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Infrastructure Facilities

Company name	Location	Group's interest held	Principal business
General Water of China Co. Ltd.	Beijing	50%	Water supply and sewage treatment
Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd.	Shanghai	100%	Toll roads
Jinhua Jinyong Expressway Construction & Investment Co. Ltd.	Jinhua, Zhejiang	30%	Toll roads
Shanghai Pudong International Container Terminals Ltd.	Shanghai	10%	Port facilities

The Group's infrastructure facilities business was established in 1996. Over these years, the focus has expanded from toll roads to water services and port facilities, and infrastructure has become one of the Group's core businesses, which is capital-intensive. During the year, the Group secured a total of seven water services and toll road acquisition projects, involving a total investment of more than HK$1.6 billion, which together offer a significant opportunity for profit growth. In 2004, the infrastructure facilities business recorded a net profit of around HK$156.13 million, representing 18.1 percent of the Group's net profit, excluding exceptional profit from the listing of Semiconductor Manufacturing International Corporation ("SMIC") and net corporate expenses.

Water Services

At the end of 2003, the Group formed a joint venture, General Water of China Co. Ltd. ("GWC"), formerly known as China Water and Sewage Treatment Co. Ltd., with China Energy Conservation Investment Corporation ("CECIC"), thereby entering the water services market on the mainland. During the past year, GWC has secured a total of six water services projects, in Xiangtan, Hunan Province; Bengbu, Anhui Province; Xiamen, Fujian Province, Chongqing Municipality and Huzhou, Zhejiang Province, representing a total investment of RMB1,435 million with a daily capacity of 2.07 million tonnes of water supply and 700,000 tonnes of sewage treatment.

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Details of the six water services projects:

Xiangtan Water Supply and Sewage Treatment Project, Hunan Province

Xiangtan GWC Water Services Co. Ltd. (湘潭中環水務有限公司) is a joint venture between GWC and Xiangtan Water Supply Co. (湘潭市自來水公司). GWC owns 70 percent of the business, which has a term of operation of 30 years. The joint venture owns the concession to supply water to Xiangtan city, and has total assets of RMB273.63 million and net assets of RMB167.44 million. The project has a daily water supply capacity of 425,000 tonnes. This project offers substantial scope for market expansion, and operations are expected to expand further through acquisitions in neighbouring regions and the construction of new water pipeline network.

Bengbu Water Supply Project, Anhui Province

Bengbu GWC Water Services Co. Ltd. (蚌埠中環水務有限公司) is a joint venture between GWC and Bengbu Construction Investment Co. Ltd. (蚌埠市建設投資有限公司) in the Anhui Province. GWC owns a 60 percent stake in the joint venture, with a term of operation of 30 years. The joint venture owns all water operations assets in Bengbu city, including pipeline networks and water plants, with a daily water supply capacity of 410,000 tonnes. The company has total assets of RMB318.75 million and net assets of RMB250.76 million.

Xiamen Water Supply and Sewage Treatment Project

GWC and Xiamen Water Services Group Ltd. (廈門水務集團有限公司) formed two joint ventures at the end of last year: Xiamen GWC Water Supply Ltd. (廈門水務中環製水有限公司) ("Water Supply Ltd.") and Xiamen GWC Sewage Treatment Ltd. (廈門水務中環污水處理有限公司) ("Sewage Treatment Ltd."). GWC holds 45 and 55 percent stakes respectively in the two companies, with a term of operation of 30 years. These are regarded as the most significant water asset acquisition projects on the mainland in 2004. Water Supply Ltd. has total assets of around RMB337.15 million, and net assets of RMB272.16 million, with a daily water supply capacity of 995,000 tonnes. Sewage Treatment Ltd. has total assets of around RMB851.61 million, and net assets of around RMB831.94 million, with a daily sewage treatment capacity of 559,000 tonnes.

Chongqing (Changshou) Chemical Industrial Zone Water Supply and Sewage Treatment Project

Chongqing GWC Water Services Co. Ltd. (重慶中環水務有限責任公司) is a BOO (build-own-operate) project wholly owned by GWC, with a term of operation of 50 years. Chongqing (Changshou) Chemical Industrial Zone is the second largest industrial zone in Chongqing Municipality, and is one of China's largest state-certified chemical industrial zones after Shanghai Chemical Industrial Zone. The project started with Industrial Park Phase 1. It will produce 240,000 tonnes of water per day for industrial and domestic use within the zone, and treat 40,000 tonnes of sewage from industrial and domestic sources every day. Involving a total investment of around RMB600 million, the project is expected to begin operation by 2007.

