the powers of Shanghai Industrial to raise or borrow, or to secure the payment of, any sum or sums of money for the purposes of Shanghai Industrial and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock, bonds or other securities of Shanghai Industrial whether outright or as collateral security for any debt, liability or obligation of Shanghai Industrial or of any third party. These powers, as with other provisions in the articles of association, may be altered by a special resolution of Shanghai Industrial.

(e) **Qualification of Directors**

A Director shall not be required to hold any qualification shares. Subject to the provisions of the Companies Ordinance, no Director shall be required to vacate office or be ineligible for re-election or re-appointment as a Director and no person shall be ineligible for appointment as a Director by reason only of his having attained any particular age.

(f) **Directors' remuneration and other benefits**

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by Shanghai Industrial in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Directors may agree or, failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in Shanghai Industrial except in the case of sums paid in respect of Directors' fees.

The board of Directors may grant special remuneration to any Director who, being called upon, shall perform any special or extra services to Shanghai Industrial. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission, participation in profits or otherwise as maybe arranged.

The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged in the business of Shanghai Industrial.

Notwithstanding the above, the remuneration of a Managing Director, Joint Managing Director, Deputy Managing Director or other Executive Director or a Director appointed to any other office in the management of Shanghai Industrial shall from time to time be fixed by the board of Directors and maybe by way of salary, commission, participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement)and allowances as the board of Directors may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director.

The board of Directors may establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any persons who are or were at any time in the employment or service of Shanghai Industrial or of any company which is a subsidiary of Shanghai Industrial or is allied or associated with Shanghai Industrial or with any such subsidiary company, or who are or were at any time directors or officers of Shanghai Industrial or of any such other company as aforesaid, and who hold or who have held any salaried employment or office in Shanghai Industrial or such other company, and the wives, widows, families and dependants of any such persons. The Directors may also establish and subsidise or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well-being of Shanghai Industrial or of any such other company as aforesaid or of any such persons as aforesaid and may make payments for or towards the insurance of any such persons as aforesaid, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. The Directors may do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid. Any Director holding any such employment or office shall be entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(g) **Directors' interests**

A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by Shanghai Industrial or any other company in which Shanghai Industrial may be interested and no such Director shall be liable to account to Shanghai Industrial or the members for any remuneration, profits or other benefits received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by Shanghai Industrial or exercisable by it as director of such other company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them as directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

A Director may hold any other office or place of profit with Shanghai Industrial (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as the Directors may determine and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine and no Director or proposed or intending Director shall be disqualified by his office from contracting with Shanghai Industrial either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to Shanghai Industrial or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall declare the nature of his interest in any such contract or arrangement in which he is interested as required by and subject to the provisions of the Companies Ordinance and the articles of association.

Provided that a Director has disclosed his interests as required by and subject to the provisions of the Companies Ordinance and the articles of association, he may vote and be counted in the quorum on a board resolution in respect of any of the following contracts or arrangements in which he has a material interest:

(i) any contract or arrangement for the giving to such Director of any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of Shanghai Industrial or any of its subsidiaries;

(ii) any contract or arrangement for the giving by Shanghai Industrial of any security or indemnity to a third party in respect of a debt or obligation of Shanghai Industrial or any of its subsidiaries for which the Director has himself guaranteed or given indemnity or security in whole or in part;

(iii) any contract or arrangement by a Director to subscribe for shares, debentures or other securities of Shanghai Industrial in issue or to be issued pursuant to any offer or invitation to members or debenture holders of Shanghai Industrial or any class thereof which does not provide the Director any privilege or advantage not accorded to any other members or debenture holders of Shanghai Industrial or any class thereof or to the public or any sections thereof;

(iv) any contract or arrangement concerning an offer of shares or debentures or other securities of or by Shanghai Industrial or any other company which Shanghai Industrial may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(v) any contract or arrangement in which the Director is interested in the same manner as other holders of shares, debentures or other securities of Shanghai Industrial by virtue only of his interest in shares or debentures or other securities of Shanghai Industrial;

(vi) any contract, arrangement or proposal concerning any other company in which the Director is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that he, together with any of his associates, is not beneficially interested in 5%, or more of the equity share capital of such company (whether his interest is derived through any third company) or of the voting rights available to members of such company;

(vii) any proposal or arrangement concerning the benefit of employees of Shanghai Industrial or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of Shanghai Industrial or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates; or

(viii) any proposal or arrangement concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by Shanghai Industrial to, or for the benefit of employees of Shanghai Industrial or of any of its subsidiaries under which the Director may benefit.

Subject to the above, a Director shall not vote (nor be counted in the quorum) on any board resolution in respect of any contract or arrangement in which he is to his knowledge materially interested. Shanghai Industrial may by ordinary resolution ratify any transaction not duly authorised by reason of a contravention of the articles of association provided that no Director who is materially interested in such transaction, together with any of his associates, shall vote thereon in respect of any shares in Shanghai Industrial in which they are interested.

In so far as it is required by the Listing Rules of the Hong Kong Stock Exchange, a Director shall not vote (nor be counted in the quorum) on any resolution of the shareholders in respect of any contract or arrangement in which he is to his knowledge materially interested but this prohibition (a)shall not apply to any of the matters specified as (i) to (viii) inclusive above; and (b) is also subject to any waiver which may be granted by the Hong Kong Stock Exchange.

A general notice to the board of Directors by a Director that he is to be regarded as interested in any contract or arrangement which may be made with a specified person, firm or corporation after the date of such notice shall be a sufficient declaration of interest in relation to any contract or arrangement so made, provided that no such notice shall be of effect unless either it is given at a meeting of the Directors or the Director takes reasonable steps to ensure that it is brought up and read at the next meeting of the Directors after it is given.

Any Director may act by himself or his firm in a professional capacity for Shanghai Industrial, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director, provided that a Director or his firm shall not act as auditors of Shanghai Industrial.

(h) **Dividends**

Shanghai Industrial in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the board of Directors.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid-up or credited as paid on the shares in respect whereof the dividend is paid but no amount paid or credited as paid on a share in advance of calls shall be treated for this purpose as paid-up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid-up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly. The board of Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to Shanghai Industrial on account of calls, instalments or otherwise in relation to the shares of Shanghai Industrial.

The board of Directors may retain any dividends or other moneys payable on or in respect of a share upon which Shanghai Industrial has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

The Directors may from time to time pay to the members such interim dividends as appear to the board of Directors to be justified by the profits of Shanghai Industrial. The board of Directors may also pay half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if the board of Directors is of the opinion that the profits of Shanghai Industrial justify the payment.

Whenever the board of Directors or Shanghai Industrial in general meeting have resolved that a dividend be paid or declared, the board of Directors may further resolve (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment or (b) that the members entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the board of Directors may think fit. In addition, Shanghai Industrial may, upon the recommendation of the board of Directors, by special resolution resolve in respect of any particular dividend of Shanghai Industrial that a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment. Whenever the Directors or Shanghai Industrial in general meeting have resolved that a dividend be paid or declared, the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board of Directors for the benefit of Shanghai Industrial until claimed and Shanghai Industrial shall not be constituted a trustee in respect thereof for any profit or benefit derived therefrom. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Directors and shall revert to Shanghai Industrial. Shanghai Industrial may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(i) **Transfer of Shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the Directors may accept and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board of Directors may approve from time to time. All instruments of transfer must be left at the registered office or at such other place as the board of Directors may appoint.

The instrument of transfer of any share shall be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. Nothing in the articles of association shall preclude the board of Directors from recognising a renunciation of the allotment or provisional allotment of any shares by the allottee in favour of some other person.

The board of Directors may in their absolute discretion and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom they do not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and they may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid-up share) on which Shanghai Industrial has a lien. The Directors shall not register a transfer to an infant or to a person of unsound mind or under any other legal disability.

The board of Directors may also decline to recognise any instrument of transfer unless (a) a fee of such maximum sum as the Hong Kong Stock Exchange may determine to be payable or such lesser sum as the board of Directors may from time to time require is paid to Shanghai Industrial for registering any transfer or other document relating to or affecting the title to the shares involved or for otherwise making an entry in the register relating to such share; (b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (c) the instrument of transfer is in respect of only one class of share; (d) the shares concerned are free of any lien in favour of Shanghai Industrial; and (e) the instrument of transfer is properly stamped.

If the Directors shall refuse to register a transfer of any share, they shall, within two months after the date on which the transfer was lodged with Shanghai Industrial, send notice of such refusal as required by Section 69 of the Companies Ordinance.

Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled and shall forthwith be cancelled accordingly, and a new certificate shall be issued without charge to the transferee in respect of the shares transferred to him and if any of the shares included in the certificate so given up shall be retained by the transferor a new certificate in respect thereof shall be issued to him without charge. Shanghai Industrial shall also retain the transfer.

The registration of transfers may be suspended and the register closed at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares, provided always that such registration shall not be suspended or the register closed for more than 30 days in any year or, if Shanghai Industrial in general meeting approves, 60 days in any year.

(j) **Repurchase of Shares**

So far as it is permitted by the Companies Ordinance or any other ordinance and is made in accordance with any relevant rules or regulations issued by the Hong Kong Stock Exchange or the Securities and Futures Commission from time to time, Shanghai Industrial is authorised by its articles to repurchase its shares.

(k) **Procedure on Liquidation**

If Shanghai Industrial shall be wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the Shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the Shares held by them respectively, but all subject to the rights of any Shares which may be issued on special terms or conditions.

# TAXATION

*The following summary of certain British Virgin Islands and Hong Kong tax consequences of the purchase, ownership and disposition of Bonds and Shares is based upon applicable laws, regulations rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Bonds and Shares.*

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

**British Virgin Islands**

At the date of this Offering Circular the Issuer is exempt from all provisions of the Income Tax Act of the British Virgin Islands, including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the Issuer to persons who are not residents in the British Virgin Islands. Capital gains realised with respect to any Shares, debt obligations or other securities of the Issuer by persons who are not residents in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not residents in the British Virgin Islands with respect to any Shares, debt obligations or other securities of the Issuer.

**Hong Kong**

***Withholding Tax***

No withholding tax in Hong Kong is payable on payments of principal (including Early Redemption Amounts) in respect of the Bonds or in respect of any gains arising from the sale of the Bonds. No tax is payable in Hong Kong by withholding or otherwise in respect of payments of dividends on the Shares.

***Profits Tax***

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal, exchange or redemption of the Bonds where such sale, disposal, exchange or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Shares where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue, transfer (for so long as the register of holders of the Bonds is maintained outside Hong Kong) or exchange of a Bond.

Hong Kong stamp duty is payable on any purchase and sale of Shares, including on an exchange of Bonds, for as long as the transfer thereof is required to be registered in Hong Kong. The duty is charged on each of the purchaser and the seller at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a sale or purchase of Shares registered on a Hong Kong share register is effected by a person who is not resident in Hong Kong and any stamp duty payable thereon is not paid, the relevant instrument of transfer (if any) is chargeable with such duty in default and the transferee is liable to pay such duty.

***Estate Duty***

No estate duty is payable under the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) (the "Estate Duty Ordinance") in respect of Bonds the register in respect of which is maintained outside Hong Kong.

Shares listed on the HKSE are required by the rules of the HKSE to be recorded on a share register in Hong Kong. The effect of this HKSE requirement may be that the Shares are Hong Kong property for the purposes of the Estate Duty Ordinance and accordingly Hong Kong estate duty may be payable in respect of the Shares on the death of any person (wherever the person resides or is domiciled).

# SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with HSBC Bank plc and ABN AMRO Bank N.V. and NM Rothschild & Sons Limited, each trading for the purposes of the Offering as ABN AMRO Rothschild (together, the "Managers"), dated 18 February 2004 (the "Subscription Agreement"), pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Managers, and the Managers severally agreed to subscribe for, the aggregate principal amount of the Bonds, at a purchase price equal to the issue price less a combined management and underwriting commission and selling concession and other expenses in aggregate of up to 2% of the principal amount of the Bonds subscribed.

The issuer has granted to the Lead Manager an option which can be exercised, in whole or in part on one occasion only, on or before the 30th day following 16 March 2004 to subscribe for a further HK$389,000,000 in aggregate principal amount of Bonds at the issue price less the combined management and underwriting commission and selling concession referred to above.

Each of the Issuer and the Guarantor has agreed in the Subscription Agreement with the Managers that the Issuer and the Guarantor will not (and the Guarantor will procure that none of its subsidiaries and Shanghai Industrial, will), for a period of 90 days after the Closing Date (and, if any Optional Bonds are issued, for a period of 90 days after the last closing date in respect of the Optional Bonds), without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares save for Shares delivered pursuant to the exchange provisions of the Bonds or pursuant to any obligations in existence at the date of the Subscription Agreement, which have been disclosed to the Lead Manager.

The Subscription Agreement provides that the Issuer and the Guarantor will indemnify the Managers against certain liabilities in connection with the offer and sale of the Bonds, including liabilities under the Securities Act. The Subscription Agreement provides that the respective several obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

In connection with the offering, the Lead Manager is permitted to engage in certain transactions that stabilise, maintain or otherwise affect the price of the Bonds and the Shares. Such transactions may consist of sales, bids or purchases for the purpose of pegging, fixing or maintaining the price of the Bonds and the Shares.

The Lead Manager or its affiliates may purchase the Bonds for its own account and enter into transactions, including (i) credit derivatives including asset swaps, repackaging and credit default swaps relating to the Bonds and/or Shanghai Industrial's securities or (ii) equity derivatives and stock loan transactions relating to the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counter-parties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counter-parties may also be purchasers of the Bonds).

The Lead Manager may create a short position in the Bonds in connection with this offering. If the Lead Manager creates a short position in the Bonds in connection with this offering (i.e., if it sells a greater principal amount of Bonds than the principal amount of Bonds set forth on the cover page of this Offering Circular), the Lead Manager may reduce that short position by purchasing Bonds in the open market.

In general, purchases of a security for the purpose of stabilisation could cause the price of the security to be higher than it might otherwise be in the absence of such purchases. If these activities are commenced, they may be discontinued by the Lead Manager at any time. These transactions may be effected in the over-the-counter market or otherwise.

None of the Issuer, the Guarantor nor the Lead Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds or the Shares. In addition, none of the parties nor the Lead Manager makes any representation that the Lead Manager will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice. The Bonds are a new issue of securities with no established trading market. Application has been made to list the Bonds as selectively marketed securities on the HKSE. However, no assurance can be given as to the liquidity of any trading market for the Bonds. Moreover, the Guarantor does not intend to list the Bonds on any U.S. national securities exchange.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. The Managers are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in this Offering Circular or any amendment or supplement thereto.

The Bonds, the Guarantee and the Shares to be delivered upon exchange of the Bonds have not been and will not be registered under the Securities Act or any state securities laws and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds, the Guarantee and the Shares to be delivered upon exchange of the Bonds may not be offered, sold or delivered within the United States. Each of the Managers has agreed that it will not offer, sell or deliver any Bonds within the United States.

The Bonds are being offered and sold outside the United States in reliance on Regulation S and in accordance with applicable law. Terms used above have the meanings assigned to them in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds or the Shares to be delivered upon exchange of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Bonds have not been and, prior to the expiry of a period of six months from the issue date of the Bonds, may not be offered or sold to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; there may only be communicated or caused to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and all applicable provisions of the FSMA must be complied with with respect to anything done in relation to the Bonds in, from or otherwise involving the United Kingdom.

No Bonds may be offered or sold to, nor any business of the Issuer carried on with, persons resident in the British Virgin Islands.

