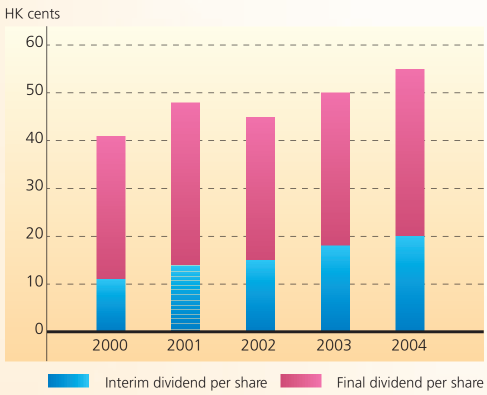
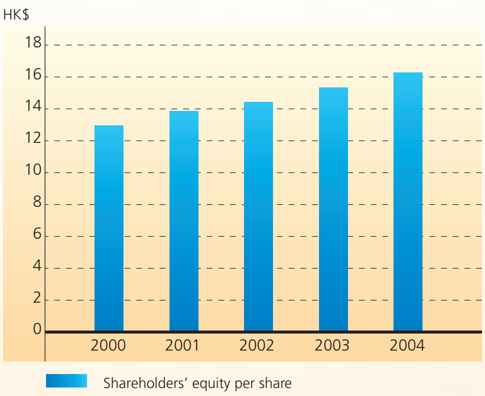
Financial Review

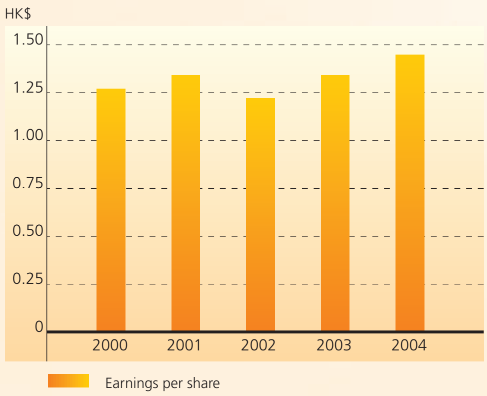
A) Financial Highlights

	2004	2003	Increase
Turnover (HK$'000)	**3,428,939**	2,825,978	21.3%
Profit for the year (HK$'000)	**1,383,060**	1,259,166	9.8%
Shareholders' equity (HK$'000)	**15,617,461**	14,490,840	7.8%
Total assets (HK$'000)	**20,609,881**	17,075,454	20.7%
Earnings per share	**HK$1.45**	HK$1.34	8.2%
Dividend per share	**HK55 cents**	HK50 cents	10.0%
Interim – paid	**HK20 cents**	HK18 cents	11.1%
Final – proposed	**HK35 cents**	HK32 cents	9.4%
Number of shares in issue	**958,638,000**	945,748,000	1.4%
Average return on equity	**9.2%**	9.0%	2.2%
Gearing ratio (note)	**10.9%**	9.8%	
Interest cover	**100 times**	58 times	

Note: interest-bearing loans / (shareholders' equity + minority interests + interest-bearing loans)







Financial Review

B) Basis of Preparation

The Group's financial statements for the year 2004 have been prepared in accordance with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Institute of Certified Public Accountants that are generally accepted in Hong Kong. The major difference between the basis of preparation of the Group's 2004 financial results and that of 2003 has been the adoption of SSAP 36 "Agriculture", which came into effect on 1st January 2004.

The adoption of SSAP 36 "Agriculture" represents a change in the accounting policy, it requires the measurement of biological assets and agricultural produce on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. Gains and losses arising on initial recognition and subsequent changes in fair values are included in the income statement.

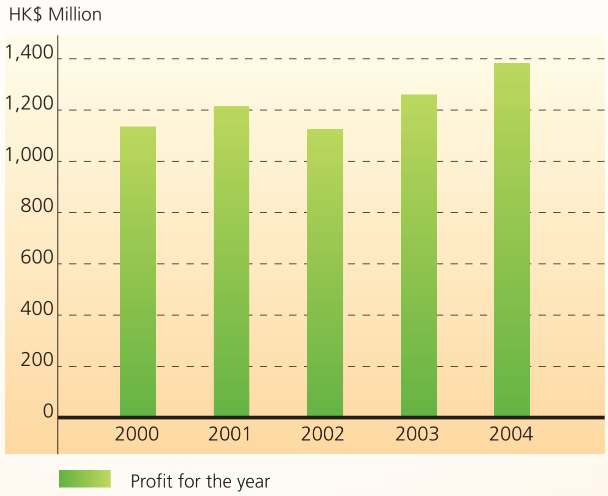
The adoption of SSAP 36 has resulted in changing the Group's accounting policy on measuring an associate Bright Dairy & Food Co., Ltd's dairy cattle (biological assets) and milk (agricultural produce), and should be applied retrospectively. The biological assets and agricultural produce are previously stated at the lower of cost and net realisable value, whereby under SSAP 36 they are measured at the balance sheet date at fair value less estimated point-of-sale costs. The adoption of SSAP 36 has had no material effect on the results for both financial years 2004 and 2003, and, accordingly, no prior period adjustment is required.