Zhejiang Huzhou-East New District Sewage Treatment Project

Huzhou GWC Water Services Ltd. (湖州中環水務有限責任公司) is a wholly owned subsidiary of GWC. The Company enjoys a term of operation of 20 years for the Zhejiang Huzhou-East New District Sewage Treatment Project, a BOT (build-operate-transfer) project. It is designed to treat 100,000 tonnes of sewage daily. Total investment is around RMB100 million. Environmental appraisal and site selection and planning have been completed and approval has been granted for the preliminary design. The project is expected to begin operation by 2006.

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The Group aims to become one of the most important providers of water services in China. We will fully explore development opportunities and take advantage of government policies that promote this market. By demonstrating the combined advantages of the Group and CECIC in capital, technology and management, we can further expand the scale of our water supply, sewage treatment and pipeline network business.

Toll Roads

Highways in Mainland China have developed rapidly over the last ten years. A national network linking the major provinces and cities is now in place. As vehicle ownership and economic interaction between the regions have increased, highway traffic in fast-developing areas, especially the Yangtze River Delta, has grown steadily.

The Shanghai-Nanjing Expressway (Shanghai Section) Project is a toll road business wholly owned by the Group. The Shanghai-Nanjing Expressway is divided into two sections (Shanghai and Jiangsu). The Shanghai section, 26 kilometres long, features some of the heaviest traffic in the Yangtze River Delta. During the year, despite expansion works and restricted truck entry on the Jiangsu section, the Shanghai section maintained a good rate of growth. Toll revenue reached RMB210 million, representing a 16-percent increase over the previous year. Daily exit traffic reached 42,677 vehicles. The tax benefit of full waiver and 50-percent reduction in two successive five-year periods respectively also contributed to a positive operating environment. As rapid economic development of the Yangtze River Delta region and the spread of conurbations have led to a continuous increase in traffic volume, two lanes in each direction on the Shanghai section are no longer adequate. To meet the higher demand, the Group has carried out full preliminary work on expanding the section to four lanes in each direction in the latter half of 2004. Construction is expected to begin in the second half of 2005. Both vehicle flow and toll revenue are expected to increase on completion of the expansion project.

In November 2004, the Group purchased a 30 percent stake in Jinhua Jinyong Expressway Construction & Investment Co. Ltd. ("Jinyong Construction") for RMB283 million. Jinyong Construction enjoys operating rights for Yongjin Expressway (Jinhua section). The expressway, 185 kilometres long, is divided into the Jinhua, Shaoxing and Ningbo sections. The Jinhua section is approximately 70 kilometres in length. Construction started in 2002, involving a total investment of around RMB2.86 billion. Foundation work has been completed, and road surface paving has been underway. At the current progress, the Jinhua section will open in the fourth quarter of 2005, and is expected to contribute steady earnings.

Port Facilities

As the global economy revives, container demand has been rising. Total container throughput at the port of Shanghai remained high, and Shanghai maintained its ranking as the third busiest container terminal in the world. The Group has an investment in Shanghai Waigaoqiao Container Terminal Phase 1 Project, which is among China's top ten terminals by throughput. In 2004, the terminal recorded a total throughput of 2.33 million TEUs, representing 12.3 percent growth over the previous year, with monthly throughput exceeding 200,000 TEU's after June. In the same period, the terminal earned a total revenue of RMB758 million, and a net profit of RMB350 million, rises of 7.6 percent and 12.3 percent respectively over the previous year. Shanghai Waigaoqiao Container Terminal Phase 1 has a shoreline of approximately 900 metres, with three deep-water berths. During the year, the terminal's production efficiency rose consistently, with industry-leading operational capacity. The terminal has gained a reputation and ranked first in Shanghai for its handling of oversized items. In 2004, it received and unloaded 440 oversized items weighing a total of 15,792 tonnes.