The Bonds have not been offered or sold and may not be offered or sold in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong and in addition, there has not been issued and there may not be issued any advertisement, invitation or document relating to the Bonds, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the "MAS") under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly the Bonds may not be offered or sold or be made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

The Bonds may not be offered, sold, transferred or delivered, directly or indirectly, in or from the Netherlands, as part of their initial distribution or as part of any re-offering, and neither this Offering Circular nor any other document in respect of the offering may be distributed in the Netherlands, other than to individuals or legal entities which include, but are not limited to banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

# SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

The audited consolidated financial statements of the Guarantor and Shanghai Industrial have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") which differ in certain significant aspects from those under International Financial Reporting Standards ("IFRS") relevant to the Group's consolidated financial statements as set out below. The organisations that promulgate HKFRS and IFRS have projects ongoing that could have a significant impact on future comparisons such as this. This summary is not intended to provide a comprehensive listing of all existing or future differences between HKFRS and IFRS. Had the Group undertaken to identify the differences specifically affecting their financial statements presented in the Offering Circular, other potentially significant differences may have come to the attention of the Group which are not provided in the following summary.

Accordingly the Group's management can provide no assurance that this summary of certain significant differences between HKFRS and IFRS provides a complete description of all differences which may have a significant impact on the Group's financial statements. No attempt has been made in this summary to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in the financial statements of the Group or the notes thereto.

| HKFRS | IFRS |
|---|---|
| **Leasehold land** | |
| Where leasehold land in the course of development or redevelopment is held for re-sale, it is classified as current asset and as such, are accounted for as inventories. Where leasehold land in the course of development or redevelopment is held for investment or administrative purposes or where no decision has yet been taken to in respect of the usage of such, it is classified as non-current asset. Leasehold land is stated at cost less impairment losses, where appropriate. | Under IAS 17, leasehold land is classified as operating lease or finance lease. The premium paid for such a leasehold represents pre-paid lease payments which are amortised over the lease term in accordance with the pattern of benefits provided. |
| **Investment properties** | |
| Investment properties are revalued annually by qualified valuers of the Group and at least every three years by independent qualified valuers. Surpluses arising on revaluation are taken to the investment property revaluation reserve. Deficits arising on revaluation are first set off against previous surplus and thereafter taken to the income statement. | IAS 40 permits an enterprise to state investment properties either at fair value or at cost less accumulated depreciation and impairment losses. When a fair value model is adopted, IAS 40 does not require fair value to be based on an independent professional valuation. In addition, under IAS 40's fair value model, an investment property is never depreciated. |
| In addition, under SSAP 13, an investment property is required to be depreciated when the unexpired term of the lease is 20 years or less. | All changes in fair value are taken to the income statement. |

| HKFRS | IFRS |
| --- | --- |
| **Revaluation of property, plant and equipment** | |
| Under SSAP 17, an item of property, plant and equipment should either be carried at its cost less accumulated depreciation and impairment losses or at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Subject to the transitional arrangements set out below, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. | The standard under IFRS is consistent with HKFRS, except it does not include the transitional provisions as that in HKFRS. |
| Enterprises which carried property at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations provided that these enterprises do not revalue their property subsequent to 30 September 1995. | |
| **Business combinations** | |
| Under SSAP 30, the identified assets and liabilities recognised should be measured at their fair values as at the date of acquisition. Any minority interest should be stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary. | IAS 22 has a benchmark treatment of allocating the cost of an acquisition whereby the resulting minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiary. IAS 22 also has an allowed alternative treatment of allocating the cost of an acquisition whereby resulting minority interest is stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary. |
| The definition of "subsidiary" to be used by Hong Kong incorporated companies which is dictated by the Hong Kong Companies Ordinance, results in the exclusion from consolidation of certain investees that would be consolidated under IFRS. | |
| **Investment in subsidiaries** | |
| In the company level balance sheet, investments in subsidiaries are recorded at cost less impairment losses. | IAS 27 "Consolidated financial statements and accounting for investment in subsidiaries" permits the equity method in company level financial statements. An investor using the equity method initially records an investment at cost. Subsequently, the carrying amount of the investment is increased to reflect the investor's share of income of the investee and is reduced to reflect the investor's share of losses of the investee or dividends received from the investee. |

| HKFRS | IFRS |
| --- | --- |
| **Deferred tax** | |
| Prior to 1 January 2003, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. | IAS 12 "Income taxes" is consistent in all material respects with SSAP 12 (revised). |
| For financial statements relating to periods beginning on or after 1 January 2003, when SSAP 12 (revised) "Income taxes" has become effective, income tax for the period comprises current and deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised, except temporary differences arising from goodwill not deductible for tax purposes and the initial recognition (other than in a business combination) of other assets or liabilities that affect neither accounting nor taxable profit. | |
| **Investments in securities** | |
| Investments in debt and equity securities, except those held either solely for the purpose of recovering advances or, as investments in subsidiaries, associates or joint ventures, are accounted for as follows: | Under IAS 39, financial assets are divided into four categories, which include held for trading, held-to-maturity investments, loans and receivables originated by the enterprise and available-for-sale. Financial assets are recognised when an enterprise becomes party to the contractual arrangements of an instrument. |
| Held-to-maturity debt securities | |
| Held-to-maturity debt securities are investments in debt securities which the Company has the expressed intention and ability to hold to maturity, and are stated at amortised cost less any provisions for diminution in value. | All the financial assets should be measured at fair value, except loans and receivables originated by the enterprise, held to maturity investments and financial assets that cannot be reliably measured at fair value. These assets should then be measured at amortised cost using the effective interest rate method. |

| HKFRS | IFRS |
| --- | --- |
| Under SSAP 24, all investments in securities other than held-to-maturity securities are either accounted for using "benchmark" or "alternative" treatment and the Group adopts the benchmark accounting. For benchmark treatment, investments in securities will be categorised as follows: | A recognised gain or loss arising from a change in the fair value of a financial asset that is not part of a hedging relationship should be reported as follows: |
| Investment securities | (a) a gain or loss on a financial asset or liability held for trading should be included in net profit or loss for the period in which it arises (in this regard, a derivative should always be considered to be held for trading unless it is a designated hedging instrument); |
| Investment securities are securities which are intended to be held for an identified long-term purpose. | (b) a gain or loss on an available-for-sale financial asset should be either: |
| Investment securities are included in the balance sheet at cost less identified impairment loss. | i. included in net profit or loss for the period in which it arises; or |
| Other investments in securities | ii. recognised directly in equity, through the statement of changes in equity, until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity should be included in net profit or loss for the period. |
| Other investments in securities are those securities which are not classified as held-to-maturity debt securities nor as investment securities, and are stated at fair value at the balance sheet date. Unrealised holding gains or losses arising on revaluation of securities to fair value are dealt with in the income statement. | |
| Investments in securities are recognised as assets from the date on which the Group is bound by the contract which gives rise to them. | For those financial assets carried at amortised cost, a gain or loss is recognised in net profit or loss when the financial asset is derecognised or impaired, as well as through the amortisation process. |
| Transfer of a security between categories of investments is accounted for at fair value. The profit or loss arising from transfers between categories of investments is recognised in income statement. | |
| The profit or loss on disposal is accounted for in the period in which the disposal occurs as the difference between the sales proceeds and the carrying amount of the investments. | |
| **Borrowing costs** | |
| Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to acquisition, construction or production of qualifying assets which necessarily takes a substantial period of time to get ready for their intended use or sale. | IAS 23 has a benchmark treatment of recognising all borrowing costs as expense in the period in which they are incurred. It also permits as an alternative treatment to capitalise borrowing costs in relation to qualifying assets. |

The Group's management has not quantified the effects of the aforementioned differences between HKFRS and IFRS. Accordingly, there can be no assurances that net profit/(loss) and/or shareholders' equity reported in conformity with HKFRS would not be different if determined in conformity with IFRS.

# GENERAL INFORMATION

1 **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 018722801. The International Securities Identification Number for the Bonds is XS0187228019.

2 **Listing of Bonds:** It is expected that dealing will, if permission is granted to deal in and for the listing of the Bonds on the HKSE, commence on or about the date two clear business days after the intended date of publication of the Formal Notice in relation to the Bonds.

3 **Authorisations:** The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds and the Guarantee respectively. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 18 February 2004 and the giving of the Guarantee in respect of the Bonds was authorised by resolutions of the Board of Directors of the Guarantor on 18 February 2004. Listing of the Bonds on the HKSE is conditional upon satisfaction of the requirements of that exchange, including execution of the Trust Deed and the Agency Agreement.

4 **No Material Adverse Change:** Except as disclosed in this Offering Circular there has been no significant change in the financial or trading position of the Guarantor, Shanghai Industrial, the SIIC Group or the SIHL Group since 30 June 2003. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer since its incorporation.

5 **Litigation:** Neither the Issuer, the Guarantor nor Shanghai Industrial or any of their subsidiaries is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Issuer, the Guarantor, Shanghai Industrial, the SIIC Group or the SIHL Group nor is the Issuer, the Guarantor or Shanghai Industrial aware that any such proceedings are pending or threatened.

6 **Available Documents:** Copies of (i) the consolidated accounts of the Guarantor for the years ended 31 December 2001 and 2002; (ii) the latest annual report and consolidated accounts of the Guarantor and Shanghai Industrial; and (iii) the latest unaudited interim consolidated accounts of the Guarantor and Shanghai Industrial may be obtained free of charge, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Guarantor at 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. The Guarantor prepares, and Shanghai Industrial publishes, unaudited consolidated interim financial statements every year for the six months ended 30 June.

7 **Indemnification of the Trustee:** The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the directors of the Guarantor and accompanied by a certificate or report prepared by an internationally recognised firm of accountants to the Guarantor whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants to the Guarantor and whether by reference to a monetary cap or otherwise limited or excluded.

8 **Auditors:** Deloitte Touche Tohmatsu, certified public accountant and independent auditors, have audited, and rendered an unqualified audit report on the consolidated financial statements each of the Guarantor and Shanghai Industrial as at and for each of the years ended 31 December 2001 and 2002. Deloitte Touche Tohmatsu has given and has not withdrawn its written consent for the purposes of paragraph 8(2) of Appendix 1 Part C of the Listing Rules to the issue of this Offering Circular and with references to their audit of the accounts of each of the Guarantor and Shanghai Industrial and their respective subsidiaries for the years ended 31 December 2001 and 2002 and with references to Deloitte Touche Tohmatsu in the form and context in which they appear.

# INDEX TO FINANCIAL STATEMENTS OF THE GUARANTOR

Page

Auditors' Report . . . . . F-2

Audited Financial Statements of the Guarantor as at and for the years ended 31 December 2001 and 2002 . . . . . F-3

Unaudited Consolidated Management Accounts of the Guarantor as at and for the six months ended 30 June 2002 and 2003 . . . . . F-48

TO THE SHAREHOLDERS OF
**SHANGHAI INDUSTRIAL INVESTMENT (HOLDINGS) COMPANY LIMITED**
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages F-3 to F-47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**DELOITTE TOUCHE TOHMATSU**
*Certified Public Accountants*
Hong Kong, 30th May, 2003

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31ST DECEMBER, 2002

| | NOTES | 2002 | 2001 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| Turnover | 4 | 10,375,490 | 9,219,029 |
| Cost of sales | | (7,417,121) | (6,663,452) |
| Service costs | | (166,478) | (122,760) |
| | | 2,791,891 | 2,432,817 |
| Other operating income | 5 | 558,758 | 651,875 |
| Distribution costs | | (689,686) | (579,332) |
| Administrative expenses | | (717,951) | (615,543) |
| Other operating expenses | | (76,272) | (88,170) |
| | | 1,866,740 | 1,801,647 |
| Impairment losses and allowances | 6 | (210,971) | (156,716) |
| Profit from operations | 7 | 1,655,769 | 1,644,931 |
| Gain on disposal of investments | 8 | 74,069 | 149,170 |
| Finance costs | 9 | (654,749) | (878,957) |
| Share of results of | | | |
| Jointly controlled entities | | 151,922 | 278,013 |
| Associates | | 70,775 | 103,263 |
| Profit before taxation | | 1,297,786 | 1,296,420 |
| Income taxes | 10 | (264,812) | (167,314) |
| Profit before minority interests | | 1,032,974 | 1,129,106 |
| Minority interests | | (659,331) | (758,610) |
| Net profit for the year | | 373,643 | 370,496 |

## CONSOLIDATED BALANCE SHEET
## AT 31ST DECEMBER, 2002

| | NOTES | 2002 | 2001 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| NON-CURRENT ASSETS | | | |
| Investment properties | 11 | 1,177,116 | 976,848 |
| Property, plant and equipment | 12 | 4,485,334 | 4,314,763 |
| Properties for development | 13 | 2,802,707 | 2,774,189 |
| Interests in jointly controlled entities | 15 | 2,046,600 | 2,171,248 |
| Interests in associates | 16 | 3,296,388 | 2,236,172 |
| Investments in infrastructure and other development projects | 17 | 5,663,029 | 6,069,809 |
| Investments in securities | 18 | 1,566,253 | 1,671,034 |
| Deposits pledged with financial institutions | | 10,408 | 22,018 |
| Other non-current assets | 19 | 522,234 | 331,021 |
| Goodwill | 20 | 62,265 | 30,510 |
| | | 21,632,334 | 20,597,612 |
| CURRENT ASSETS | | | |
| Inventories | 21 | 898,706 | 666,556 |
| Stock of properties | 22 | 923,932 | 1,311,203 |
| Investments in securities | 18 | 1,507,737 | 528,823 |
| Loans and instalments receivable | | 36,614 | 190,727 |
| Trade and other receivables | | 2,237,487 | 1,485,469 |
| Deposits pledged with financial institutions | | 42,869 | 351,057 |
| Placement of deposits with financial institutions | | 214,953 | — |
| Bank balances and cash | | 5,720,207 | 6,177,730 |
| | | 11,582,505 | 10,711,565 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 2,621,776 | 1,845,461 |
| Sales deposits received | 23 | 93,301 | 671,199 |
| Taxation | | 143,462 | 84,075 |
| Amounts due to minority shareholders | | 162,688 | 243,597 |
| Long-term borrowings — due within one year | 28 | 1,895,358 | 4,505,404 |
| Bank loans and overdrafts | 24 | 3,043,880 | 2,896,224 |
| | | 7,960,465 | 10,245,960 |
| NET CURRENT ASSETS | | 3,622,040 | 465,605 |
| | | 25,254,374 | 21,063,217 |

| | NOTES | 2002 | 2001 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| CAPITAL AND RESERVES | | | |
| Share capital | 25 | 10,000 | 10,000 |
| Reserves | 26 | 8,380,030 | 8,022,978 |
| | | 8,390,030 | 8,032,978 |
| MINORITY INTERESTS | | 7,492,253 | 6,541,721 |
| NON-CURRENT LIABILITIES | | | |
| Long-term borrowings — due after one year | 28 | 9,274,808 | 6,394,530 |
| Deferred taxation | 29 | 97,283 | 93,988 |
| | | 9,372,091 | 6,488,518 |
| | | 25,254,374 | 21,063,217 |

The financial statements on pages F-3 to F-47 were approved and authorised for issue by the Board of Directors on 30th May, 2003 and are signed on its behalf by:

**Wang Rong Feng**
DIRECTOR

**Lu Da Yong**
DIRECTOR

## BALANCE SHEET
## AT 31ST DECEMBER, 2002

| | NOTES | 2002 | 2001 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 384,849 | 413,552 |
| Interests in subsidiaries | 14 | 11,800,254 | 9,185,397 |
| Interests in associates | 16 | 80,100 | 80,100 |
| Investments in securities | 18 | 2,773 | 2,773 |
| Other non-current assets | 19 | 5,148 | — |
| | | 12,273,124 | 9,681,822 |
| CURRENT ASSETS | | | |
| Investments in securities | 18 | — | 78,000 |
| Trade and other receivables | | 55,551 | 123,644 |
| Deposits pledged with financial institutions | | — | 13,306 |
| Bank balances and cash | | 367,115 | 345,371 |
| | | 422,666 | 560,321 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 91,237 | 47,487 |
| Amounts due to subsidiaries | 27 | — | 70,000 |
| Long-term borrowings — due within one year | 28 | 465,600 | 366,600 |
| Bank loans and overdrafts | 24 | 750,249 | 1,039,845 |
| | | 1,307,086 | 1,523,932 |
| NET CURRENT LIABILITIES | | (884,420) | (963,611) |
| | | 11,388,704 | 8,718,211 |
| CAPITAL AND RESERVES | | | |
| Share capital | 25 | 10,000 | 10,000 |
| Reserves | 26 | 3,197,742 | 3,344,463 |
| | | 3,207,742 | 3,354,463 |
| NON-CURRENT LIABILITIES | | | |
| Amounts due to subsidiaries | 27 | 2,088,278 | 2,193,748 |
| Long-term borrowings — due after one year | 28 | 6,092,684 | 3,170,000 |
| | | 8,180,962 | 5,363,748 |
| | | 11,388,704 | 8,718,211 |