C) Analysis of Financial Results

1. Profit for the year

The Group's profit for 2004 was HK$1,383.06 million, representing an increase of approximately 9.8% as compared with HK$1,259.17 million in 2003. The profit for 2004 set a record high since its establishment and listing.

The growth in profit was mainly driven by the operating growth of consumer products and information technology business.



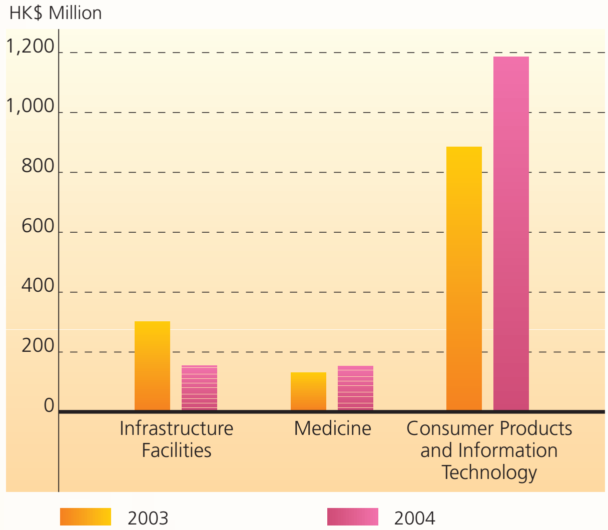
2. Profit Contribution from Each Business

A comparison of the Group's profit contributed by each business for 2004 and 2003 is as follows:

	2004 HK$'000	2003 HK$'000	Increase (Decrease) %
Infrastructure Facilities	**156,131**	301,630	(48.2)
Medicine	**154,922**	131,847	17.5
Consumer Products and Information Technology	**1,185,931**	884,655	34.1

Financial Review

2. Profit Contribution from Each Business (cont'd)



Since its disposal of its entire investment in fixed return elevated highway projects in 2003, the Group has strived to restructure its infrastructure facilities business, and the results of this were discernible in 2004. Shanghai Hu-Ning Expressway (Shanghai Section) Development Co., Ltd ("Shanghai – Nanjing Expressway (Shanghai Section)") and Shanghai Waigaoqiao Container Terminal Co., Ltd both contributed to the Group's profits during the year. While General Water of China Co., Ltd., engaged in water services business, is still in the initial investment stage, its contribution to the Group's profits was minimal.

The Group's medicine business was still undergoing reorganisation. The acquisition of Shanghai Industrial United Holdings Co., Ltd ("SI United") was completed at the end of 2004, hence its profit was not yet reflected in the Group's accounts. On the other hand, the completed acquisition of a 55 percent stake in Liaoning Herbapex Pharmaceutical (Group) Limited ("Liaoning Herbapex"), combined with operational growth in the Group's other medicine business entities, brought overall profit growth of 17.5% to the sector.

The austerity measures implemented in the mainland have caused a decline in the business performance of Shanghai Huizhong Automotive Manufacturing Co., Ltd ("Shanghai Huizhong") and Shanghai SIIC Transportation Electric Co., Ltd, which form part of the Group's consumer products and information technology business. However, growth in its tobacco and printing businesses helped boost the Group's consumer products business. In addition, Semiconductor Manufacturing International Co., Ltd ("SMIC") recorded an operational profit in the first year after its establishment, and completed both its issue of Series D preference shares at a premium and its initial public offering, contributing substantial operational and exceptional income to the Group's consumer products and information technology business.

Further details of the operating performance and progress of each business for 2004 can be found in the section under the heading of "Business Review, Discussion & Analysis".