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Medicine

Company name	Location	Group's interest held	Principal business
Chia Tai Qingchunbao Pharmaceutical Co. Ltd.	Hangzhou	55.00%	Manufacture and sale of Chinese medicine and health food
Xiamen Traditional Chinese Medicine Co. Ltd.	Xiamen	61.00%	Manufacture and sale of Chinese medicine
Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.	Liaoning	55.00%	Manufacture and sale of Chinese medicine
Hangzhou Huqingyutang Pharmaceutical Co. Ltd.	Hangzhou	30.00%	Manufacture and sale of Chinese medicine
Shanghai Sunway Biotech Co. Ltd.	Shanghai	70.41%	Manufacture and sale of biomedicine
Changzhou Pharmaceutical Co. Ltd.	Changzhou	55.75%*	Manufacture and sale of biomedicine and chemical pharmaceuticals
Guangdong Techpool Biochem Pharma Co. Ltd.	Guangzhou	51.00%*	Manufacture and sale of biomedicine
Shanghai SIIC Kehua Biotech Co. Ltd.	Shanghai	46.47%*	Manufacture and sale of biomedicine
Shenzhen Kangtai Biological Products Co. Ltd.	Shenzhen	28.00%*	Manufacture and sale of biomedicine
Shanghai Medical Instruments Co. Ltd.	Shanghai	59.00%*	Manufacture and sale of medical equipment
MicroPort Medical (Shanghai) Co. Ltd.	Shanghai	21.31%	Manufacture and sale of medical equipment

* *The said interests held by Shanghai Industrial United Holdings Co. Ltd.*

In 2004, various new policies were implemented to regulate the medicine industry in China. A series of reforms, including changes to the tendering system, retail price caps for medicine, retail sector gradually opening up to foreign investment and a new policy for sale of OTC medicines, have brought new opportunities and challenges to the Group's medicine business. While total sales on the mainland medicine industry maintained rapid growth in 2004, the profitability of the industry as a whole declined. This was due to increased manufacturing costs and a decline in medicine prices. Nevertheless, during the year the Group's medicine business saw good performance. Sales during the year (not including results of Shanghai Industrial United Holdings Co. Ltd. ("SI United")) amounted to around HK$1,283.62 million, a 13.8 percent increase over the previous year. Net profit reached HK$154.92 million, a 17.5 percent increase over the previous year, representing 17.9 percent of the Group's net profit, excluding exceptional profit from the listing of SMIC and net corporate expenses.

At present, the Group owns a number of organizations, both locally and overseas, related to the manufacture, sale and research for mainly Chinese medicine, health food and biomedicine. Among these medicine products, 27 are selected for the TCM Administrative Protection List, and three are categorized as a State Category I New Drug. Six products recorded each an annual sales of more than HK$100 million. Three are Chinese medicine – "Dengfeng" Shen Mai Injection, "Dengfeng" Dan Shen Injection and "Cang Song" Rupixiao Tablets; one is a health food – "Qingchunbao" Anti-Aging Tablets; and the other two are biomedicines – "Ulinastatin" and Hepatitis B Vaccine.

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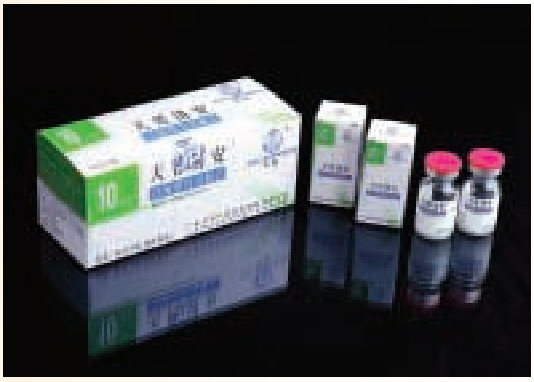

The acquisition of a 56.63 percent stake in SI United was completed in December 2004. The company's results were included in the Group's accounts from the beginning of 2005. In the year ended 31st December 2004, SI United recorded an audited consolidated turnover of RMB2,238.65 million, and a net profit of RMB104.90 million. SI United is a medicine company listed on the A-Share market of the Shanghai Stock Exchange, and has already developed a product range of Chinese and Western medicine, biomedicine and medical equipment. During the year, SI United pursued an aggressive expansion policy. After increasing its shareholding in Shanghai Medical Instruments Co. Ltd. ("Shanghai Medical Instruments") to 59 percent, SI United spent RMB127.52 million in August to acquire a 51 percent stake in Guangdong Techpool Biochem Pharma Co. Ltd. ("Guangdong Techpool)". Guangdong Techpool is one of the largest mainland manufacturers of urine protein products, and one of the leading Heparin manufacturers in Mainland China. Its major products include Ulinastatin, Urokinase and low molecular-weight Heparin Calcium. Ulinastatin has already been patented and is listed in the *National Essential Health Insurance Medicine and Industrial Injury Medicine Catalogue*, and can be used to treat SARS. Ulinastatin earned sales of RMB104 million in 2004 and is now among the Group's five leading products.