**Wang Rong Feng**
DIRECTOR

**Lu Da Yong**
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31ST DECEMBER, 2002

| | Total equity |
|---|---|
| | HK$'000 |
| At 1st January, 2001 | 7,730,213 |
| Surplus on revaluation of investment properties | 6,487 |
| Deficit on revaluation of hotel and guest house | (78,000) |
| Exchange differences arising on translation of financial statements of subsidiaries, jointly controlled entities and associates | (251) |
| Share of other reserves of jointly controlled entities and associates | (348) |
| Net losses not recognised in the consolidated income statement | (72,112) |
| | 7,658,101 |
| Net profit for the year | 370,496 |
| Reserves released/realised on disposal of investments | 4,381 |
| At 31st December, 2001 | 8,032,978 |
| Surplus on revaluation of investment properties | 64,074 |
| Deficit on revaluation of hotel and guest house | (152,000) |
| Exchange differences arising on translation of financial statements of subsidiaries, jointly controlled entities and associates | 15 |
| Share of other reserves of jointly controlled entities and associates | 148 |
| Net losses not recognised in the consolidated income statement | (87,763) |
| | 7,945,215 |
| Net profit for the year | 373,643 |
| Impairment loss on goodwill on consolidation | 7,525 |
| Reserves released/realised on disposal of investments | 63,647 |
| At 31st December, 2002 | 8,390,030 |

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31ST DECEMBER, 2002

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 (restated) |
| OPERATING ACTIVITIES | | |
| Profit from operations | 1,655,769 | 1,644,931 |
| Adjustments for: | | |
| Gain on disposal of investments in development projects | (28,464) | (1,922) |
| Allowances for inventories and stock of properties | 22,998 | 44,996 |
| Deficit on revaluation of a guest house | 10,000 | 10,000 |
| Interest income | (106,453) | (257,870) |
| Dividend income | (169,345) | (147,060) |
| Depreciation and amortisation | 223,439 | 200,869 |
| Negative goodwill arising on acquisition of subsidiaries and associates released | (1,055) | (8,960) |
| Net unrealised holding gain on other securities | (48,816) | (14,766) |
| Gain on disposal of investments in securities (non-current) | (215,941) | (26,557) |
| Gain on disposal of property, plant and equipment | (474) | (1,312) |
| Impairment losses and allowances | 210,971 | 156,716 |
| Operating cash flows before movements in working capital | 1,552,629 | 1,599,065 |
| (Increase) decrease in inventories | (121,188) | 44,282 |
| Decrease (increase) in stock of properties | 407,797 | (270,399) |
| (Increase) decrease in trade and other receivables | (173,260) | 125,970 |
| (Increase) decrease in investments in securities (current) | (1,006,417) | 659,689 |
| Decrease in loans and instalments receivable | 3,282 | 17,693 |
| Increase (decrease) in trade and other payables | 432,798 | (51,918) |
| (Decrease) increase in sales deposits received | (390,982) | 426,969 |
| (Decrease) increase in amounts due to minority shareholders | (45,745) | 13,350 |
| Cash generated from operations | 658,914 | 2,564,701 |
| Dividend received | 169,345 | 147,060 |
| Income taxes paid | (130,349) | (117,768) |
| Income taxes refunded | 9,648 | 2,410 |
| NET CASH FROM OPERATING ACTIVITIES | 707,558 | 2,596,403 |

| | NOTES | 2002 | 2001 |
|---|---|---|---|
| | | HK$'000 | HK$'000 (restated) |
| INVESTING ACTIVITIES | | | |
| Interest received | | 116,433 | 289,572 |
| Distribution from jointly controlled entities received | | 131,087 | 174,617 |
| Dividends from associates received | | 39,807 | 57,673 |
| Proceeds and deposits received from disposal of investments in securities (non-current) | | 52,131 | 455,597 |
| Proceeds from disposal of property, plant and equipment | | 46,003 | 24,611 |
| Proceeds from partial disposal of subsidiaries | | 2,882 | — |
| Proceeds from disposal of jointly controlled entities | | 5,582 | 12,379 |
| Proceeds from disposal of associates | | 6,384 | 9,509 |
| Proceeds from disposal of investments in infrastructure and other development projects | | 194,860 | 2,897 |
| Purchase of investment properties and property, plant and equipment | | (513,088) | (534,160) |
| Purchase of subsidiaries (net of cash and cash equivalents acquired) | 30 | 63,415 | 2,281 |
| Disposal of subsidiaries | 31 | (2,870) | (8,363) |
| Consideration for acquisition of additional interests in subsidiaries | | (71,695) | (64,980) |
| Deposits for acquisition of property, plant and equipment and interest in PRC enterprises | | (22,357) | (238,124) |
| Additions to properties for development | | (51,590) | (57,464) |
| Deposit for acquisition of land for development | | (219,624) | (28,037) |
| Increase in interests in associates | | (676,973) | (1,176,179) |
| Increase in interests in jointly controlled entities | | (184,947) | (184,519) |
| Increase in investments in securities (non-current) | | (262,060) | (235,952) |
| Decrease in investments in infrastructure and other development projects | | 236,162 | 247,104 |
| Decrease in loans and instalments receivable (non-current) | | 113,735 | 90,935 |
| Decrease in deposits with banks and other financial institutions | | 233,432 | 121,558 |
| Increase in placement of deposits with financial institutions | | (214,953) | — |
| Decrease (increase) in amounts due from investees | | 11,626 | (11,627) |
| NET CASH USED IN INVESTING ACTIVITIES | | (966,618) | (1,050,672) |

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 (restated) |
| FINANCING ACTIVITIES | | |
| New bank and other loans | 17,531,434 | 3,522,069 |
| Repayment of bank and other loans | (14,988,181) | (5,047,620) |
| Redemption of guaranteed exchangeable bonds | (2,461,635) | — |
| Purchase of guaranteed exchangeable bonds | — | (512,023) |
| Issue of new shares in subsidiaries and capital contribution and advances from minority shareholders (net of expenses paid) | 468,193 | 64,633 |
| Dividends to minority shareholders paid | (365,513) | (250,755) |
| Repayment of capital contributed by minority shareholders | (3,154) | — |
| Amounts due to minority shareholders | — | 1,917 |
| Interest paid | (465,291) | (654,124) |
| NET CASH USED IN FINANCING ACTIVITIES | (284,147) | (2,875,903) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (543,207) | (1,330,172) |
| CASH AND CASH EQUIVALENTS AT 1ST JANUARY | 6,084,155 | 7,419,770 |
| Effects of foreign exchange rate changes | (97) | (5,443) |
| CASH AND CASH EQUIVALENTS AT 31ST DECEMBER | 5,540,851 | 6,084,155 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents as previously reported | | 5,851,231 |
| Effect of reclassification of bank loans within three months of maturity | | 232,924 |
| Cash and cash equivalents as restated | | 6,084,155 |
| Being: | | |
| Bank balances and cash | 5,720,207 | 6,177,730 |
| Bank overdrafts | (1,769) | (2,354) |
| | 5,718,438 | 6,175,376 |
| Bank deposits not within three months of maturity | (177,587) | (91,221) |
| | 5,540,851 | 6,084,155 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 1. GENERAL

The Company is a private limited company incorporated in Hong Kong.

The Company continues to act as a property and investment holding company. The activities of the Company's principal subsidiaries, jointly controlled entities and associates are set out in notes 37, 38 and 39 respectively.

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods.

**Foreign Currencies**

The revisions to SSAP 11 *Foreign Currency Translation* have eliminated the choice of translating the income statements of subsidiaries, associates and jointly controlled entities operating outside Hong Kong at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

**Cash Flow Statements**

In the current period, the Group has adopted SSAP 15 (Revised) *Cash Flow Statements.* Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as either operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

**Employee Benefits**

In the current period, with the exception of the accounting policy in respect of defined benefit retirement scheme as detailed in note 3, the Group has adopted SSAP 34 *Employee Benefits,* which introduces measurement rules for employee benefits. The adoption of SSAP 34 has not had any material impact on the financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared 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 companies are eliminated on consolidation.

**Goodwill/negative goodwill**

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

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

Goodwill arising on acquisition on or after 1st January, 2001 is capitalised and amortised on a straight line basis over its estimated useful economic life ranging from 5 to 20 years. Goodwill arising on the acquisition of a jointly controlled entity or an associate is included within the carrying amount of the jointly controlled entity or associate. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet. On disposal of a subsidiary, a jointly controlled entity or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisition 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 in income immediately.

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

**Investments in subsidiaries**

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

**Interests 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 interests 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 any goodwill on acquisition 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 its jointly controlled entities are included in the consolidated income statement.

**Interests in associates**

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 any goodwill on acquisition in so far as it has not already been written off or amortised, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

**Investments in infrastructure and other development projects**

The Group's investments in infrastructure and other development projects are accounted for as investments where the return is fixed or is a variable amount unconnected with the results of the projects. Such investments are recorded at cost, as reduced by any identified impairment loss. Payments receivable each year under the joint venture and operation management agreements are apportioned between income and reduction of the carrying value of the investments so as to reflect a constant periodic rate of return on the net investment in these projects.

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

**Investments in securities**

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

Investments in securities are classified as held-to-maturity debt securities, investment securities or other securities.

Held-to-maturity debt securities, which are debt securities that the Group has the expressed intention to hold to maturity, are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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 identified impairment loss.

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

**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 at the balance sheet date based on valuations conducted by independent professional valuers. Certain investment properties which are immaterial in terms of both market value and profit contribution are carried at their open market value as estimated by the directors. 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 except where the unexpired term, including the renewable period, of the relevant lease is 20 years or less.

**Property, plant and equipment**

*Hotel and guest house*

Hotel and guest house are interests in land and buildings and include their integral fixed plant. They are stated at valuations in the balance sheet except for newly opened hotels which have not completed one full year of operation. Independent valuations are performed at intervals not exceeding three years on an existing use basis. In each of the intervening years, the carrying value of each property is reviewed by the directors.

Any surplus arising on the revaluation of the hotel and guest house is credited to other property revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount of a hotel or guest house arising on revaluation is charged to the income statement to the extent that it exceeds the surplus, if any, held in revaluation reserve relating to a previous revaluation of that particular property. On disposal of a hotel or guest house, the balance on other property revaluation reserve attributable to that property is credited to retained profits.

*Other property, plant and equipment*

Property, plant and equipment, other than hotel and guest house and construction in progress, are stated at cost or valuation less depreciation and any identified impairment loss.

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.

Construction in progress is 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. Cost of completed construction works is transferred to the appropriate categories of property, plant and equipment. Depreciation of these assets, provided on the same basis as other similar assets, commences when the assets are ready for their intended use.

The gain or loss arising from 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.

*Depreciation*

It is the Group's practice to maintain its hotel and guest house in a continual state of sound repairs and maintenance and to make improvements from time to time, accordingly the directors consider that depreciation is not necessary as such properties maintain a residual value at least equal to their carrying value.

Freehold land and construction in progress are not depreciated.

Depreciation is provided to write off the cost of other property, plant and equipment 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:

| | |
|---|---|
| Leasehold land | Over the unexpired lease term |
| Buildings | 20 to 50 years or over the unexpired lease term, if shorter |
| Plant and machinery | 5 to 20 years |
| Other property, plant and equipment | 3 to 10 years |

**Properties for development**

Properties for development are stated at cost less any identified impairment loss. Cost comprises the cost of land and, where applicable, development expenditure and other attributable costs.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method or, in the case of merchandise held for resale in a department store, cost is calculated using the retail price method.

**Stock of properties**

Completed properties and properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of land, development expenditure, other attributable costs and financial expenses capitalised. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

**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.

**Guaranteed exchangeable bonds/floating rate notes**

Guaranteed exchangeable bonds and floating rate notes are separately disclosed and regarded as liabilities. The premium payable upon the final redemption of the exchangeable bonds is recognised in the income statement and is calculated so as to produce a constant periodic rate of charge on the outstanding balances of the exchangeable bonds for each accounting period.

The cost incurred in connection with the issue of exchangeable bonds and floating rate notes is deferred and amortised on a straight line basis over the lives of the bonds and notes from the date of issue to their final redemption or maturity date.

If any of the bonds or notes are purchased and cancelled, redeemed or converted prior to the final redemption or maturity date, an appropriate portion of any remaining unamortised costs or, in the case of exchangeable bonds, the premium payable on final redemption, will be respectively charged or credited to the income statement.

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**Revenue recognition**

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

Sale of development properties is recognised upon the execution of a binding sale agreement or the issuance of a completion certificate by the relevant government authorities, whichever is the later.

Sale of investments is recognised when the sale contract becomes unconditional.

Income from the operations of hotel and guest house and related services is recognised when the relevant services are provided.

Rental and other related income in respect of properties under operating leases is recognised on a straight line basis over the respective lease terms.

Income from investments in infrastructure and other development projects in Mainland China (the "PRC") undertaken by joint ventures where the Group is contracted to receive a predetermined minimum sum over the period of the joint venture is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investments in these projects.

Dividends from investments in infrastructure and other development projects are recognised when the Group's rights to receive payment have been established.

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

Consultancy and management income is recognised when services are provided.

**Operating leases**

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

**Foreign currencies**

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

On consolidation, the assets and liabilities of subsidiaries, jointly controlled entities and associates operating outside Hong Kong are translated at the 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 exchange translation reserve. Such exchange differences are recognised as income or as expenses in the period in which the subsidiary, jointly controlled entity or associate is disposed of.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its 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 SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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 SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

**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, until such time as 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.

**Retirement benefit costs**

Payments to retirement benefit schemes are charged as an expense as they fall due.

The employees of a subsidiary operating in Hong Kong are members of a defined benefit retirement scheme. An actuarial valuation on this scheme is not carried out at each balance sheet date, accordingly, retirement benefit costs in respect of this scheme have not been accounted for in accordance with the requirements of SSAP 34 but are charged as an expense when contributions are made. However, the impact of the failure to adopt SSAP 34 on the financial statements in this respect is immaterial.

## 4. TURNOVER

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Turnover comprises: | | |
| Proceeds from sale of | | |
| Manufactured goods and merchandise | 6,466,114 | 4,781,112 |
| Development properties | 642,168 | 282,158 |
| Trading securities and financial instruments | 2,014,991 | 3,040,640 |
| Income from hotel and guest house operations | 222,490 | 84,324 |
| Property rental income and management income | 135,684 | 117,238 |
| Income from infrastructure and other development projects | 724,698 | 766,497 |
| Dividend income | 169,345 | 147,060 |
| | 10,375,490 | 9,219,029 |

## 5. OTHER OPERATING INCOME

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Included in other operating income are: | | |
| Interest income | 106,453 | 257,870 |
| Consultancy and management income | 19,292 | 13,719 |
| Gain on disposal of | | |
| — Investments in securities (non-current) | 215,941 | 26,557 |
| — Investments in development projects | 28,464 | 1,922 |
| — Property, plant and equipment | 474 | 1,312 |
| Reversal of donations *(Note)* | — | 170,000 |
| Negative goodwill arising on acquisition of subsidiaries and associates | 1,055 | 8,960 |
| Other investment income | 54,016 | 45,696 |

*Note:* The donations, which were previously provided to recognise the Group's obligations to make donations to an independent trust ("Trust") operating for the purposes of sponsoring certain non-profit making organisations established for education, professional training and research activities in the PRC, were reversed during the year ended 31st December, 2001 following the termination of the Trust in that year.