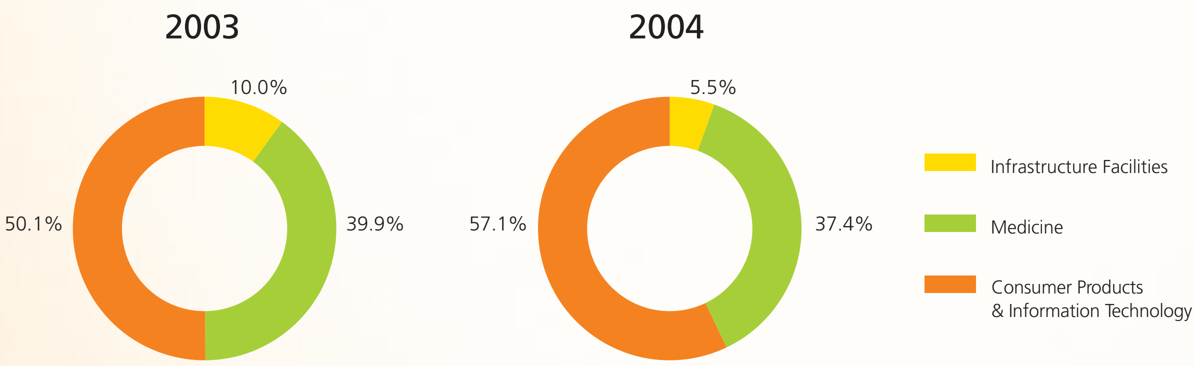
Financial Review

3. Turnover

An analysis of the Group's turnover by principal activities for the year ended 31st December 2004 is as follows:

	2004	2003	Increase (Decrease)
	HK$'000	HK$'000	%
Infrastructure Facilities	**189,208**	283,019*	(33.1)
Medicine	**1,283,622**	1,127,892	13.8
Consumer Products and Information Technology	**1,956,109**	1,415,067	38.2
	3,428,939	2,825,978	21.3

** after-tax compensation of RMB300 million from elevated highway project*



The Group recorded a rise in turnover during the 2004 financial year of 21.3% over the previous year. The consumer products and information technology business accounted for the greatest proportion, representing an increase of 38.2% over last year. This increase was mainly driven by growth in the tobacco and printing businesses.

Turnover in the medicine business recorded a 13.8% increase over 2003. This growth was partly due to additional turnover brought in by the acquisition of Liaoning Herbapex, completed in March 2004. The Group's existing medicine businesses also grew fast. Among them, the health food products, Qingchunbao "Beauty Capsules" and "Yong Zhen Tablets", maintained excellent sales, with respective increases of 27.8% and 133.6% over the previous year. In the Dengfeng Injection series, sales of "Shen Mai Injection" and "Dan Shen Injection" were up by 11.8% and 12.8% respectively. On the other hand, sales of the flagship Chinese medicine product Qingchunbao "Anti-Aging Tablets" declined 5.5%, mainly because they have been transferred from the non-prescription over-the-counter category to the prescription "Zhun" category, and distribution channels were therefore adjusted in accordance with national policy. Nevertheless, the product still recorded turnover of over RMB385 million.

Following restructuring of the infrastructure facilities business, the year's turnover mainly reflected toll revenue brought by the newly acquired Shanghai - Nanjing Expressway (Shanghai Section). Turnover for the same period last year consisted of the RMB300 million after-tax compensation included in sales generated from the disposal of the fixed return elevated highway projects.

Financial Review

4. Profit from Ordinary Activities before Taxation

(1) Gross profit margin

Gross profit margin for 2004 was approximately 56.1%. Gross profit margin in 2003 was around 53.0%, excluding after-tax compensation of RMB300 million included in turnover arising from the cancellation of fixed return elevated highway projects. The higher gross profit margin was mainly due to an increase in consumer products sales, which were able to optimise economies of scale in production.

(2) Investment income

Investment income for the year decreased from around HK$309.11 million the previous year to HK$233.57 million, representing a decrease of HK$75.54 million. This year's investment income consisted of treasury income and unrealised profit of HK$66.91 million, generated by the Hong Kong and US public listing of an indirect investment in China Netcom Group Corporation (Hong Kong) Limited. On the other hand, last year's investment income consisted of realised and unrealised investment income totalling HK$179.59 million and treasury income, the former was generated from the US Nasdaq public listing of the Group's investment in Ctrip.com International, Ltd.

(3) Administrative expenses

Administrative expenses in 2004 saw an increase of HK$97.42 million over the previous year. This was mainly due to the increase in number of subsidiaries and a provision of HK$24.23 million for receivables and bank guarantees of a jointly controlled entity in the Group's medicine business.

(4) Other operating expenses

Other operating expenses for the year were HK$109.56 million higher than in the same period last year, which can largely be attributed to the Group's prudent principle of making provisions against risks and for impairment of certain long-term investments and consumer products business.

(5) Finance costs

Finance costs decreased by around HK$11.68 million compared to the previous year. This is mainly because the majority of the Group's loans are in Hong Kong dollars, and interest rates for Hong Kong dollars decreased during the year.

