

Chairman's Statement

I am pleased to announce that the audited consolidated profit of the Group for the year ended 31st December 2004 amounted to HK\$1,383.06 million, an increase of 9.8% over 2003. This represents the highest profit level achieved by the Group since listing in May 1996. The healthy financial position of the Group has presented excellent potential for our future development. As at 31st December 2004, consolidated net asset value amounted to HK\$15,617.46 million, and net cash in hand was HK\$3,709.55 million. The Directors have recommended a final dividend of HK35 cents per share to Shareholders. Together with the interim dividend of HK20 cents per share paid during the year, the total dividend for the year amounted to HK55 cents per share, representing an increase of 10% over the previous year. The dividend payout ratio is 37.9%.



Cai Lai Xing

Chairman

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During the year, the Group faced enormous difficulties and challenges. As a result of the disposal of its entire investment in fixed-return elevated highway projects, the Group came short of HK\$700 million in fixed income, putting immense pressure on the Group's profit structure for the year. However, with continued efforts by the management and all staff members as well as meticulous operations from each business unit, the Group achieved encouraging results during the year. Steady growth in the consumer products segment has provided strong financial support for the Group and contributed to the continued development of the Group's infrastructure and medicine business segments. The success of the dual listings of Semiconductor Manufacturing International Corporation ("SMIC") on the United States and Hong Kong stock markets in March 2004 also brought in significant exceptional profits for the Group.

To focus on the development of the Group's core segments and businesses, the following measures were implemented during the year:

- ***Increasing the scale of investment and operation in water services and establishing a strong foundation for the Group's earning potential***

During the year, maximizing on the excellent opportunities offered by the opening of the water services market in Mainland China, the Group focused on the expansion of water services business. Despite strong competitions, the Group won contracts for water supply and sewage treatment services in five mainland cities. These projects will generate a combined capacity of approximately 2.8 million tonnes of water supply and sewage treatment with a total investment of RMB1,435 million. General Water of China Co. Ltd. is one of the fastest-growing enterprises of its kind in Mainland China. With the substantial growth of China's economy and the unprecedented pace of urban development in the mainland, demand for water supply and sewage treatment has been rising sharply. Combined with the rising water tariff across the country, prospects for the water services market are bright.



- ***Accelerating the development of toll road business in the Yangtze River Delta and improving operation to generate higher profits***



We took over the management of Shanghai-Nanjing Expressway, which we acquired for RMB2 billion, and generated steady improvement of performance. The company was further granted with tax benefits of full waiver and 50 percent deduction in two successive five-year periods respectively which contributed to a positive operating environment. In November 2004, the Group invested RMB283 million to purchase a 30 percent stake in Yongjin Expressway (Jinhua Section) in the Zhejiang province. Yongjin Expressway is part of the national highway network and a major trunk road, linking the port of Ningbo with the road networks of

central and western Zhejiang, and the Anhui and Jiangxi provinces. With its strategic geographical position, we are confident that the project will generate a favourable return on investment and become a new and reliable source of profit for the Group.

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- **Restructuring the medicine business to enhance further mergers and acquisitions**



Over a period of 17 months, the Group successfully restructured its medicine business. First, it privatized SIIC Medical Science and Technology (Group) Ltd., formerly listed on the Growth Enterprise Market in Hong Kong; then it acquired a 56.63 percent stake of Shanghai Industrial United Holdings Co. Ltd., listed on the A-share market of Shanghai Stock Exchange, with the approval of the State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Commerce and the China Securities Regulatory Commission. The latter helped the Group develop a financing vehicle in the mainland capital market. This restructuring enabled the consolidation of the Group's and

our parent group's medicine businesses into a single investment and operation platform. This further improved the structure of the business, creating a favourable environment for the next round of enterprise restructuring, acquisitions and mergers.

- **Effectively pursuing a strategy of asset operation to boost profit growth**

During the year, the Group effectively pursued a strategy of asset operation, achieving remarkable results. SMIC was listed in March 2004 and provided the Group with exceptional profits of approximately HK\$632 million for the financial year. Meanwhile, other strategic investments, including Ctrip.com International and China Netcom had achieved capital appreciation and contribution to the Group's profit growth.

- **Divesting non-core business projects and improving the Group's business structure**

The Group divested its department retail business in 2003, followed by an orderly retreat from investments in logistics and related businesses during the year, resulting in a cash income of approximately HK\$275.61 million. While maintaining overall profit levels, we will continue to divest non-core investments and focus our resources on improving business structure.

In recent years, the Group has been able to pursue the strategy of combining business and asset operations with good results. This has contributed to increased profits and enhanced value. Capitalizing on globalization and the rise of a knowledge-based economy, we will continue to enhance our growth and strengthen our competitive position.

To strengthen corporate management, the Group adopted a process-oriented management approach. By engaging project managers in each business unit, the Group expects to further raise project management standards. It has also enhanced its corporate governance standards with the establishment of a Remuneration Committee to enhance management performance. The Group will continue to review and develop financial controls as well as internal control and risk management systems. These initiatives will help provide a solid foundation for future development and safeguard our Shareholders' interests.

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Prospects


With access to local and overseas financing channels, our Shanghai background and competitive advantages on the mainland, as well as our solid business foundation, the Group has been able to serve as a bridge between markets in Mainland China, Hong Kong and overseas. It has further positioned itself to capitalize on a diverse array of opportunities by initiating joint efforts between companies in the mainland and overseas to develop the overseas market, as well as introducing overseas capital to the mainland market.



Looking forward, our aim is to strengthen our infrastructure and medicine businesses, to enhance their competitive positions and to achieve major breakthroughs. Water services is the major component of our infrastructure segment. We will continue to increase our investment in this area and to create a favourable environment for the rapid development of the business. In the toll road business, the Group will strive to acquire more highway projects in the Yangtze River Delta area, strengthening our profit base in infrastructure facilities. In the medicine arena, the Group's pharmaceutical enterprises have maintained leading positions in the mainland, in particular, in the Chinese medicine sector. The Group is committed to acquiring enterprises whose core competitiveness lies in branded herbal medicines and biomedicines. We will also step up the restructuring of our internal resources in order to maintain our leading position in the medicine industry in Mainland China.

With full confidence in our development prospects, we will continue to consolidate our business structure, establishing a solid foundation for our future growth. Meanwhile, we will capitalize on opportunities brought about by the restructuring of state-owned enterprises in the mainland, and will actively identify and acquire high-potential companies that are complement with our major businesses. We will take full advantage of our parent company's competitive position in the Shanghai area to create greater value for our Shareholders.

On behalf of the Board of Directors, I wish to thank our Shareholders for their unfailing support for the Group, and extend my heartfelt gratitude to our management team and staff members for their unrelenting efforts and hard work.



Cai Lai Xing

Chairman

Hong Kong, 21st April 2005