## 6. IMPAIRMENT LOSSES AND ALLOWANCES

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Impairment losses on: | | |
| Property, plant and equipment *(Note a)* | 23,657 | 14,458 |
| Interest in jointly controlled entities | 9,970 | — |
| Investment securities *(Note b)* | 108,960 | 20,004 |
| Investments in development projects | 4,222 | 149,746 |
| Goodwill | — | 1,158 |
| Allowance for trade debts and loans receivable | 77,229 | 53,432 |
| Write-back of allowances for trade debts, loans receivable and amounts due from investees | (13,067) | (82,082) |
| | 210,971 | 156,716 |

*Notes:*

(a) As a result of the adverse market conditions under which certain of the Group's manufacturing activities are operating, impairment losses were provided to reduce the carrying amount of assets used in these businesses to their estimated recoverable amounts as determined by management based on estimated net selling prices.

(b) Certain of the Group's investees disposed of their main businesses or sustained losses from operations, accordingly impairment losses were provided to reduce their carrying value to estimated net selling prices by reference to the net asset value of the investees.

## 7. PROFIT FROM OPERATIONS

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Profit from operations has been arrived at after charging: | | |
| Auditors' remuneration | 9,427 | 7,876 |
| Depreciation of property, plant and equipment | 216,199 | 190,599 |
| Staff costs | | |
| Directors' remuneration | | |
| Fees | — | — |
| Other emoluments | 13,462 | 43,581 |
| Other staff costs | 561,753 | 479,874 |
| Research and development expenditure | 16,684 | 10,932 |
| Deficit on revaluation of guest house | 10,000 | 10,000 |
| Net unrealised holding loss on other securities *(Note)* | 48,816 | 14,766 |
| Allowances for | | |
| Inventories | 22,223 | 40,000 |
| Stock of properties | 775 | 4,996 |
| Exchange losses, net | — | 1,534 |
| Amortisation of goodwill (included in administrative expenses) | 7,240 | 1,578 |
| and after crediting: | | |
| Rental income from investment properties under operating leases | 129,594 | 88,641 |
| Less: Rental outgoings | (34,406) | (22,751) |
| Net rental income | 95,188 | 65,890 |
| Dividends from | | |
| Listed investments | 59,396 | 10,555 |
| Unlisted investments | 109,949 | 136,505 |
| Net realised gains on disposal of trading securities and financial instruments | 83,510 | 135,397 |
| Exchange gains on foreign currency borrowings less deposits, net | 5,735 | 1,227 |
| Other exchange gains, net | 6,973 | — |

*Note:* The net unrealised holding loss on other securities has been arrived at after deducting unrealised holding gain of HK$47,627,000 (2001: Nil) on other securities which were reclassified from investment securities.

## 8. GAIN ON DISPOSAL OF INVESTMENTS

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Gain (loss) on disposal of: | | |
| Interests in jointly controlled entities | 219,958 | 155,118 |
| Interests in associates | 3,067 | (328) |
| Interests in subsidiaries | (148,956) | (5,620) |
| | 74,069 | 149,170 |

## 9. FINANCE COSTS

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Interest on bank loans and overdrafts, and other loans wholly repayable within five years | 428,044 | 523,982 |
| Finance charges on guaranteed exchangeable bonds | | |
| Interests | 17,424 | 29,783 |
| Amortisation of bond issue expenses | 8,268 | 14,892 |
| Premium on redemption | 170,118 | 269,716 |
| Finance charges on guaranteed floating rate notes | | |
| Interests | 30,518 | 59,003 |
| Amortisation of note issue expenses | 2,142 | 2,143 |
| | 656,514 | 899,519 |
| Less: Amount capitalised to construction in progress *(Note)* | (1,765) | (20,562) |
| | 654,749 | 878,957 |

*Note:* Interest expenses capitalised to construction in progress during the year were calculated by applying the prevailing market lending rates to expenditure on qualifying assets.

## 10. INCOME TAXES

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| The charge comprises: | | |
| The Company and subsidiaries | | |
| Hong Kong Profits Tax | 30,359 | 3,828 |
| PRC income tax | 146,522 | 91,785 |
| Deferred taxation *(note 29)* | 3,295 | 10,283 |
| | 180,176 | 105,896 |
| Share of PRC income tax | | |
| Jointly controlled entities | 45,672 | 40,253 |
| Associates | 38,964 | 21,165 |
| | 264,812 | 167,314 |

Hong Kong Profits Tax is calculated at 16% (2001: 16%) on the estimated assessable profits for the year. PRC income tax is provided at the applicable tax rates on assessable profits.

Pursuant to the relevant laws and regulations of the PRC, certain subsidiaries, jointly controlled entities and associates operating in the PRC are entitled to exemption and concessions from PRC income tax for a specified period. The current year's PRC income tax charges have been arrived at after taking into account the various tax incentives.

Details of the potential deferred taxation not provided for are set out in note 29.

## 11. INVESTMENT PROPERTIES

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| VALUATION | | |
| At 1st January | 976,848 | 838,282 |
| Additions at cost | 9,357 | 9,800 |
| Reclassified from | | |
| Property, plant and equipment | 96,119 | 33,853 |
| Stock of properties | 30,028 | 90,176 |
| Surplus on revaluation | 64,764 | 4,737 |
| At 31st December | 1,177,116 | 976,848 |

The investment properties of the Group comprise of:

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Land and buildings | | |
| In Hong Kong on | | |
| Long leases | 429,280 | 435,006 |
| Medium-term leases | 91,619 | 97,549 |
| | 520,899 | 532,555 |
| In the PRC on medium-term leases | 656,217 | 444,293 |
| | 1,177,116 | 976,848 |

The investment properties are carried at their open market value at the balance sheet date, which are substantially based on valuations conducted by Debenham Tie Leung Limited and 上海東洲資產評估有限公司, independent firms of property valuers operating in Hong Kong and the PRC respectively.

The surplus arising on revaluation, adjusted for minority interests, amounting to HK$64,074,000 (2001: HK$6,487,000) has been credited to investment property revaluation reserve.

Substantially all of the Group's investment properties are rented out under operating leases.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Hotel and guest house | Other properties | Construction in progress | Plant and machinery | Other assets | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **THE GROUP** | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1st January, 2002 | 752,000 | 2,045,580 | 922,223 | 1,185,478 | 499,378 | 5,404,659 |
| Carried by subsidiaries acquired | — | 105,625 | 45,497 | 30,969 | 3,555 | 185,646 |
| Additions | — | 28,775 | 353,373 | 95,149 | 44,998 | 522,295 |
| Disposals | — | (30,022) | (1,031) | (10,245) | (30,655) | (71,953) |
| Reclassifications | 1,036,656 | (44,891) | (1,189,133) | 35,949 | 54,509 | (106,910) |
| Deficit on revaluation | (162,000) | — | — | — | — | (162,000) |
| At 31st December, 2002 | 1,626,656 | 2,105,067 | 130,929 | 1,337,300 | 571,785 | 5,771,737 |
| Comprising | | | | | | |
| At cost | 1,036,656 | 2,095,367 | 130,929 | 1,337,300 | 571,785 | 5,172,037 |
| At 1996 professional valuation | — | 1,000 | — | — | — | 1,000 |
| At 2001 professional valuation | — | 8,700 | — | — | — | 8,700 |
| At 2002 professional valuation | 590,000 | — | — | — | — | 590,000 |
| | 1,626,656 | 2,105,067 | 130,929 | 1,337,300 | 571,785 | 5,771,737 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1st January, 2002 | — | 318,266 | — | 540,906 | 230,724 | 1,089,896 |
| Provided for the year | — | 71,547 | — | 78,251 | 66,401 | 216,199 |
| Eliminated on disposals | — | (7,036) | — | (4,959) | (14,429) | (26,424) |
| Impairment loss recognised | — | 2,651 | — | 20,827 | 179 | 23,657 |
| Reclassifications | — | (16,925) | — | — | — | (16,925) |
| At 31st December, 2002 | — | 368,503 | — | 635,025 | 282,875 | 1,286,403 |
| NET BOOK VALUES | | | | | | |
| At 31st December, 2002 | 1,626,656 | 1,736,564 | 130,929 | 702,275 | 288,910 | 4,485,334 |
| At 31st December, 2001 | 752,000 | 1,727,314 | 922,223 | 644,572 | 268,654 | 4,314,763 |

| | Other properties | Other assets | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **THE COMPANY** | | | |
| COST | | | |
| At 1st January, 2002 | 467,387 | 2,854 | 470,241 |
| Additions | — | 163 | 163 |
| Disposals | (21,875) | (1,765) | (23,640) |
| At 31st December, 2002 | 445,512 | 1,252 | 446,764 |
| DEPRECIATION | | | |
| At 1st January, 2002 | 54,655 | 2,034 | 56,689 |
| Provided for the year | 9,358 | 573 | 9,931 |
| Eliminated on disposals | (2,940) | (1,765) | (4,705) |
| At 31st December, 2002 | 61,073 | 842 | 61,915 |
| NET BOOK VALUES | | | |
| At 31st December, 2002 | 384,439 | 410 | 384,849 |
| At 31st December, 2001 | 412,732 | 820 | 413,552 |

The following is an analysis of the net book value of properties included in property, plant and equipment:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Hotel and guest house | | | | |
| In Hong Kong on | | | | |
| Long leases | 510,000 | 662,000 | — | — |
| Medium-term leases | 80,000 | 90,000 | — | — |
| In the PRC on | | | | |
| Medium-term leases | 1,036,656 | — | — | — |
| | 1,626,656 | 752,000 | — | — |
| Other properties | | | | |
| In Hong Kong on | | | | |
| Long leases | 351,822 | 429,354 | 341,950 | 354,518 |
| Medium-term leases | 549,216 | 567,066 | 27,000 | 27,625 |
| In the PRC on | | | | |
| Long leases | 7,985 | 8,467 | — | — |
| Medium-term leases | 809,058 | 703,897 | 15,489 | 30,589 |
| Overseas | | | | |
| Freehold | 6,970 | 6,970 | — | — |
| On long leases | 10,238 | 11,560 | — | — |
| On medium-term leases | 1,275 | — | — | — |
| | 1,736,564 | 1,727,314 | 384,439 | 412,732 |
| Construction in progress on land in the PRC on | | | | |
| Long leases | — | 1,025 | — | — |
| Medium-term leases | 35,850 | 869,176 | — | — |
| | 35,850 | 870,201 | — | — |
| | 3,399,070 | 3,349,515 | 384,439 | 412,732 |

The Group's hotel and guest house, which are stated at 2002 professional valuation, are carried at their open market value, on an existing use basis, at 31st December, 2002, as valued by Debenham Tie Leung Limited, an independent firm of professional valuers operating in Hong Kong. The deficit arising on revaluation, adjusted for minority interests, amounted to HK$162 million (2001: HK$88 million). Such deficit to the extent of HK$152 million (2001: HK$78 million) has been dealt with in other property revaluation reserve and the remaining balance of HK$10 million (2001: HK$10 million) has been charged to the income statement.

Had the Group's hotel and guest house not been revalued, they would have been included in the financial statements at the historical cost of approximately HK$1,458 million (2001: HK$421 million).

Other assets mainly represent furniture and fixtures, office equipment and motor vehicles.

The carrying value of the Group's construction in progress includes net interest expenses of HK$605,000 (2001: HK$39,829,000) capitalised.

The Group's plant and machinery with an aggregate cost of HK$44,002,000 (2001: HK$37,641,000) and related accumulated depreciation of HK$18,707,000 (2001: HK$13,095,000) were rented out under operating leases. Depreciation charged in respect of those plant and machinery for the year amounted to HK$5,612,000 (2001: HK$2,127,000).

## 13. PROPERTIES FOR DEVELOPMENT

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| COST | | |
| At 1st January | 2,774,189 | 3,067,468 |
| Additions | 85,982 | 57,464 |
| Reclassified to stock of properties | (57,464) | (350,743) |
| At 31st December | 2,802,707 | 2,774,189 |

The carrying value of properties held for development comprises of land in the PRC allocated by the Shanghai Municipal People's Government (see note 26(b)) without any specified lease term, and land in Hong Kong held on medium-term leases amounting to HK$2,708,707,000 (2001: HK$2,622,725,000) and HK$94,000,000 (2001: HK$94,000,000), respectively.

## 14. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Unlisted shares and investments, at cost | 1,875,598 | 1,833,542 |
| Less: Impairment losses | (305,518) | (195,336) |
| | 1,570,080 | 1,638,206 |
| Amounts due from subsidiaries less allowances | 10,230,174 | 7,547,191 |
| | 11,800,254 | 9,185,397 |

Certain of the Company's subsidiaries have sustained losses from operations, accordingly impairment losses have been provided to reduce their carrying value to estimated net selling prices by reference to the net asset value of these subsidiaries.

Details of the Company's principal subsidiaries at 31st December, 2002 are set out in note 37.

## 15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Unlisted jointly controlled entities | | |
| Share of attributable net assets | 1,801,624 | 1,970,454 |
| Goodwill on acquisition less amortisation | 33,279 | — |
| Amounts due from jointly controlled entities | 214,142 | 200,794 |
| | 2,049,045 | 2,171,248 |
| Less: Impairment loss recognised | (2,445) | — |
| | 2,046,600 | 2,171,248 |

**Goodwill arising on acquisition of jointly controlled entities**

| | HK$'000 |
|---|---|
| Cost | |
| Arising on acquisition of jointly controlled entities and balance at 31st December, 2002 | 34,177 |
| Amortisation | |
| Provided for the year and balance at 31st December, 2002 (included in share of results of jointly controlled entities) | (898) |
| Net book value | |
| At 31st December, 2002 | 33,279 |

The amounts due from the jointly controlled entities are unsecured and have no fixed repayment terms. Except for an amount of HK$19.3 million which was non-interest bearing, the balance carries interest at commercial rates.

The directors of a subsidiary consider that in light of the recurring operating losses of a jointly controlled entity, the interest in this jointly controlled entity is considered to be irrecoverable. Accordingly, an impairment loss of HK$9,970,000 has been recognised in the income statement for the year.

Details of the Group's principal jointly controlled entities at 31st December, 2002 are set out in note 38.

The following is a summary of the audited financial information of a major jointly controlled entity, Shanghai Huizhong Automotive Manufacturing Company Limited.

Operating results

| | Year ended 31st December, | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Turnover | 3,891,040 | 3,371,696 |
| Profit before taxation | 169,475 | 289,536 |
| Profit before taxation attributable to the Group | 84,738 | 144,768 |

Financial position

| | At 31st December, | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Non-current assets | 1,241,037 | 1,332,663 |
| Current assets | 1,488,793 | 1,612,956 |
| Current liabilities | (747,087) | (896,809) |
| Net assets | 1,982,743 | 2,048,810 |
| Net assets attributable to the Group | 991,372 | 1,024,405 |

## 16. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Unlisted investments | | |
| Share of net assets of associates | 3,081,072 | 2,156,929 |
| Goodwill arising on acquisition less amortisation | 68,740 | 33,264 |
| | 3,149,812 | 2,190,193 |
| Amounts due from associates less allowances | 146,576 | 45,979 |
| | 3,296,388 | 2,236,172 |

| | THE COMPANY | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Unlisted investments, at cost | 81,000 | 81,000 |
| Less: Impairment loss | (900) | (900) |
| | 80,100 | 80,100 |

**Goodwill arising on acquisition of associates**

| | HK$'000 |
|---|---|
| Cost | |
| At 1st January, 2002 | 33,548 |
| Arising on acquisition of associates | 37,617 |
| At 31st December, 2002 | 71,165 |
| Amortisation | |
| At 1st January, 2002 | 284 |
| Provided for the year (included in share of results of associates) | 2,141 |
| At 31st December, 2002 | 2,425 |
| Net book value | |
| At 31st December, 2002 | 68,740 |
| At 31st December, 2001 | 33,264 |

During the year ended 31st December, 2001, the Group acquired an approximately 16% equity interest in Semiconductor Manufacturing International Corporation ("SMIC") for a consideration of approximately US$185.6 million (approximately HK$1,448 million). Part of the consideration of approximately HK$1,089 million was paid in 2001 and the balance of the consideration was paid in the current year.