In addition, the Group concluded the acquisition of a 55 percent stake in Liaoning Herbapex Pharmaceutical (Group) Co. Ltd. ("Liaoning Herbapex"), and secured increased shareholdings in Xiamen Traditional Chinese Medicine Co. Ltd. and Hangzhou Huqingyutang Drugstore Co. Ltd. The medicine industry in the mainland is experiencing an active period of mergers, acquisitions and reorganization. During the year, the Group's acquisition activities (including SI United) involved an investment of about RMB1 billion. To accelerate development of its medicine business, the Group is committed to acquire projects with sizeable scale, brand strength and distinct competitive advantages.

Chinese Medicine and Health Food

The Group's Chinese medicine products saw good overall sales. "Dengfeng" Shen Mai Injection and "Dengfeng" Dan Shen Injection, prescription medicines for cardiovascular diseases, and "Dinglu" Xinhuang Tablets, an anti-bacterial, anti-inflammatory and pain control medicine, recorded sales growth over the previous year of 11.8 percent, 12.8 percent and 23 percent respectively. "Cang Song" Rupixiao Tablets, a major product of the newly acquired Liaoning Herbapex, used for cystic hyperplasia of the breast, recorded sales of RMB109 million at year-end, an increase of 31.3 percent over the previous period, and is among the Group's five leading products.

"Qingchunbao" Anti-ageing Tablets, one of the Group's flagship products, have been moved from the "Jian" labelled health food category to "Zhun" labelled OTC Chinese medicine category. During the year, due to modification of sales channels following the change of category, sales declined 5.5 percent over the previous year. The sales channels are still subject to adjustment and it is expected that sales will gradually improve subsequently.

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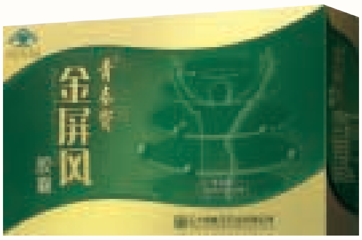

In the health food category, "Qingchunbao" Beauty Capsules and "Qingchunbao" Yong Zhen Tablets have seen a continuous increase in sales since their market launch. Revenue reached RMB90.68 million and RMB20.69 million respectively, representing increases of 27.8 percent and 133.6 percent over the previous year. During the year, the Group also increased efforts to develop its health food business. It successfully launched several new products, building on the success of existing brand series. These include "Qingchunbao" Royal Jelly Capsules, "Qingchunbao" Golden Screen Anti-Flu Capsules, "Huqingyutang" Herba Dendrobium Grain and "Huqingyutang" Qingyu Strong Power Tablets. These have broadened the Group's health food range and bred new areas of profit growth.

In research and development, "Identifying the Bioactive Components of Shen Mai Injection and Their Mechanisms of Actions", a joint research project with The University of Hong Kong, has seen good progress. The research team has already built a relationship between the individual constituents of Shen Mai Injection on the treatment of heart disease by isolating and identifying the key bioactive ingredients and analyzing its organizational structure. To date, the research team has examined over 195 individual and compound constituents, and identified the curative effects of five such constituents on the treatment of heart diseases. The team has begun its application to patent the research results. This project is a milestone in the development of "Shen Mai Injection".

Furthermore, in March 2005, "Quantitative Analysis of TCM Compounds and its Application in Manufacturing of Shen Mai Injection" (中藥質量計算分析技術及其在參麥注射液工業生產發展中應用), a research project jointly conducted with renowned chemists from Zhejiang University, won Second Prize in the State Scientific and Technological Progress Award. This is a recognition that the quality control for "Dengfeng" Shen Mai Injection has reached leading standard on the mainland. In addition, in early 2005, pre-clinical trials were completed on the Group's new Category I Chinese medicines "Scutellarin" and "Scutellarin Injection", and the State Food and Drug Administration has begun its appraisal of the drugs.

