Chairman's Statement

I hereby present to the shareholders the summarised results of the Group for the year ended 31 December 2003 as follows:

Profit for the year
HK$1,259.17 million

Earnings per share
HK$1.34

Proposed final dividend
HK32 cents per share

Chairman's Statement

Cai Lai Xing
Chairman

The year 2003 was an extraordinary one with numerous challenges for Shanghai Industrial. The economic situation in the first half-year, both globally and in Hong Kong, remained depressed with the war in Iraq and SARS erupting. The economies of China and Hong Kong, and even business contacts between Shanghai and Hong Kong, were dealt a severe blow. Meanwhile, the Group faced serious pressure to restructure its business with a need to resolve the issue of the guaranteed fixed-return projects in China, resulting in the market's concern over our future profits. The management team reacted positively and followed through determinedly its business transformation strategy, implementing several important operating and development initiatives during the year. We not only managed to overcome the difficulties in our operation but also achieved outstanding results that were well received in the market. Both share price and market capitalisation rose substantially. In the latter half of 2003, the operating environment improved and the performance of existing businesses recorded good results. Furthermore, the Group's associated company, Semiconductor Manufacturing International Corporation ("SMIC"), issued additional preference shares at a premium, bringing an exceptional profit of approximately HK$239.15 million to the Group. As at 31 December 2003, the Group recorded an audited consolidated profit of approximately HK$1,259.17 million for the year, a rise of approximately 11.8% compared to the previous year. We saw a steady growth in business and overall operating performance was good.

> **The issue of guaranteed fixed return projects was settled properly**

After the PRC State Council announced in September 2002 that local governments must address the issue of guaranteed fixed return investment projects with foreign entities, the Group began to explore a resolution with the relevant authorities. After many rounds of negotiation, an agreement was reached in late August 2003. The Group disposed of its entire interests in the two elevated highway projects to the joint venture partners in China, and received full reimbursement of the carrying value of the investments plus after-tax compensation, totalling HK$5,762.33 million. The issue of elevated highway projects was thus fully settled.

> **The Group seized the opportunity to restructure its infrastructure business portfolio**

While disposing of the elevated highway projects, the Group seized the opportunity to acquire the right to operate the Shanghai-Nanjing Expressway (Shanghai section) for 25 years, for a consideration of RMB2 billion. The Group also collaborated with a subsidiary of the State enterprise China Energy Conservation Investment Corporation to form China Water & Sewage Treatment Company Limited, to invest in and operate water services businesses in China. The Shanghai-Nanjing Expressway is one of the busiest toll roads in the Yangtze River

Delta and investing in this quality project will bring steady cash income for the Group every year. Meanwhile, Mainland China has further opened public utilities markets to foreign enterprises. Water services projects have the characteristics of natural resources and possess enormous potential for market development. The Group made a timely entrance into the water services market in the year. As the economy in China grows steadily, returns on highway and water services projects will enjoy continuous growth. Profit contribution from the original elevated highway projects would have diminished annually due to amortization of their investment costs every year, whereas the new infrastructure investments will bring noticeable growth in profits to the Group.

As at the end of 2003, the throughput of Shanghai ports exceeded 11.28 million TEUs, representing an approximate 30% average annual growth. The Shanghai container port has become the world's third largest. The Group's joint venture company, Shanghai Pudong International Container Terminals Limited, operates the Phase I project of the Shanghai Waigaoqiao Container Port. Since it commenced business on 1 March 2003, satisfactory growth was recorded in both income and throughput compared to the previous year. The Group will continue to explore opportunities for increasing investment in port infrastructure in the future. The Group's realignment of infrastructure projects is basically completed – focusing on toll roads, water services and port facilities. The current business portfolio is of a high quality with growth potential.