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

During the year, the Group acquired a 25% equity interest in EAS International Transportation Limited ("EAS International") through the acquisition of a subsidiary for a consideration of approximately HK$52 million. EAS International is engaged in freight forwarding and logistics businesses in the PRC. As at 31st December, 2002, a loan of HK$100 million advanced by the Group to EAS International to finance its operations was outstanding. The loan is unsecured, bears interest at prevailing market rates and is repayable within two years.

The Group is committed to acquire an additional interest in EAS International at a consideration of approximately HK$196 million, subject to adjustments. Upon completion of the further acquisition, the Group will become the controlling shareholder of EAS International. The capital commitment has been included in note 33(a).

The amounts due from other associates are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, repayment of these amounts will not be demanded within twelve months from the balance sheet date, accordingly the amounts are classified as non-current.

Details of the Group's principal associates at 31st December, 2002 are set out in note 39.

## 17. INVESTMENTS IN INFRASTRUCTURE AND OTHER DEVELOPMENT PROJECTS

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Unlisted investments in infrastructure projects, at cost | | |
| Yanan Road | 1,405,344 | 1,405,344 |
| Inner Ring Road and North-South Elevated Expressway | 4,649,400 | 4,649,400 |
| Less: Capital receipts from investees | (598,296) | (472,679) |
| | 5,456,448 | 5,582,065 |
| Unlisted investments in property projects, at cost | 302,350 | 457,391 |
| Amount due from an investee | — | 110,545 |
| Less: Amortisation of investment costs | — | (24,393) |
| Impairment losses | (240,834) | (240,834) |
| | 61,516 | 302,709 |
| Other unlisted investments, at cost | 209,559 | 251,615 |
| Amounts due from investees | 3 | 3 |
| Less: Impairment losses | (64,497) | (66,583) |
| | 145,065 | 185,035 |
| | 5,663,029 | 6,069,809 |

Particulars of the Group's principal investees, which are established in the PRC, are as follows:

| Name of company | Project undertaken | Group's interest in registered capital | Principal activities | Duration of joint venture |
|---|---|---|---|---|
| | | % | | |
| Shanghai Yanan Road Elevated Road Development Co., Ltd. | Yanan Road | 50.2 Note (a) | Construction, operation, management and maintenance of an elevated road | From 6th November, 1995 to 31st December, 2017 |
| Shanghai New Construction Development Co., Ltd. | Inner Ring Road and the North-South Elevated Expressway | 35 Note (b) | Operation, management and maintenance of road and expressway | From 18th April, 1997 to 30th April, 2017 |
| Shanghai Shang Shi Nan Kai Real Estate Co., Ltd. | Shang Shi Huayuan Residential Estate | 100 Note (c) | Property development | 10 years from April 1996 |

*Notes:*

(a) **Yanan Road**

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

Under the terms of the relevant joint venture agreement and operation management agreement, the Group is contracted to receive a pre-determined sum from Shanghai Yanan Road JV in quarterly instalments during the period from March 1997 to December 2017 as a return on its investment. Should the operating profit of Shanghai Yanan Road JV be inadequate to pay the required contracted instalments to the Group, the shortfall and interest accrued thereon will be paid by the PRC joint venture partner. Any excess of the operating profit of Shanghai Yanan Road JV over the contracted instalment will not be shared by the Group and is attributable to the PRC joint venture partner. At the expiry of the cooperative period, the exclusive right to operate the Yanan Road will revert to the Shanghai Municipal People's Government at no consideration and the remaining assets and liabilities of Shanghai Yanan Road JV will be attributable to the PRC joint venture partner.

(b) **Inner Ring Road and North-South Elevated Expressway**

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

Under the terms of the relevant joint venture agreement and operation management agreement, the Group is contracted to receive a pre-determined minimum sum from Shanghai New Construction JV in quarterly instalments during the period from June 1997 to April 2017 as a return on the investment. Should the profits of Shanghai New Construction JV available for distribution be inadequate to pay the required contracted minimum instalments to the Group, the shortfall will be paid by the PRC joint venture partner. Any excess of the profit of Shanghai New Construction JV available for distribution over the contracted minimum instalment, except to the extent of any additional amount payable to the Group pursuant to the operation management agreement, will not be shared by the Group and is attributable to the PRC joint venture partner. At the expiry of the cooperative period, the exclusive right to operate and manage the Inner Ring Road and the North-South Elevated Expressway will revert to the Shanghai Municipal People's Government at no consideration and the remaining assets and liabilities of Shanghai New Construction JV will be attributable to the PRC joint venture partner.

(c) **Shang Shi Huayuan Residential Estate**

The cost of investment in this project of HK$302 million, representing capital contributed by the Group, will be repaid by instalments together with an annual after tax return of 15% on the capital contributed. The directors are of the opinion that any remaining profit of Shanghai Shang Shi Nan Kai Real Estate Co., Ltd., which will be shared between the PRC joint venture partner and the Group in the ratio of 80% to the PRC joint venture partner and 20% to the Group, would be insignificant. Up to the balance sheet date, the development of the property projects was still in progress and no return on this investment was recognised in the year.

The amounts due from investees carried interest at commercial rates and were unsecured and have no fixed repayment terms.

## 18. INVESTMENTS IN SECURITIES

| | Held-to-maturity debt securities | | Investment securities | | Other securities | | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Equity securities | | Debt securities | | | |
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **THE GROUP** | | | | | | | | | | |
| Listed | | | | | | | | | | |
| — in the PRC | 44,669 | — | — | — | 135,865 | 137,814 | 136,836 | 33,515 | 317,370 | 171,329 |
| — in Hong Kong | — | — | 66,253 | 61,396 | 273,584 | 79,990 | — | — | 339,837 | 141,386 |
| — Overseas | — | — | — | — | 17 | 411 | 7,392 | — | 7,409 | 411 |
| Unlisted | 155,711 | 176,815 | 1,068,694 | 1,302,012 | 431,345 | 348,212 | 753,624 | 59,692 | 2,409,374 | 1,886,731 |
| | 200,380 | 176,815 | 1,134,947 | 1,363,408 | 840,811 | 566,427 | 897,852 | 93,207 | 3,073,990 | 2,199,857 |
| Market value of listed securities | 44,669 | — | 50,170 | 64,205 | 409,466 | 218,215 | 144,228 | 33,515 | 648,533 | 315,935 |
| Carrying amount analysed for reporting purposes as: | | | | | | | | | | |
| Non-current | 60,193 | 8,161 | 1,134,947 | 1,363,408 | 371,113 | 299,465 | — | — | 1,566,253 | 1,671,034 |
| Current | 140,187 | 168,654 | — | — | 469,698 | 266,962 | 897,852 | 93,207 | 1,507,737 | 528,823 |
| | 200,380 | 176,815 | 1,134,947 | 1,363,408 | 840,811 | 566,427 | 897,852 | 93,207 | 3,073,990 | 2,199,857 |

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **THE COMPANY** | | |
| Non-current | | |
| Investment securities, unlisted | 2,773 | 2,773 |
| Current | | |
| Held-to-maturity debt securities, unlisted | — | 78,000 |
| | 2,773 | 80,773 |

*Note:* During the year, investment securities with an aggregate carrying cost of HK$29,546,040 were reclassified as other securities following the decision made by management to dispose of such securities in the foreseeable future.

## 19. OTHER NON-CURRENT ASSETS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Amounts due from investees | 51,449 | 63,075 | — | — |
| Loans and instalments receivable *(Note)* | 14,795 | 6,011 | 5,148 | — |
| Deposits for acquisition of | | | | |
| Property, plant and equipment | 6,632 | 51,208 | — | — |
| Interest in PRC enterprises | 202,641 | 186,916 | — | — |
| Land in the PRC | 247,661 | 28,037 | — | — |
| | 523,178 | 335,247 | 5,148 | — |
| Less: Loans and instalments receivable due within one year included in current assets | (944) | (4,226) | — | — |
| | 522,234 | 331,021 | 5,148 | — |

*Note:* The loans and instalments receivable carry interest at commercial rates.

## 20. GOODWILL

| | THE GROUP |
|---|---|
| | HK$'000 |
| COST | |
| At 1st January, 2002 | 33,246 |
| Arising on acquisition of subsidiaries | 38,995 |
| At 31st December, 2002 | 72,241 |
| AMORTISATION AND IMPAIRMENT LOSSES | |
| At 1st January, 2002 | 2,736 |
| Provided for the year | 7,240 |
| At 31st December, 2002 | 9,976 |
| NET BOOK VALUES | |
| At 31st December, 2002 | 62,265 |
| At 31st December, 2001 | 30,510 |

## 21. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Raw materials | 286,593 | 296,153 |
| Work in progress | 49,435 | 35,935 |
| Finished goods | 120,711 | 96,680 |
| Merchandise held for resale | 435,775 | 235,638 |
| Hotel inventories | 6,192 | 2,150 |
| | 898,706 | 666,556 |

Included in inventories are raw materials of HK$6 million (2001: HK$2 million), finished goods of HK$13 million (2001: HK$8 million) and merchandise held for resale of HK$201 million (2001: HK$124 million) which are carried at net realisable value.

## 22. STOCK OF PROPERTIES

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Properties held for sale | | |
| Completed | 460,422 | 484,988 |
| Under development | 463,510 | 826,215 |
| | 923,932 | 1,311,203 |

Included in stock of properties are properties of HK$296 million (2001: HK$305 million) which are carried at net realisable value.

## 23. SALES DEPOSITS RECEIVED

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Deposits from sale of | | |
| Properties | 93,301 | 484,283 |
| Investment securities | — | 186,916 |
| | 93,301 | 671,199 |

## 24. BANK LOANS AND OVERDRAFTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Repayable within one year | | | | |
| Unsecured | 2,127,571 | 1,404,588 | 50,249 | 39,845 |
| Secured | 916,309 | 1,491,636 | 700,000 | 1,000,000 |
| | 3,043,880 | 2,896,224 | 750,249 | 1,039,845 |

## 25. SHARE CAPITAL

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Authorised, issued and fully paid: | | |
| 1,000,000 ordinary shares of HK$10 each | 10,000 | 10,000 |

There were no changes in share capital in either of the years presented.

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

(a) **SIHL Old Scheme**

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

Under the SIHL Old Scheme, the Board of Directors of SIHL could grant options to eligible employees, including executive directors of SIHL and its subsidiaries, to subscribe for shares in SIHL for a consideration of HK$1 for each lot of share options granted. Options granted had to be accepted within 28 days from the date of grant. Options are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

The following table discloses details of SIHL's options under the SIHL Old Scheme held by employees (including directors) and movement in such holdings during the year ended 31st December, 2002:

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

| | | Number of shares under options | | | | |
|---|---|---|---|---|---|---|
| **Month of grant** | **Exercise price per share** | **Outstanding at 1.1.2001** | **Granted during the year** | **Exercised during the year** | **Lapsed during the year** | **Outstanding at 31.12.2001** |
| | **HK$** | | | | | |
| April 1997 | 30.912 | 8,400,000 | — | — | (8,400,000) | — |
| May 1997 | 30.912 | 3,500,000 | — | — | (3,500,000) | — |
| August 1998 | 10.432 | 21,870,000 | — | (2,220,000) | — | 19,650,000 |
| January 1999 | 9.568 | 23,300,000 | — | (1,000,000) | — | 22,300,000 |
| March 2001 | 10.496 | — | 7,750,000 | (120,000) | — | 7,630,000 |
| July 2001 | 10.432 | — | 8,000,000 | — | — | 8,000,000 |
| | | 57,070,000 | 15,750,000 | (3,340,000) | (11,900,000) | 57,580,000 |

A summary of the share options granted to the directors of the Company included in the above tables is as follows:

| | | Number of shares under options | | |
|---|---|---|---|---|
| **Month of grant** | **Exercise price per share** | **Outstanding at 1.1.2001 and 31.12.2001** | **Exercised during the year ended 31.12.2002** | **Outstanding at 31.12.2002** |
| | **HK$** | | | |
| August 1998 | 10.432 | 2,000,000 | (2,000,000) | — |
| January 1999 | 9.568 | 7,100,000 | (7,100,000) | — |
| | | 9,100,000 | (9,100,000) | — |

Total consideration received for shares issued upon exercise of share options during the year ended 31st December, 2002 was HK$442,975,000 (2001: HK$33,987,000).

The weighted average closing prices of SIHL's shares on the trading day immediately before the date on which the options were exercised was HK$14.84.

Other than the nominal consideration on each lot of share options granted which is recognised in the income statement, no credit or charge is recognised in the financial statements in respect of the value of options granted.

(b) **SIHL New Scheme**

SIHL 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 during the year and adopted a new share option scheme (the "SIHL New Scheme"), as approved by the shareholders of SIHL at the extraordinary general meeting held on 31st May, 2002.

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

According to the SIHL New Scheme, the Board of Directors of SIHL may grant options to any director and employee of each member of SIHL group (including a company in which (i) SIHL 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 of SIHL, SIHL is able to exercise significant influence over such company); and any executive or employee of any business consultant, professional and other advisers to each member of SIHL group, to subscribe for shares in SIHL 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 of SIHL 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 following table discloses details of SIHL options under the SIHL New Scheme held by employees and movement in such holdings during the year:

| | | Number of shares under options | | | | |
|---|---|---|---|---|---|---|
| **Month of grant** | **Exercise price per share** | **Outstanding at 1.1.2002** | **Granted during the year** | **Exercised during the year** | **Lapsed during the year** | **Outstanding at 31.12.2002** |
| | **HK$** | | | | | |
| September 2002 ..... | 11.71 | — | 27,250,000 | — | (100,000) | 27,150,000 |

No share options under the SIHL New Scheme were granted to the directors of the Company during the year.

(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.

Under the SIIC MedTech Old Scheme, the Board of Directors of SIIC MedTech could grant options to eligible employees, including directors of SIIC MedTech and its subsidiaries, to subscribe for shares in SIIC MedTech for a consideration of HK$1 for each lot of share options granted. Options granted had to be accepted within 28 days from the date of grant. Options are exercisable at any time during the three years commencing on the expiry of three years after the date of grant.

The following table discloses the total entitlements of employees (including directors) under the SIIC MedTech Old Scheme:

| | | Number of shares under options | | |
|---|---|---|---|---|
| **Month of grant** | **Exercise price per share** | **Outstanding at 1.1.2002** | **Lapsed during the year** | **Outstanding at 31.12.2002** |
| | **HK$** | | | |
| January 2000..... | 1.69 | 38,700,000 | (500,000) | 38,200,000 |

| | | Number of shares under options | | |
|---|---|---|---|---|
| **Month of grant** | **Exercise price per share** | **Outstanding at 1.1.2001** | **Lapsed during the year** | **Outstanding at 31.12.2001** |
| | **HK$** | | | |
| January 2000..... | 1.69 | 39,200,000 | (500,000) | 38,700,000 |

Included in the above tables are share options granted to a director of the Company in January 2000 to subscribe for 8,000,000 ordinary shares of SIIC MedTech at an exercise price of HK$1.69 per share. These share options remain outstanding at the balance sheet date.

The share options can be exercised during the period from 21st January, 2003 to 20th January, 2006.

(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 during the year 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 SIHL held on 31st May, 2002.

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

According to the SIIC MedTech New Scheme, the Board of Directors of SIIC MedTech may grant options to any director and employee of each member of SIIC MedTech Group, (including a company in which (i) SIHL 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 of SIHL, SIHL is able to exercise significant influence over such company); and any executive or employee of any business consultant, professional and other advisers to each member of the Group, to subscribe for shares in SIIC MedTech for a consideration of HK$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant. The Board of Directors of SIIC MedTech may at its absolute discretion determine the period during which an option may be exercised, such period should expire no later than 10 years from the date of grant of the option.