Sales of Major Chinese Medicine and Health Food Products in 2004

Name	Type	Sales RMB ,000	% Change
"Qingchunbao" Anti-ageing Tablets	Immunity-strengthening	385,145	-5.5
"Qingchunbao" Beauty Capsules	Health food	90,681	+27.8
"Dengfeng" Shen Mai Injection	Cardiovascular	314,779	+11.8
"Dengfeng" Dan Shen Injection	Cardiovascular	108,684	+12.8
"Dengfeng" Herba Houttuyniae Injection	Anti-microbial infection	45,015	+4.9
"Dinglu" Xinhuang Tablets	Anti-bacterial, anti-inflammatory, pain control	79,544	+23.0
"Huqingyutang" Stomach Rejuvenation Tablets	Gastro-intestinal	78,679	-0.6
"Cang Song" Rupixiao Tablets	Gynaecological	108,889	+31.3

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Biomedicine

Apart from Chinese medicine, biomedicine is another area where China enjoys competitive edge, and also a development focus of the Group's medicine business. H101, a new drug for treating head and neck tumours, has completed Phase III clinical trials. In November 2004, it was assessed by the Drug Assessment Panel, and is currently awaiting approval for State Category I New Drug Certification. Meanwhile, official clinical trials are being carried out to assess the effectiveness of H101 in treating lung cancer. The Group also began studies of H101's effect on haemopoietic stem cell purification, in collaboration with Hospital No. 307 under the Academy of Military Medical Sciences and the Institute of Tumour Research under the Chinese Academy of Medical Sciences. Last year, Shanghai Alliance Investment Ltd. acquired an 18.6 percent stake in Shanghai Sunway Biotech Co. Ltd. for US$10.80 million, adding to the Group's capital growth.

"Kai Li Kang", a State Category I New Drug owned by Guangdong Techpool, mainly used to treat hypertension and occlusion of cerebral and surrounding blood vessels, has completed Phase III clinical trials and is expected to be on the market by the second half of 2005.

Changzhou Pharmaceutical Co. Ltd. (常州藥業股份有限公司) ("Changzhou Pharmaceutical") is a renowned pharmaceutical manufacturer in China. Recombinant Mutant Human Tumour Necrosis Factor for Injection (注射用重組結構人腫瘤壞死因子) (TNF), jointly developed by Changzhou Pharmaceutical and the PLA Second Military Medical University, is a State Category I New Drug. This is a complementary drug for clinical treatment of malicious tumours, and has now gone into the commercialization stage.

Medical Equipment

MicroPort Medical (Shanghai) Co. Ltd. ("MicroPort"), a manufacturer of PTCA balloon catheters and coronary stents in the mainland medical equipment market, recorded sales of 1.3 times that of the previous year. Neuro stents and aorta stent grafts for use in operations were granted product certification. The first generation of the "Firebird" brand of drug stent products was granted certification for trial production, making MicroPort the first manufacturer in China to obtain registration for such products. As MicroPort has also begun to enter the Japanese market, sales revenue is expected to enter a period of rapid growth. With effect from May 2004, MicroPort brought Japan's Otsuka into the company as major shareholder.

Shanghai Medical Instruments enjoys an excellent reputation in the local medical equipment market, with a wide range of products including electronic endoscopes, anaesthesia machines, breathing machines and operating beds. In 2004, ten of its products were recommended as "Premium Shanghai Medical Equipment" by the Shanghai Medical Equipment Trade Association.

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Consumer Products and Information Technology

Company name	Location	Group's interest held	Principal business
Nanyang Brothers Tobacco Co. Ltd.	Hong Kong	100.00%	Manufacture and sale of cigarettes
Bright Dairy and Food Co. Ltd.	Shanghai	30.80%	Manufacture and sale of dairy products
Shanghai Jahwa United Co. Ltd.	Shanghai	28.15%	Manufacture and sale of personal care products
Shanghai Huizhong Automotive Manufacturing Co. Ltd.	Shanghai	50.00%	Manufacture and sale of vehicles, automobile components and spare parts
Shanghai SIIC Transportation Electric Co. Ltd.	Shanghai	30.00%	Manufacture and sale of automobile components and spare parts
The Wing Fat Printing Co. Ltd.	Hong Kong	93.30%	Manufacture and sale of packaging materials and printed products
Semiconductor Manufacturing International Corporation	Shanghai	9.95%	Manufacture and sale of semiconductor products
Shanghai Information Investment Inc.	Shanghai	20.00%	Development of information infrastructure, cable network and related services