> **The core business is being predominantly developed and the medical segment consolidated into a single investment and operating platform**

Medicine and biotechnology has been a relatively fast-growing business in the Group, and is also one of the core businesses being predominantly developed. This business segment entered into a new stage of development in 2003 with the implementation of two major reorganisation moves in the medical business segment. Three listed companies in Shanghai and Hong Kong were involved and total funds worth approximately HK$1,335.07 million. One of the moves was to acquire an approximate 56.63% interest in the A-share company Shanghai Industrial United Holdings Co., Ltd. ("SI United"), listed on the Shanghai Stock Exchange, from the parent company and other independent third parties; and the other was to privatise SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), listed on the GEM board of the Hong Kong Stock Exchange. The acquisition of SI United is now in its final stage of approval by the relevant PRC government authorities, while SIIC MedTech was officially withdrawn from listing on 17 September 2003. As a result of the restructuring, the medical businesses of the Group and its parent company will be combined and focus on a single investment and operating platform incorporating Chinese medicine, health food, biomedicine, chemical pharmaceuticals, medical equipment and medicine retails. This will make the business structure more focused, enhancing management efficiency and allowing better allocation of resources.

"SMIC brought remarkable exceptional profit to the Group, enabling it to realise capital appreciation"

The Group invested in SMIC in 2001 and became its single largest shareholder. After three years of rapid growth, SMIC has become one of the leading semiconductor foundries in the world, and was ranked the fourth leading semiconductor foundry in the world by *IC Insights* in 2003. The SMIC Shanghai factory was selected one of the 'Top Fabs of 2003' by the magazine *Semiconductor International* in 2003. As

semiconductors are used more extensively, the strong demand for semiconductors from the Chinese and global markets will further boost SMIC's global sales. In view of the powerful potential of the industry as well as the scale and competitive edge of the business, SMIC took the opportunity to issue twice additional preference shares at a premium in 2003, bringing an exceptional profit of HK$239.15 million to the Group and enabling it to realise capital appreciation. In addition, after months of preparation, SMIC was successfully listed simultaneously in the United States and Hong Kong in March 2004, raising total funds exceeding HK$7.8 billion. It is expected to generate a remarkable exceptional profit for the Group in 2004.

"Overall business performance achieved steady progress and profit contributions continuously increased"

Despite facing various challenges in the past year, the Group continued to strengthen the operating capabilities of its existing businesses. Overall business performance achieved steady progress and recurring income continued to grow. Medicines, consumer products, and automobiles and parts in the existing portfolio all offered good performances and continued to make steady profit contributions. Profit from Nanyang Brothers Tobacco Company, Limited rose by about 60.3% from the previous year. Bright Dairy and Food Co., Ltd. achieved double-digit growth in both sales revenue and profit for the eighth consecutive year. On 1 January 2004 it was selected as one of the constituents of the 'Shanghai Stock

Exchange 50 A-Share Index' by the Shanghai Stock Exchange. All companies in the medicine segment recorded satisfactory performance, with a total turnover of HK$1,127.89 million in 2003, generating a profit of over HK$125.28 million for the Group. Shanghai Sunway Biotech Co., Ltd. made rigourous efforts in the development of the anti-tumour medication H101 (Gene-engineered Adenovirus Injection) project during the year. After five years of research, Phase III clinical trials for H101 were completed, further certifying efficacy of the drug. It is expected that certification for the new drug will be received in 2004. Phase I clinical trials for H103 have commenced. SIIC MedTech received two prestigious awards in 2003, including the 'Best BioTechnology Company' in the 4th Outstanding Information Technology and Financial Enterprise Awards organized by Capital magazine; and the '2003 Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500' award from Deloitte Touche Tohmatsu. These awards are firm recognition of the Group's efforts in the operations of its medical businesses in the past few years.

2003 saw an explosive growth in the automobile market in China. Shanghai Huizhong Automotive Manufacturing Co., Ltd. was engaged in both vehicles and parts manufacturing during the year. Total sales exceeded RMB5.9 billion, yielding a net profit of RMB221.92 million. Manufacture and sales of 15-tonne heavy duty trucks exceeded 1,000 units for the first time. Shanghai SIIC Transportation Electric Co., Ltd. achieved a net profit of approximately RMB123.79 million during the year, while its products continued to be listed on the 'Top 100 Famous Brands in Shanghai' for the fourth consecutive year.