During the year, no options were granted under the SIIC MedTech New Scheme.

## 26. RESERVES

| | Investment property revaluation reserve | Other property revaluation reserve | Capital reserve | Other reserves | Goodwill on consolidation | Exchange translation reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 (note b) | HK$'000 (note c) | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **THE GROUP** | | | | | | | | |
| At 1st January, 2001 | 590,052 | 585,865 | 2,446,901 | 713,688 | (1,376,822) | (63,677) | 4,824,206 | 7,720,213 |
| Arising on translation of financial statements of subsidiaries, jointly controlled entities and associates | — | — | — | — | — | (251) | — | (251) |
| Share of reserves of jointly controlled entities and associates | — | — | — | (348) | — | — | — | (348) |
| Surplus (deficit) on revaluation of properties, adjusted for minority interests | 6,487 | (78,000) | — | — | — | — | — | (71,513) |
| Released on disposal of interest in subsidiaries | — | — | — | (1,104) | 3,546 | (682) | — | 1,760 |
| Realised on disposal/write-off of jointly controlled entities and associates | — | — | — | (1,233) | 1,777 | 2,077 | — | 2,621 |
| Net profit for the year | — | — | — | — | — | — | 370,496 | 370,496 |
| Appropriations from retained profits | — | — | — | 91,833 | — | — | (91,833) | — |
| At 31st December, 2001 | 596,539 | 507,865 | 2,446,901 | 802,836 | (1,371,499) | (62,533) | 5,102,869 | 8,022,978 |
| Arising on translation of financial statements of subsidiaries, jointly controlled entities and associates | — | — | — | — | — | 15 | — | 15 |
| Share of reserves of jointly controlled entities and associates | — | — | — | 148 | — | — | — | 148 |
| Surplus (deficit) on revaluation of properties, adjusted for minority interests | 64,074 | (152,000) | — | — | — | — | — | (87,926) |
| Released on disposal of interest in subsidiaries | (7) | — | — | (8,714) | 71,762 | (222) | — | 62,819 |
| Realised on disposal/write-off of jointly controlled entities and associates | — | — | — | (547) | 719 | 656 | — | 828 |
| Impairment loss on goodwill on consolidation | — | — | — | — | 7,525 | — | — | 7,525 |
| Net profit for the year | — | — | — | — | — | — | 373,643 | 373,643 |
| Appropriations from retained profits | — | — | — | 102,823 | — | — | (102,823) | — |
| At 31st December, 2002 | 660,606 | 355,865 | 2,446,901 | 896,546 | (1,291,493) | (62,084) | 5,373,689 | 8,380,030 |
| **THE COMPANY** | | | | | | | | |
| At 1st January, 2001 | — | — | — | 100,000 | — | — | 3,240,096 | 3,340,096 |
| Net profit for the year | — | — | — | — | — | — | 4,367 | 4,367 |
| At 31st December, 2001 | — | — | — | 100,000 | — | — | 3,244,463 | 3,344,463 |
| Net loss for the year | — | — | — | — | — | — | (146,721) | (146,721) |
| At 31st December, 2002 | — | — | — | 100,000 | — | — | 3,097,742 | 3,197,742 |

*Notes:*

a. The retained profits of the Group include accumulated losses of HK$59 million (2001: retained profits of HK$19.5 million) of jointly controlled entities and accumulated losses of HK$40 million (2001: HK$67.3 million) of associates.

b. In 1998, the Shanghai Municipal People's Government of the PRC ("the Shanghai Government") allocated certain land sites in Shanghai to a PRC subsidiary. An aggregate value of approximately HK$2,436 million was ascribed to these land sites based on a valuation carried out by a local property appraiser. This amount had been accounted for in reserve as a contribution to the relevant subsidiary by the Shanghai Government. However, the assignment, lease or mortgage of the land sites remain subject to the prior approval of the Shanghai Government. In making the allocation, the Shanghai Government agreed that the rights and benefits arising from this subsidiary be vested with the Company.

c. Other reserves comprise mainly of the statutory reserves of the PRC subsidiaries and special reserves appropriated by a Hong Kong subsidiary amounting to HK$391,036,000 (2001: HK$297,326,000) and HK$405,510,000 (2001: HK$405,510,000) respectively.

## 27. AMOUNTS DUE TO SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Amounts due to subsidiaries, unsecured | | |
| Interest bearing | 975,000 | 1,185,000 |
| Non-interest bearing | 1,113,278 | 1,078,748 |
| | 2,088,278 | 2,263,748 |
| Less: Amounts due within one year included in current liabilities | — | (70,000) |
| | 2,088,278 | 2,193,748 |

The interest bearing portion of the amounts due to subsidiaries to the extent of HK$975 million (2001: HK$975 million) carries interest at a margin over London Inter Bank Offered Rate ("LIBOR") for six months U.S. dollar deposit and is wholly repayable in December 2005. Any remaining balance carried interest chargeable at Hong Kong Inter Bank Offered Rate plus 2.5% per annum.

The non-interest bearing portion of the amounts due to subsidiaries have no fixed repayment terms. In the opinion of the directors, repayment of these amounts will not be demanded within twelve months from the balance sheet date, accordingly the amounts are classified as non-current.

## 28. LONG-TERM BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank loans | | | | |
| Secured | 453,147 | 1,059,499 | — | — |
| Unsecured | 7,687,325 | 5,211,775 | 5,883,200 | 3,536,600 |
| Guaranteed exchangeable bonds *(Note a)* | 1,368,072 | 3,652,209 | — | — |
| Guaranteed floating rate notes *(Note b)* | 968,739 | 966,597 | — | — |
| Loans from shareholders *(Note c)* | 675,084 | — | 675,084 | — |
| Other unsecured loans wholly repayable within five years | 17,799 | 9,854 | — | — |
| | 11,170,166 | 10,899,934 | 6,558,284 | 3,536,600 |
| Less: Amount due within one year included in current liabilities | (1,895,358) | (4,505,404) | (465,600) | (366,600) |
| | 9,274,808 | 6,394,530 | 6,092,684 | 3,170,000 |

*Notes:*

(a) Guaranteed exchangeable bonds:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Principal amount of the bonds | 943,020 | 2,719,470 |
| Unamortised bond issue expenses | (602) | (8,870) |
| Premium on redemption of the bonds and finance charges accrued | 425,654 | 941,609 |
| | 1,368,072 | 3,652,209 |
| Less: Amount due within one year included in current liabilities | (1,368,072) | (2,392,197) |
| | — | 1,260,012 |

In 1997, a subsidiary of the Company issued exchangeable bonds with an aggregate principal amount of US$300,000,000 (the "2002 Bonds") which were guaranteed by the Company and carried interest at 1% per annum. The 2002 Bonds entitled the holders thereof to exchange the bonds for shares in SIHL held by the Group at a price, subject to adjustment, of approximately HK$54.12 per share (the "Exchange Price") during the period from 12th August, 1997 to 5th June, 2002. During the year, the 2002 Bonds were wholly redeemed upon its maturity in June 2002.

In 1998, another subsidiary of the Company issued exchangeable bonds with an aggregate principal amount of US$150,000,000 (the "2003 Bonds") which were guaranteed by the Company and carried interest at 1% per annum. The 2003 Bonds entitled the holders thereof to exchange the bonds for shares in SIHL held by the Group at a price, subject to adjustment, of approximately HK$32.34 per share during the period from 6th April, 1999 to 18th February, 2003. The 2003 Bonds were listed on the London Stock Exchange. All the outstanding 2003 Bonds were redeemed subsequent to the year end at 146.55% of their principal amount.

(b) Guaranteed floating rate notes:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Principal amount of the floating rate notes | 975,000 | 975,000 |
| Unamortised note issue expenses | (6,261) | (8,403) |
| | 968,739 | 966,597 |

The floating rate notes with an aggregate principal amount of US$125,000,000 (the "FRN") are guaranteed by the Company and carry interest at a margin over LIBOR for six months U.S. dollar deposit payable semi-annually in arrear commencing from June 2001. The FRN are redeemable under certain conditions as stipulated in the FRN offering circular at any time, in whole but not in part, at their principal amount. Unless previously redeemed, purchased and cancelled, the FRN will be redeemed at their principal amount in December 2005.

(c) The loans from shareholders are unsecured, interest free and have no fixed repayment terms. Repayment of these amounts will not be demanded within twelve months from the balance sheet date, accordingly the amounts are classified as non-current.

## 29. DEFERRED TAXATION

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Balance at 1st January | 93,988 | 83,705 |
| Movement for the year *(Note 10)* | 3,295 | 10,283 |
| Balance at 31st December | 97,283 | 93,988 |

The major components of deferred taxation are as follows:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Tax effect of timing differences attributable to | | |
| Excess of tax allowances over depreciation charges | 88,383 | 96,588 |
| Unrealised holding gain on investments in securities | 11,000 | — |
| Unutilised tax losses | (2,100) | (2,600) |
| | 97,283 | 93,988 |

At the balance sheet date, the major components of unprovided deferred tax (assets) liabilities are as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Tax effect of timing differences because of: | | | | |
| Excess of tax allowances over depreciation charges | 21,738 | 6,831 | 1,894 | 1,939 |
| Unutilised tax losses | (146,975) | (118,062) | (61,693) | (45,287) |
| Other timing differences | (108,449) | (88,428) | — | — |
| | (233,686) | (199,659) | (59,799) | (43,348) |

Other timing differences are mainly attributable to the allowances made against trade receivables, inventories and stock of properties and unrealised holding losses on investments in securities.

A deferred tax asset has not been recognised in the financial statements as it is not certain whether such asset will crystallise in the foreseeable future.

The unprovided deferred tax (charge) credit for the year is as follows:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Tax effect of timing differences because of: | | |
| Difference between tax allowances and depreciation charges | (14,907) | 20,856 |
| Tax losses arising | 28,913 | 12,327 |
| Other timing differences | 20,021 | 26,208 |
| | 34,027 | 59,391 |

Deferred tax has not been provided on the valuation surplus arising from revaluation of the Group's investments and properties in Hong Kong held for long term purposes as the profits arising on the disposal of these assets would not be subject to taxation. No provision has been made for deferred taxation attributable to the surplus arising on revaluation of the Group's properties situated in the PRC as the potential deferred tax liability is not expected to crystallise in the foreseeable future.

## 30. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired the following subsidiaries which have been accounted for using the acquisition method of accounting:

(a) 56% interest in Xiamen Traditional Chinese Medicine Co., Ltd., a sino-foreign equity joint venture company established in the PRC, for a consideration of approximately HK$40,759,000. The amount of goodwill arising as a result of the acquisition is HK$8,939,000;

(b) the entire issued share capital of EAS Da Tong International Aircargo Co., Ltd., a company incorporated in Hong Kong, for a consideration of HK$51,728,000. The amount of goodwill arising as a result of the acquisition is HK$20,647,000; and

(c) an additional 13.75% interest in 常州葯業股份有限公司 ("常州葯業"), a company incorporated in the PRC, for a consideration of approximately HK$62,148,000. As a result of the acquisition, the interest in 常州葯業 held by the Group was increased to 55.75%. The amount of goodwill arising as a result of the acquisition is HK$5,185,000.

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Net assets acquired: | | |
| Property, plant and equipment | 185,646 | 38,593 |
| Interests in associates | 31,081 | — |
| Investments in securities (non-current) | 895 | 2,346 |
| Inventories | 133,389 | 10,504 |
| Trade and other receivables | 249,670 | 55,344 |
| Investments in securities (current) | — | 17 |
| Bank balances and cash | 218,050 | 27,083 |
| Trade and other payables | (335,778) | (59,397) |
| Taxation | (3,207) | (116) |
| Bank loans and overdrafts | (100,747) | (37,614) |
| Long-term borrowings | (56,466) | — |
| Minority interests | (134,593) | (3,200) |
| | 187,940 | 33,560 |
| Goodwill on consolidation | 35,826 | 2,189 |
| Negative goodwill on consolidation | (1,055) | (5,417) |
| | 222,711 | 30,332 |
| Satisfied by: | | |
| Cash | 154,635 | 24,802 |
| Carrying value of associates | 68,076 | (586) |
| Carrying value of development projects | — | 6,116 |
| | 222,711 | 30,332 |
| Analysis of the net inflow (outflow) of cash and cash equivalents in connection with the purchase of subsidiaries: | | |
| Cash considerations paid | (154,635) | (24,802) |
| Bank balances and cash acquired | 218,050 | 27,083 |
| Net inflow of cash and cash equivalents in connection with the purchase of subsidiaries | 63,415 | 2,281 |

The subsidiaries acquired during the year contributed approximately HK$474 million and HK$24.2 million to the Group's turnover and profit from operations respectively.

## 31. DISPOSAL OF SUBSIDIARIES

| | 2002 | 2001 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Net assets of the subsidiaries disposed | | |
| Property, plant and equipment | — | 455 |
| Inventories | 204 | — |
| Trade and other receivables | 931 | 6,973 |
| Bank balances and cash | 5,393 | 9,017 |
| Trade and other payables | (3,842) | (14,873) |
| Minority interests | (15) | — |
| | 2,671 | 1,572 |
| Reserves realised on disposal | | |
| Exchange equalisation and other reserves | — | (214) |
| Carrying value of subsidiaries prior to becoming associates | — | (441) |
| Gain (loss) on disposal of subsidiaries | 135 | (263) |
| | 2,806 | 654 |
| Satisfied by: | | |
| Cash | 2,523 | 654 |
| Investments in securities | 283 | — |
| | 2,806 | 654 |
| Analysis of the net inflow (outflow) of cash and cash equivalents in connection with the disposal of subsidiaries | | |
| Cash consideration received | 2,523 | 654 |
| Bank balances and cash disposed of | (5,393) | (9,017) |
| | (2,870) | (8,363) |

The subsidiaries disposed of during the year did not have any significant impact on the Group's operating results for the year.

## 32. OPERATING LEASE ARRANGEMENTS

**The Group as lessee**

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Minimum lease payments paid under operating leases during the year in respect of: | | |
| Office and factory premises | 21,071 | 31,186 |
| Other assets | 771 | 1,177 |
| | 21,842 | 32,363 |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office and factory premises which fall due as follows:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Within one year | 2,346 | 2,769 |
| In the second to fifth year inclusive | 1,087 | 1,235 |
| | 3,433 | 4,004 |

Operating lease payments represent rentals payable by the Group. Leases are negotiated for an average term of up to two years and rentals are fixed for an average of two years.

At the balance sheet date, the Company had no significant commitments under non-cancellable operating lease.

**The Group as lessor**

The properties of the Group which were rented out under operating leases have committed tenants for one to twenty years.

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

| | Land and buildings | | Plant and machinery | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within one year | 52,483 | 73,346 | 2,131 | 2,131 |
| In the second to fifth year inclusive | 69,607 | 91,823 | 4,262 | 6,393 |
| After five years | 199,957 | 125,017 | — | — |
| | 322,047 | 290,186 | 6,393 | 8,524 |

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

## 33. COMMITMENTS AND CONTINGENCIES

At the balance sheet date, the Group and the Company had outstanding commitments and contingent liabilities not provided for in the financial statements as follows:

| | | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|---|
| | | 2002 | 2001 | 2002 | 2001 |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| (a) | Commitments contracted in respect of | | | | |
| | Property, plant and equipment | 45,356 | 24,115 | — | — |
| | Construction in progress | 7,275 | 294,858 | — | — |
| | Investment in an associate | 196,262 | 358,581 | — | — |
| | | 248,893 | 677,554 | — | — |
| (b) | Commitments in respect of acquisition of land | | | | |
| | — Contracted | 106,479 | — | — | — |
| | — Authorised but not provided for | 362,617 | — | — | — |
| | | 469,096 | — | — | — |
| (c) | Capital contributions to jointly controlled entities, associates and other investee companies | | | | |
| | Contracted | 348,812 | 241,263 | 78,000 | 78,000 |
| | Authorised but not contracted for | 8,025 | 186,916 | — | — |
| | | 356,837 | 428,179 | 78,000 | 78,000 |
| (d) | Guarantees for banking and other loan facilities granted to | | | | |
| | Subsidiaries | — | — | 2,754,013 | 5,935,873 |
| | Jointly controlled entities | 10,218 | 50,000 | — | — |
| | Associates | 144,422 | 34,980 | 47,580 | 34,980 |
| | Affiliated companies | 112,033 | 182,676 | 102,687 | 136,227 |
| | Property purchasers *(Note)* | — | 240,866 | — | — |
| | | 266,673 | 508,522 | 2,904,280 | 6,107,080 |

*Note:* In 2001, the Group acted as guarantor for repayment of the bank loans granted to the purchasers of the Group's properties which were under development amounting to HK$240,866,000. The guarantee was released upon completion of the construction of the properties and the issuance of the property ownership certificates by the relevant authority.