The Group's consumer-related business covers a number of industry sectors. Among them, finished products mainly include tobacco, dairy and personal care products. Complementary products include printed materials, automobile parts, and semiconductors which are complementary to high-tech electronic products. Besides consumer products, the Group also invests in information technology networks, providing information related services to the public.

As China undergoes rapid urbanization, consumers are broadening their horizons. The growing urban population is constantly creating new spending markets. These conditions are favourable to the Group's consumer product and information technology businesses. Last year, rapid growth of the mainland consumer market and Hong Kong's economic revival helped boost the Group's consumer product and information technology businesses. Net profit was RMB1,185.93 million, a 34.1 percent increase over the previous year, representing 64 percent of the Group's net profit, excluding exceptional profit from the listing of SMIC and net corporate expenses, and providing a solid foundation for the Group's profits.

Tobacco

The Group's tobacco business maintained high growth in 2004, with revenue of HK$1,726.58 million, a 44.1 percent increase over the previous year, and net profit of around HK$286.60 million, up 49 percent from the previous period. The Group's tobacco products are sold in Hong Kong and China, as well as throughout Asia. Exports of Group-manufactured cigarettes recorded satisfactory sales growth. In the duty-free market, following the implementation of the Individual Visitor Scheme, sales recorded an increase of 10 percent over the previous year. With sales in Hong Kong gradually rising, the Group's tobacco accounted for 5 percent of the local market in 2004, a 1.5 percent increase over the previous year. On the mainland, the Group focused on promoting low-tar 6-mg "Double Happiness", and "Double Happiness" featuring a package design that targets wedding banquets, successfully boosting tobacco sales.

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In April 2004, expansion work began on Nanyang Tobacco's Tuen Mun Warehouse Phase II. Estimated cost is around HK$130 million, and the cost of additional production facilities around HK$33.58 million. The expansion project is expected to be completed and new facilities to begin operation by end of 2005, which marks the centenary of Nanyang Tobacco. The company has experienced continuous growth in the past 100 years with remarkable results.

Dairy

In an increasingly competitive environment, the quality of dairy products across the mainland further improved in 2004. Bright Dairy and Food Co. Ltd. ("Bright Dairy") insisted on being consumer-oriented and strived for innovation. It maintained vertical development of the dairy industry and expanded its national sales network. The company continued to record double-digit growth in 2004, with turnover of RMB6,785.68 million, an increase of 13.45 percent over the previous period, and net profit of RMB317.97 million, an increase of 12.6 percent. Sales outside Shanghai accounted for 71.5 percent of total dairy product sales, giving the company a firm base as a nationwide enterprise. During the year, it received the "Golden Quality Award of Shanghai City", and enjoys tax benefits after being nominated an "Advanced Technology Enterprise of Shanghai Foreign Investment".

In November 2004, Bright Dairy established a production base in Chengdu, marking its entry into the refrigerated dairy product market in southwestern China. The company also set up a sales company in Shenyang during the year, raising the profile of "Bright Dairy" products in northeastern China and expanding its national sales network.

Automobiles and Parts

In 2004, China implemented macroeconomic adjustment, while banks tightened automobile consumption credit. To a certain extent, these factors curbed automobile demand. Consequently, inventory levels rose and price competition remained intense. Shanghai Huizhong Automotive Manufacturing Co. Ltd. ("Huizhong Automotive"), and Shanghai SIIC Transportation Electric Co. Ltd. ("Transportation Electric") are the Group's associated companies engaged in the automobile and parts businesses. In the face of market uncertainty, both enterprises recorded negative growth. Sales for the year amounted to RMB6,378 million, and the two companies contributed a net profit of RMB106.70 million to the Group, a drop of 28.8 percent compared with last year.