“We have a robust and stable financial position, and maintain stringent risk control”

To accelerate the pace of business development on the Mainland, the Group instituted a new, interactive management structure between Shanghai and Hong Kong during the year. Initial consolidation of the business team in the Shanghai region was completed, further strengthening and improving investment and management with effective governance in member companies on the Mainland and thus helping the Group to expand its investments in other regions in China. In the past year, management persevered in the principle of 'prudence and progression' and put in enormous efforts in stabilizing and developing the business. The operating objectives for the year were primarily achieved; growth targets were met; consolidation brought notable results; and share price and market capitalisation saw breakthroughs. The Group adopts a prudent approach to its financial management but a flexible one towards investment. We also review allocation of our financial resources and fund management strategies regularly. We have in place effective risk control and management measures as well as a capital budget and an investment assessment system. Monitoring changes in the market during the year, the Group was agile in mobilizing part of its cash resources to seize numerous opportunities in the capital market, realising remarkable short-term gains. The Group is in a healthy financial position. Cash in hand of approximately HK$5,354.80 million and total net assets at HK$14,490.84 million were recorded as at 31 December 2003, providing good conditions for future investments in quality projects. While the macro environment is improving, competition in the market is still keen. Therefore, cost reduction and stringent risk control remain some of the Group's most important policies. In the meantime, the Group addresses investor relations seriously and actively strengthens communication with investors. In addition, we continue to improve corporate governance and enhance transparency to encourage robust management for long-term development.

Prospects

The PRC economy achieved a sustained growth. GNP and economic growth have reached new levels. The integrated economic power in the Shanghai and Yangtze River Delta has risen rapidly, offering tremendous business opportunities for investors. The Group benefits from its parent company's unique

background and advantage in Shanghai and has been investing in Shanghai and the major areas of the Yangtze River Delta since the company's founding, illustrating the long-term and consistent support it receives from the Shanghai Municipal Government.

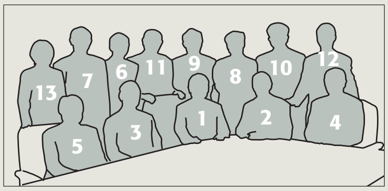
Shanghai has experienced rapid economic development in recent years. The city continues to develop into the centre of international economic, financial, trade and shipping activities. There is also a strong and sustained growth in domestic consumption in major cities and provinces. The environment is favourable to the Group's medicine, consumer products, and automobiles and parts businesses. Infrastructure and port facilities also benefit from this boom and future profits should be maintained at an upward trend. As a result of the Closer Economic Partnership Arrangement (CEPA) and the increasing number of tourists from the Mainland, the Hong Kong economy will turn around gradually. A dynamic flow of activities between China and Hong Kong will provide a momentum for the Group's business development.

The Group in recent years has been determinedly undergoing a business transformation, with a view to optimizing its investment portfolio and further withdrawing from non-core businesses. On the existing profit base, we continue to cultivate new business clusters and maintain healthy growth in the Group's businesses. And we have accomplished positive results. Presently, the Group shows clear indications on its business orientation, with four main business segments, namely infrastructure facilities, medicine and biotechnology, consumer products and automobiles and parts; and information technology. We will continue to work on achieving breakthroughs in operating performance and profitability of our core businesses, while strengthening control on system risks. Through mergers and acquisitions, we aim at consolidating and elevating the Group's integrated competitiveness, to achieve even bigger and better developments, with the ultimate objective of creating the utmost value for shareholders.

Cai Lai Xing
Chairman

Hong Kong
16 April 2004

Board of directors and management executives



Board of directors

1	Cai Lai Xing	*Chairman*
2	Lu Ming Fang	
3	Lo Ka Shui	*Non-executive directors*
4	Woo Chia-Wei	*Non-executive directors*
5	Leung Pak To, Francis	*Non-executive directors*
6	Ding Zhong De	
7	Lu Shen	
8	Qian Shi Zheng	
9	Lu Yu Ping	
10	Yao Fang	
11	Ge Wen Yao	

Management executives

2	Lu Ming Fang	*CEO*
8	Qian Shi Zheng	*Deputy CEO*
12	Zhou Jie	*Deputy CEO*
9	Lu Yu Ping	*Deputy CEO*
13	Wang Xiao Dong, Shanel	*Deputy CEO*