(e) At the balance sheet date, the Group had the following financial derivatives outstanding:

(i) interest rate hedging contracts entered into with financial institutions to hedge the floating interest rate risk of the Group's bank loans of HK$4,618 million (2001: HK$1,170 million).

(ii) foreign currency contracts to hedge the Group's bank loans of HK$1,872 million (2001: HK$1,053 million) which are denominated in foreign currencies.

(f) During the year, the Group entered into a share acquisition agreement with a third party for the acquisition of 73.28% interest in a PRC company, which is listed on the Shanghai Stock Exchange, at a consideration of approximately HK$1,070 million. Details of the acquisition have been disclosed in note 40(a).

(g) The Group's attributable share of the capital commitments of jointly controlled entities are as follows:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of | | |
| — investments | 8,045 | 12,070 |
| — property, plant and equipment | 7,546 | 41,553 |
| — construction in progress | 2,804 | 1,645 |
| | 18,395 | 55,268 |
| Capital expenditure authorised but not contracted for in respect of | | |
| — property, plant and equipment | 4,053 | — |
| — construction in progress | 8,411 | — |
| | 12,464 | — |

## 34. RETIREMENT BENEFITS SCHEMES

The Company and its subsidiaries in Hong Kong operate a 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 benefit 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.

In addition, a subsidiary of the Company in Hong Kong operates a defined benefit retirement scheme for its qualifying employees.

The employees employed by 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.

The total cost charged to income of HK$38 million (2001: HK$25 million) represents contributions payable to the schemes by the Group in respect of the current accounting period.

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

## 35. PLEDGE OF ASSETS

At the balance sheet date, the Group's land and buildings, machinery, construction in progress, bank deposits and other assets with an aggregate carrying value of approximately HK$3,526 million (2001: HK$4,052 million) were mortgaged or pledged to secure the banking facilities granted to the Group and its jointly controlled entities and associates.

## 36. RELATED PARTY TRANSACTIONS

(a) During the year, in addition to the transactions and balances with related parties disclosed above, the Group had other transactions with related parties as follows:

| Related parties | Nature of transactions | 2002 | 2001 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| Jointly controlled entities | Sales of goods | 183,846 | 266,397 |
| | Purchases of goods | — | 83,236 |
| Company with common directors | Sales of stock of properties | — | 56,382 |

The above transactions were carried out at market prices or, where no market price was available, at cost plus a percentage mark-up.

(b) The Group has provided guarantees to related parties, as disclosed in note 33(d), at nominal charges.

(c) At the balance sheet date, the Group had bank deposits of HK$29 million (2001: HK$28 million) and HK$10 million (2001: HK$21 million) pledged to banks to secure the banking facilities granted to an associate and a jointly controlled entity respectively.

## 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following list contains only the particulars of the subsidiaries which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

| Name of company | Place/Country of incorporation/ establishment | Proportion of paid up ordinary/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|
| | | Directly | Indirectly | |
| | | % | % | |
| Chia Tai Qingchunbao Pharmaceutical Co. Ltd. | The PRC | — | 55 | Manufacture and sale of Chinese medicine and health food |
| Garbonie Company Limited | British Virgin Islands | 100 | — | Investment holding |
| International Hope Limited | Hong Kong | — | 100 | Property investment |
| Nanyang Brothers Tobacco Company, Limited | Hong Kong | — | 100 | Manufacture of cigarettes |
| Nanyang Enterprises Limited | Hong Kong | — | 100 | Investment holding |
| Nanyang Enterprises Properties Limited | Hong Kong | — | 100 | Property investment |
| Nanyang Tobacco (Marketing) Company, Limited | British Virgin Islands | — | 100 | Sale and marketing of cigarettes and raw materials sourcing |
| Prime Location Shopping Centre Limited | Hong Kong | — | 100 | Guest house investment and operation |
| Shanghai Golden Bell Commercial Development Co., Ltd. | The PRC | — | 90 | Property development and investment |
| Shanghai Industrial Holdings Limited | Hong Kong | — | 58.5 | Investment holding |
| Shanghai Industrial Investment Treasury Company Limited | British Virgin Islands | 100 | — | Investment holding |
| Shanghai Industrial United Holdings Co., Ltd. *(Note)* | The PRC | — | 42 | Investment holding |
| Shanghai Investment Holdings Limited | British Virgin Islands | — | 100 | Investment holding |
| Shanghai Orient Shopping Centre Ltd. | The PRC | — | 51 | Management and operation of a shopping centre |
| 上海上實投資發展有限公司 | The PRC | — | 100 | Investment holding |
| Shang Shi Real Estate Holding (Shanghai) Company Limited | The PRC | — | 100 | Investment holding |
| Shanghai S. I. Capital Company Limited | The PRC | 100 | — | Investment holding and securities dealing |
| Shanghai SIIC Development Ltd. | The PRC | — | 75 | Property development and investment |
| Shanghai SIIC International Trade (Group) Co., Ltd. | The PRC | — | 100 | Import and export trade and investment holding |
| Shanghai SIIC South Pacific Hotel Company Limited | The PRC | — | 97 | Hotel investment and operations |
| SIIC (Cayman) Limited | Cayman Islands | 100 | — | Treasury management |
| SIIC Estate Company Limited | Hong Kong | — | 100 | Investment holding, property investment and development, property agency and management |
| SIIC Finance Company Limited | Hong Kong | 100 | — | Investment holding, treasury investment and loan financing |

| Name of company | Place/Country of incorporation/ establishment | Proportion of paid up ordinary/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|
| | | Directly | Indirectly | |
| | | % | % | |
| SIIC Investment Company Limited | Hong Kong | 100 | — | Investment holding and provision of management and consultancy services |
| SIIC Investment (Shanghai) Company Limited | The PRC | — | 100 | Investment holding |
| SIIC Medical Science and Technology (Group) Limited | Cayman Islands | — | 64.3 | Investment holding |
| SIIC Shanghai Holdings Company Limited | The PRC | — | 100 | Investment holding and property investment |
| SIIC Treasury (B.V.I.) Company Limited | British Virgin Islands | 100 | — | Securities investment and trading, and treasury management services |
| S. I. Infrastructure Holdings Limited | British Virgin Islands | — | 100 | Investment holding |
| SIHL Treasury Limited | Hong Kong | — | 100 | Treasury management services |
| South Pacific Hotel Holdings Limited | Hong Kong | — | 100 | Investment holding |
| South Pacific Hotel (Hong Kong) Limited | Hong Kong | — | 100 | Hotel investment and operations |
| South Pacific Hotel (China) Limited | Hong Kong | — | 100 | Investment holding |
| SF Assets Management (BVI) Company Limited | British Virgin Islands | — | 100 | Investment holding |
| Shanghai Industrial Financial (Holdings) Company Limited | Hong Kong | — | 100 | Investment holding |
| Shanghai Industrial Financial Holdings Limited | Cayman Islands | 100 | — | Investment holding |
| SF Finance (BVI) Company Limited | British Virgin Islands | — | 100 | Investment holding |
| The Tien Chu (Hong Kong) Company Limited | Hong Kong | — | 90.57 | Manufacture and trading of ve-tsin and chemicals, and property investment |
| The Wing Fat Printing Company, Limited | Hong Kong | — | 93.3 | Manufacture and sale of packing materials and printing products |
| Zhejiang Zuoli Pharmaceutical Company Limited | The PRC | — | 51 | Development, manufacture and sale of Chinese medicine and health products |
| Zhong Xing No. I Investment Fund Limited | Hong Kong | — | 100 | Property development |
| 上海上實置業有限公司 | The PRC | — | 100 | Property development |
| 上海實業聯合集團葯業有限公司 | The PRC | — | 100 | Investment holding |
| 上海瑞華投資有限公司 | The PRC | — | 100 | Investment holding |
| 常州葯業股份有限公司 | The PRC | — | 55.75 | Manufacturing and sale of Chinese medicine and health maintenance products |

*Note:* The Company had beneficial interest in approximately 42% of the issued share capital of Shanghai Industrial United Holdings Co., Ltd. ("SIUH") at 31st December, 2002. SIUH is deemed to be a subsidiary of the Company as the Company controls the composition of its board of directors.

## 38. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

The following list contains only the particulars of the jointly controlled entities which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the jointly controlled entities would be of excessive length. These jointly controlled entities are operating in the place of incorporation or establishment.

| Name of company | Country of incorporation or establishment | Proportion of paid up ordinary/ registered capital held | Principal activities |
|---|---|---|---|
| | | % | |
| Mergen Holdings Ltd. | British Virgin Islands | 50 | Investment holding in companies engaged in research and development of biotechnology products and manufacture and sale of pharmaceutical products |
| Shanghai Huizhong Automotive Manufacturing Company Limited | PRC | 50 | Manufacture and sale of commercial vehicles automobile components and spare parts |
| Shanghai Information Investment Inc. | PRC | 20 | Development of communication infrastructure and cable network and provision of internet-related services |
| Shanghai Sunve Pharmaceutical Co., Ltd. | PRC | 48 | Manufacture and sale of pharmaceutical products |
| Shanghai Wanzhong Automotive Components Co., Ltd. | PRC | 50 | Manufacture and sale of automobile components and spare parts |

## 39. PARTICULARS OF PRINCIPAL ASSOCIATES

The following list contains only the particulars of the associates which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the associates would be of excessive length. These associates are companies established and operating in the PRC except otherwise indicated.

| Name of company | Proportion of paid up registered capital held by the Company | | Principal activities |
|---|---|---|---|
| | Directly | Indirectly | |
| | % | % | |
| Jinan Quanyong Printing Co., Ltd. | — | 48 | Provision of printing services |
| EAS International Transportation Limited | — | 25 | Provision of freight forwarding and logistics services |
| Semiconductor Manufacturing International Corporation | — | 16.2 | Investment holding and manufacture and marketing of advanced technology semiconductors |
| Shanghai Chang Hai Housing and Real Estate Development Limited | — | 51 | Property development and investment |
| Shanghai Gaoyang International Tobacco Limited | — | 25 | Manufacture and trading of cigarettes |

| Name of company | Proportion of paid up registered capital held by the Company | | Principal activities |
|---|---|---|---|
| | Directly | Indirectly | |
| | % | % | |
| Shanghai Jahwa United Co., Ltd. | — | 28.2 | Manufacture, distribution and sale of personal care and cosmetics products |
| Shanghai Bright Dairy and Food Co., Ltd. | — | 30.8 | Manufacture, distribution and sale of dairy and related products |
| Shanghai Lianhua Supermarket Co., Ltd. | — | 32 | Management and operation of chain supermarkets |
| Shanghai Shen Yong Stamping Foil Co., Ltd. | — | 29 | Manufacture of stamping foil |
| Shanghai SIIC Transportation Electric Co., Ltd. | — | 30 | Manufacture, distribution and sale of automobile components |
| 上海乾通汽車附件有限公司 | — | 31.5 | Manufacture, distribution and sale of automobile components |
| Zhejiang Tianwai Tobaccos Printing Co., Ltd. | — | 35 | Provision of printing services |
| Shanghai Medical Equipment Co., Ltd. | — | 40 | Design, manufacture, distribution and sale of medical apparatus, equipment and related products |
| 上海雲湖醫葯材股份有限公司 | — | 41 | Manufacturing and sale of Chinese medicine and health maintenance products |

## 40. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to the balance sheet date:

(a) In February 2003, the Group completed the acquisition of 73.28% interest in an A-Share company listed on the Shanghai Stock Exchange, namely Shanghai Pudong Stainless Sheet Co., Ltd. ("SPSS"), at a consideration of approximately HK$1,070 million pursuant to the terms of the share acquisition agreement dated 25th September, 2002. Upon the completion of the acquisition, SPSS became a subsidiary of the Group and its name was changed to Shanghai Industrial Development Co., Ltd. ("SIDC"). SIDC will be principally engaged in real estate development and investment.

(b) In February 2003, a listed subsidiary of the Company, Shanghai Industrial Holdings Limited ("SIHL") acquired a 10% interest in Shanghai Pudong International Container Terminals Limited ("SPICT") for a cash consideration of approximately HK$178 million. SPICT is engaged in container terminal business.

(c) In April 2003, SIHL increased its interest in EAS International Transportation Limited from 25% to 50% for a cash consideration of approximately HK$141.3 million.

(d) In April 2003, a listed subsidiary of SIHL, SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), reached an agreement to acquire a 30% interests in Hanghzou Huqingyutang Pharmaceutical Co., Ltd. ("Huqingyutang Pharmaceutical") at a consideration of approximately HK$78.67 million. The relevant government authorities have approved this agreement. Huqingyutang Pharmaceutical has the exclusive licence to manufacture and sell proprietary Chinese medicines and health foods in Mainland China under the renowned "Huqingyutang" trademark, free of charge.

(e) In May 2003, SIHL entered into an agreement to dispose of all of its 51% interest in a PRC subsidiary, Shanghai Oriental Shopping Centre Ltd., for a cash consideration of approximately HK$119.9 million. The agreement is subject to approval by the relevant PRC authorities.

(f) In May 2003, SIHL entered into agreements to acquire 56.63% interest in SIUH, including approximately 42% interest in SIUH already held by the Group, for a total consideration of approximately HK$817 million. SIUH is a company established in the PRC and is listed on the Shanghai Stock Exchange. The agreements are subject to approval by the shareholders of the relevant companies and the PRC authorities.

(g) In May 2003, SIHL proposed to acquire from outside shareholders of approximately 34% shareholding in SIIC MedTech not owned by SIHL at a total consideration of approximately HK$454 million, representing HK$2.15 per share. Upon completion of the acquisition, SIIC MedTech will become a wholly owned subsidiary of SIHL. This proposal is subject to approval by the shareholders of the companies concerned and the relevant government authorities.