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While developing its automobile and parts businesses simultaneously, Huizhong Automobile was active in cultivating the commercial vehicles market during the year. It gradually expanded its sales network for "ISTANA", an all-new mini-van launched in March and receiving favourable public response. The company boosted annual production capacity to 2,000 units for 15-tonne heavy-duty trucks, including dump trucks, towing vehicles, concrete mixers, and goods vehicles. During the year, Transportation Electric was mainly engaged in supplying automotive parts and accessories to Shanghai General Motors and Shanghai Volkswagen. One of the company's key initiatives was also to strengthen its involvement in the international market. A joint-venture project with ArvinMeritor, Inc., the world's second largest skylight window manufacturer, began formal operation in mid-2004.

Printing

The printing business grew steadily in 2004. With a substantial increase in total sales, turnover for the year was HK$465.57 million, with a net profit of approximately HK$113.82 million, representing rises of 23.2 percent and 19.2 percent respectively over the previous year. The Group's printing business primarily involves cigarette packaging, with products sold to Nanyang Tobacco accounting for 51 percent of total sales. The new 32,000-square-metre factory in Dongguan, Guangdong Province, with a total investment of HK$200 million, formally began operation during the year.

Sales of cigarette packaging made up 70 percent of total sales. In addition, the Group prints packaging for pharmaceutical products, cosmetics, daily necessities and wine. The development in the mainland market has been highly successful, with business extending to the provinces of Zhejiang, Henan, Sichuan, Hebei, Guangxi, Shanxi and Shanghai. A number of joint-venture plants have already been established in China.

Semiconductors

Growth in the global semiconductor industry slowed in 2004. However, the Chinese market managed a strong growth, and domestic demand maintained its upward trend. In March 2004, SMIC was successfully listed in Hong Kong and the United States simultaneously. A total of over HK$13.80 billion was raised in the global offering, of which HK$7.8 billion came from new shares, contributing a considerable amount of exceptional profit to the Group, currently the single largest shareholder in SMIC. In 2004, SMIC recorded a net profit of US$89.75 million, with sales volume of US$974.67 million, a surge of 166.4 percent over the previous year. Moreover, SMIC also has the most advanced process technology among foundries in China by providing semiconductor fabrication services using 0.35 micron down to 0.10 micron process technology. It was the first fab in China to introduce copper technology on a 0.13 micron production line. With business expanding rapidly, SMIC has become the world's third largest foundry. At present, the company owns seven fabs in Shanghai, Tianjin and Beijing, with production capacity increasing continuously.

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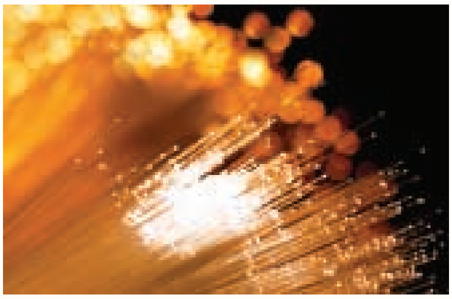
Information Technology



Shanghai Information Investment Inc. ("SII") intensively promoted the project involving basic enterprise information sharing and application, making significant progress during the year. The number of "Cableplus" subscribers reached 179,000, while the number of digital television subscribers jumped to 28,008. A total of 221.3 additional kilometres of information pipelines were built, providing new network access to 225 buildings. SII clients include Shanghai's major network operators. The number of personal credit enquiries handled by the city's unified information system for personal credit exceeded the 2.78 million mark. In December, the company upgraded "easipass.com", which it developed earlier, and provided one-stop information services to customs authorities and subscribers. The construction of an "EasyPay" (付費通)" platform has also entered a new stage. By the end of 2004, there had been more than 2.12 million user hits, and over RMB223 million in transactions.

Divestment from Non-Core Businesses

To further streamline business organization, the management has implemented gradual divestment from non-core businesses in recent years. These manoeuvres have been planned in line with the Group's business development strategies. After quitting the department retail business in 2003, the Group withdrew completely from the logistics sector. The divestment from EAS International Transportation Ltd., Shanghai Industrial Wai Lian Fa International Logistics Corporation Ltd., and Shanghai Industrial Sinotrans International Logistics Co. Ltd. realized a return of approximately HK$275.61 million in cash. The Group will adopt a progressive strategy, divesting from non-core businesses in an orderly manner, optimizing resource allocation, and focusing on the development of core businesses with definite competitive edge.