## UNAUDITED CONSOLIDATED INCOME STATEMENT
## FOR THE SIX MONTHS ENDED 30TH JUNE 2003

| | Six months ended 30th June | |
|---|---|---|
| | 2003 | 2002 |
| | HK$'000 | HK$'000 |
| Turnover | 5,048,982 | 4,659,573 |
| Cost of sales | (3,612,756) | (3,300,871) |
| Service costs | (120,857) | (117,894) |
| | 1,315,369 | 1,240,808 |
| Other operating income | 142,264 | 185,883 |
| Distribution costs | (385,795) | (323,270) |
| Administrative expenses | (438,276) | (332,581) |
| | 633,562 | 770,840 |
| Impairment losses and allowances | (50,328) | (19,979) |
| Profit from operations | 583,234 | 750,861 |
| Gain (loss) on disposal of investments | 163,316 | (92,008) |
| Finance costs | (296,971) | (360,499) |
| Share of results of | | |
| Jointly controlled entities | 105,026 | 98,403 |
| Associates | 103,339 | 65,490 |
| Profit before taxation | 657,944 | 462,247 |
| Income taxes | (151,698) | (107,955) |
| Profit before minority interests | 506,246 | 354,292 |
| Minority interests | (386,767) | (279,654) |
| Net profit for the period | 119,479 | 74,638 |

## SHANGHAI INDUSTRIAL INVESTMENT (HOLDINGS) COMPANY LIMITED

## UNAUDITED CONSOLIDATED BALANCE SHEET
## AS AT 30TH JUNE 2003

| | As at 30th June | |
|---|---|---|
| | 2003 | 2002 |
| | HK$'000 | HK$'000 |
| **Non-current Assets** | | |
| Investment properties | 1,174,620 | 949,642 |
| Property, plant and equipment | 4,564,501 | 4,369,197 |
| Properties for development | 2,749,511 | 2,858,554 |
| Interests in jointly controlled entities | 2,105,522 | 2,292,978 |
| Interests in associates | 3,339,293 | 2,844,060 |
| Investments in infrastructure and other development projects | 5,662,624 | 5,931,416 |
| Investments in securities | 1,867,965 | 1,649,924 |
| Other non-current assets | 287,875 | 325,858 |
| Goodwill | 464,093 | 29,707 |
| | 22,216,004 | 21,251,336 |
| **Current Assets** | | |
| Inventories | 1,078,596 | 710,067 |
| Stock of properties | 1,490,667 | 1,031,760 |
| Investments in securities | 1,755,625 | 1,537,038 |
| Loans and instalments receivable | 20,296 | 175,377 |
| Trade and other receivables | 1,928,614 | 1,422,968 |
| Deposits pledged with financial institutions | 52,051 | 40,989 |
| Placement of deposits with financial institutions | 264,151 | — |
| Bank balances and cash | 5,670,267 | 6,486,289 |
| | 12,260,267 | 11,404,488 |
| **Current Liabilities** | | |
| Trade and other payables | 2,585,713 | 2,076,364 |
| Sales deposits received | 353,301 | 186,916 |
| Taxation | 126,662 | 86,853 |
| Amounts due to minority shareholders | 264,671 | 191,161 |
| Long-term borrowings — due within one year | 1,771,403 | 2,140,805 |
| Bank loans and overdrafts | 3,476,904 | 3,850,455 |
| | 8,578,654 | 8,532,554 |
| Net Current Assets | 3,681,613 | 2,871,934 |
| | 25,897,617 | 24,123,270 |
| **Capital and Reserves** | | |
| Share capital | 10,000 | 10,000 |
| Reserves | 8,520,200 | 8,123,304 |
| | 8,530,200 | 8,133,304 |
| Minority interests | 7,877,281 | 6,976,737 |
| **Non-current Liabilities** | | |
| Long-term borrowings — due after one year | 9,127,423 | 8,900,223 |
| Other long-term payable | 204,717 | — |
| Deferred taxation | 157,996 | 113,006 |
| | 9,490,136 | 9,013,229 |
| | 25,897,617 | 24,123,270 |

# APPENDIX

# PRINCIPAL PROPERTIES AND PROPERTY DEVELOPMENT OF THE SIIC GROUP

**Portfolio of Existing Buildings in Hong Kong and Shanghai**

Details of the principal properties currently occupied or held for investment by the SIIC Group in Hong Kong and in Shanghai are summarised below.

***Hong Kong***

1) *Shanghai Industrial Investment Building*

The property is situated in Wanchai and held by The Tien Chu (Hong Kong) Company Limited ("Tien Chu"). The Shanghai Industrial Investment Building is the flagship building of the SIIC Group in Hong Kong. It is a 30-storey commercial building with a total gross floor area of approximately 186,500 sq. ft. The total rented area of the property is approximately 133,595 sq. ft.

The SIIC Group acquired the Shanghai Industrial Investment Building in 1988. At present, one storey is retained by the SIIC Group for self-use. Approximately 95% of the rentable space which is not occupied by SIIC Group is leased to not less than 40 independent third parties, generating a monthly rental income of approximately HK$1.50 million (excluding management fees). Most of the tenancy agreements have a term of two years with an option exercisable by the tenant to renew for a further term of one to two years at the prevailing market rates.

The properties have been valued by DTZ Debenham Tie Leung Limited at HK$320 million as at 31 December 2002. The valuation was made by considering the capitalisation of income derived from existing tenancies with due provision for the reversionary income potential of the property.

2) *South Pacific Hotel*

The South Pacific Hotel, a 29-storey plus two basements three-star hotel with 276 guest rooms situated in Wanchai, Hong Kong held and managed by the South Pacific Hotel (Hong Kong) Ltd.. The average occupancy rate over the last five years is approximately 79.93%.

The property has been valued by DTZ Debenham Tie Leung Limited at HK$510 million as at 31 December 2002. The valuation was based in part on certain assumptions as to the future trading potential of, and the level of turnover likely to be achieved by, the South Pacific Hotel.

3) *Tien Chu Industrial Centre*

The property is situated in Tsing Yi and held by Tien Chu. The total gross floor area is approximately 245,616 sq. ft. At present, two blocks are used by Tien Chu for as office, production and storage of its products, while 35.47% of three other blocks are rented to unrelated third parties. The total monthly rental income generated from the property is currently approximately HK$378,400. The tenancy agreements are usually for a term of two years with an option exercisable by the tenant to renew for a further term of two years.

The property has been valued by DTZ Debenham Tie Leung Limited at HK$65 million as at 31 December 2002. The valuation was made by considering the capitalisation of income derived from existing tenancies with due provision for the reversionary income potential of the property.

4) *Tien Chu Commercial Building*

The property is a 23-storey commercial building situated in Wanchai and held by SIIC Estate Company Limited ("SIIC Estate"), a subsidiary of SIIC. The land was acquired by Tien Chu in 1982 and the construction of Tien Chu Commercial Building was completed in 1984. The ground floor is used for retail purposes and the first to twenty-second floors as offices. The total gross floor area of the property is approximately 32,320 sq. ft. As at June 2003, all of the rentable office and retail space was rented out to independent third parties, generating total rental revenue of approximately HK$364,858 per month.

The property has been valued by DTZ Debenham Tie Leung Limited at HK$60 million as at 31 December 2002. The valuation was made by considering the capitalisation of the income derived from existing tenancies with due provision for the reversionary income potential of the property.

5) *Property in Tuen Mun*

The property is a 16-storey industrial building in Tuen Mun with three basement levels and a total gross floor area of approximately 430,547 sq. ft. It was acquired in 1997 by Nanyang Enterprises Properties Limited ("Nanyang Properties"), an indirect wholly-owned subsidiary of the Guarantor.

Pursuant to a tenancy agreement entered into between Nanyang Properties and Nanyang Tobacco in May 1997, the property is currently leased to Nanyang Tobacco until 30 April 2017 at the current monthly rent of HK$1,085,000, which will be revised annually at a fair market rent as may be agreed between the parties. Nanyang Tobacco has an option to extend the tenancy for a further term of five years.

6) *26th and 27th Floors, Harcourt House*

The property comprises two office floors on the 26th and 27th Floors of a 28-storey commercial building in Wanchai which was completed in 1987. The Guarantor acquired the property in July 1996. The two floors have a total gross floor area of approximately 35,941 sq. ft. Approximately 91% of the 26th Floor is rented to SIHL Group for use as its headquarters at approximately HK$368,600 per month. Approximately 40% of the 27th Floor is rented to Shanghai Industrial for a term of three years from 1 January 2002 at approximately HK$135,000 per month. The remaining portions of the two floors are occupied by the SIIC Group.

7) *West Hotel*

This building, completed in February 1996, is situated in Jordan, Kowloon. The land, with a site area of 3,582 sq. ft., was acquired as a vacant site in 1994 by Prime Location Shopping Centre, a subsidiary of the SIIC Group and subsequently renovation work was performed to transform it into a guesthouse.

The completed guesthouse, the West Hotel, comprises a 21-storey guest house with 114 guest rooms which has a total gross floor area of 43,546 sq. ft.

The properties have been valued by DTZ Debenham Tie Leung Limited at HK$80 million as at 31 December 2002.

***Shanghai***

1) *Four Seasons Hotel*

The Shanghai Four Seasons Hotel, a 38-storey plus 3-level basement high-class hotel with 439 guestrooms situated in Shanghai, PRC which is directly held by Shanghai SIIC South Pacific Hotel Co., Ltd. ("SIIC South Pacific"). The hotel commenced business in March 2002. The number of guestrooms available increased from 109 in March 2002 to 432 in December 2002. The property was managed by the Four Seasons Hotel Group, a reputable international hotel management group which is also an indirect strategic shareholder of SIIC South Pacific.

2) *Golden Bell Plaza*

Golden Bell Plaza is situated at the junction of Huai Hai Zhong Road and Long Men Road in the business centre of the Luwan district, about five minutes' walk from the People's Square underground station and the Huang Pi underground station. The property has a site area of approximately 65,413 sq. ft. and in a high quality commercial building which have 45 floors with three basement levels and a total gross floor area of approximately 9,879,270 sq. ft. The property is used as a shopping arcade and ancillary facilities from the first to thirteenth floors. From the fourteenth floor upwards, the property is used as office premises.

The development of Golden Bell Plaza is being carried out by Shanghai Golden Bell Commercial Development Co., Ltd. ("Golden Bell Co") in which the SIIC Group holds 90% shareholding.

As at 30 June 2003, the SIIC Group owns a total gross floor area 521,835 sq. ft. of the Golden Bell Plaza. Among those areas owned, 303,489 sq. ft. is rented to third parties, 22,776 sq. ft. is for sales and 195,570 sq. ft. is used by the SIIC Group as its office premises. The monthly rental income generated is approximately HK$1,990,600.

4) *Shanghai Industrial Building*

The property is located above one of the metro railway stations in the business and transportation hub in Xujiahui Commercial City, which is one of the busy commercial districts in the southwestern part of Shanghai. The building, completed in December 1996, is an office tower with a total gross floor area of approximately 670,000 sq. ft. Adjacent to the Shanghai Industrial Building are two residential towers and the Shanghai Orient Shopping Centre (see "Shanghai Orient Shopping Centre" in this Appendix).

Shanghai Industrial Building was developed by 上海實業開發有限公司, previous known as Shanghai SIIC Development Ltd. ("SIIC Development"). SIIC Development is a Sino-foreign co-operative joint venture between a state-owned PRC party and Shang Shi Real Estate Holding (Shanghai) Co., Ltd. ("SSHC"), an indirect subsidiary of SIIC. The joint venture was established in 1988 for a term of 50 years. The total investment and total registered capital of SIIC Development are US$75 million and US$18.75 million, respectively. Under the joint venture agreement, SSHC is entitled to appoint eight out of eleven directors of SIIC Development with the Chairman of the board of directors being appointed by SSHC. The SIIC Group will receive 74% of the profits arising from the Shanghai Industrial Building and its PRC joint venture partner will receive the other 26%.

Shanghai Industrial Building has one basement level, eight podium levels and forty floors for office use. A total of eleven floors consisting of four podium levels and seven office levels and representing a total gross floor area of approximately 616,800 sq. ft. (excluding parking spaces) have been acquired by the SIIC Group for its own use. SIIC Development has sold a total gross floor area of approximately 476,008 sq. ft. to independent third parties. For the remaining floor space of approximately 140,792 sq. ft., 17,093 sq. ft. is occupied by SIIC Group and 123,699 sq. ft. is rented to third parties, generating total rental revenue of approximately HK$1,217,000 per month.

5) *Shanghai Orient Shopping Centre*

Shanghai Orient Shopping Centre was developed and is held by SIIC Development, the joint venture company which also developed the Shanghai Industrial Building. The term of the project is 22 years. Pursuant to the joint venture contract, SSHC is entitled to the full recovery of its investments in Shanghai Orient Shopping centre over the first ten years of the term of the project, which term commenced in 1993. From the eleventh year of the project, SSHC and its PRC joint venture partner will be entitled to 92%, and 8%, respectively, of the profit arising from the project. On the expiry of the term of the project, all the rights of the Shanghai Orient Shopping Centre, including the land use rights, shall be transferred to the PRC joint venture partner without consideration. Whilst SIIC Development may lease the Shanghai Orient Shopping Centre to a third party, the land use rights and the buildings thereon cannot be disposed of by SIIC Development.

Shanghai Orient Shopping Centre is leased to Shanghai Orient Shopping Centre Ltd., a joint venture enterprise in which the SIHL Group prior to its disposal in May 2003, has a 51% interest. The total rental area is approximately 296,605 sq. ft. The current monthly rental income arising from the Shanghai Orient Shopping Centre to SIIC Development is approximately HK$1,915,094.

**Properties under Development**

Details of the principal properties held for development by the SIIC Group in Hong Kong and Shanghai are described as below.

***Hong Kong***

1) *Site in Tokwawan*

The property is situated in the north eastern edge of the Ma Tau Kok area and comprises a site area of approximately 152,634 sq.ft. In 1999, the Group has disposed of approximately 80% interest in the landsite to two major Hong Kong properties developers in order to jointly develop a residential and hotel project. The remaining 20% interest of the property is held by the Zhong Xing No. 1 Investment Fund Limited ("Zhong Xing"). The development will comprise of six blocks of 58-storey buildings which provide approximately 2,200 residential units and a hotel building are proposed to be erected. Upon completion, the property will have a total gross floor area (excluding the car parking areas) of approximately 1,508,942 sq.ft. which is made up of retail and residential accommodations and 230,567 sq.ft. of hotel accommodation. For the residential towers, namely the "Sky Tower", pre-sale has been launched since Mid-2002. The construction is expected to be completed in 2004/05.

***Shanghai***

1) *Chongming Island landsite*

In 1998, the Shanghai Municipal Government allocated to the SIIC Shanghai Holdings Co., Ltd. a landsite of 84.68 square kilometers (equivalent to 911,488 sq.ft.) at the east tip of Chongming Island, which is located in the central section of the PRC's golden coastline and the estuary of the Yangtze River, and is the third largest island in PRC. The Shanghai Municipal Government allocated the land sites without any specified lease terms. An aggregate value of approximately RMB2,607 million was ascribed to these land sites based on a valuation carried out by a local property appraiser in 1998. This amount had been accounted for as a capital contribution to the relevant subsidiary by the Shanghai Municipal Government. However, the assignment, lease or mortgage of the land sites remains subject to the prior approval of the Shanghai Municipal Government. In making the allocation, the Shanghai Municipal Government had agreed that the rights and benefits arising from this subsidiary be vested with the SIIC Group.

The SIIC Group is now drafting a long term development plan and conducting other relevant preparatory works in order to capitalise the potential business opportunities arising from the future infrastructure projects conducted on or through the Chongming Island.

**ISSUER**

**Shanghai Industrial Investment Treasury Company Limited**
PO Box 957
Offshore Incorporations Centre
Road Town, Tortola
British Virgin Islands

**GUARANTOR**

**Shanghai Industrial Investment (Holdings) Company Limited**
27th Floor, Harcourt House
39 Gloucester Road
Hong Kong

**AUDITORS OF THE GUARANTOR AND SHANGHAI INDUSTRIAL**

**Deloitte Touche Tohmatsu**
26th Floor
Wing On Center
111 Connaught Road Central
Hong Kong

**TRUSTEE**

**The Hongkong and Shanghai Banking Corporation Limited**
Level 30, HSBC Main Building
1 Queen's Road Central
Central
Hong Kong

**REGISTRAR**

**HSBC Private Bank (Jersey) Limited**
PO Box 88
1 Grenville Street
St Helier Jersey
JE4 9PF
Channel Islands

**PRINCIPAL PAYING, EXCHANGE AND TRANSFER AGENT**

**The Hongkong and Shanghai Banking Corporation Limited**
Level 30, HSBC Main Building
1 Queen's Road Central
Central
Hong Kong

**LEGAL ADVISERS**

*To the Issuer*
*as to British Virgin Islands law*
**Conyers, Dill & Pearman**
2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

*To the Issuer and the Guarantor*
*as to Hong Kong and English law*
**Allen & Overy**
9th Floor
Three Exchange Square
Central
Hong Kong

*To the Managers and the Trustee*
*as to Hong Kong and English law*
**Linklaters**
10th Floor
Alexandra House
Chater Road
Hong Kong



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

上海實業集團成員 A Member of SIIC

Printed by IFN Financial Press Limited
24121