(6) Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities

Net gain for the year, derived from completion of SMIC's issue of Series D preference shares at a premium and its public share offering during the first half of 2004, as well as the introduction of new investors to Shanghai Sunway Biotech Co., Ltd ("Sunway Biotech") and MicroPort Medical (Shanghai) Co. Ltd., was much greater than profit in the previous year, which was realised mainly through SMIC's issue and placement of Series C and D preference shares at a premium, the disposal of the Group's 51% interest in Shanghai Orient Shopping Centre Ltd., and the indirect disposal of the Group's 13.5% stake in Sunway Biotech.

(7) Share of results of jointly controlled entities

The share of results of jointly controlled entities during the year decreased to HK$94.45 million from approximately HK$172.64 million in the previous year. This was mainly due to a considerable decline in Shanghai Huizhong's profit as a result of the implementation of austerity measures and price competition in the mainland automobile market.

Financial Review

(8) Share of results of associates

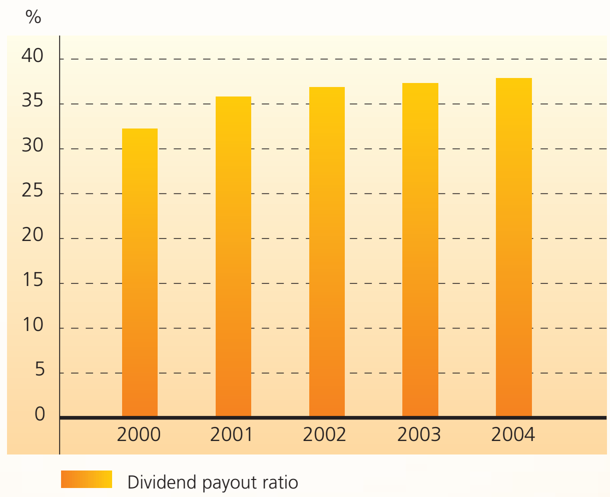
The share of results of associates during the year increased substantially to HK$284.73 million, from approximately HK$161.54 million the previous year. This represents an increase of around HK$123.19 million, largely attributable to a strong improvement in SMIC's business performance. The Group recorded a share of profits of HK$75.64 million in 2004, in contrast to a share of losses of HK$85.58 million in the previous year. EAS International Transportation Ltd, which provided profit contribution in the previous year, was disposed of during the year, partly offsetting growth in the share of results of associates.

(9) Impairment losses recognised in respect of interests in an associate and jointly controlled entities and goodwill relating to a subsidiary

The Group recognised an impairment loss in respect of interests in a jointly controlled entity and an associate, both of which were engaged in the information technology business. The Group also recognised the goodwill impairment losses of a subsidiary engaged in the medicine business and jointly controlled entities engaged in the medicine and information technology businesses.

5. Dividend

The Board has recommended the payment of a final dividend of HK35 cents (2003: HK32 cents) per share at the forthcoming annual general meeting which, together with the interim dividend of HK20 cents (2003: HK18 cents) per share, make a total dividend of HK55 cents (2003: HK50 cents) per share for the year, representing an increase of 10%. The dividend payout ratio was approximately 37.9% for the year (2003: approximately 37.3%).



D) Financial Position of the Group

1. Capital

As at 31st December 2004, the Group had issued a total of 958,638,000 shares of par value HK$0.1 each. The number of shares in issue was increased by 12,890,000 shares over the end of 2003, as a result of the exercise of share options by the staff members of the Group. Based on a market price of HK$16.60 per share as at 31st December 2004, the market capitalisation of the Group was HK$15,913.39 million.

Financial Review

2. Loans

As at 31st December 2004, the Group had total loans of HK$2.1 billion, representing an increase of HK$480.09 million over the previous year. The increase was mainly due to completed acquisition of the Group's subsidiaries, namely SI United and Liaoning Herbapex, consolidating their Renminbi loans equivalent to the amount of HK$366.40 million and HK$18.92 million respectively.

The Group's total loans mainly consisted of a five-year term syndication loan of HK$1.6 billion, which was signed in April 2002 and will become due in April 2007. The long-term portion of HK$800 million and the revolving portion of HK$800 million contained in the syndication loan have been dealt with in the financial statements under long-term and short-term bank and other borrowings respectively.

3. Liquidity

At the end of 2004, cash held by the Group was approximately HK$5,809.59 million, of which the proportions of US dollars, Hong Kong dollars and Renminbi were approximately 65%, 11% and 24% respectively. The total amount of cash held by the Group increased by HK$454.78 million over the previous year.

E) Policies on Financial Risk Management

1. Cash flow and liquidity management

The Group takes a prudent approach towards financial management and closely monitors its cash management and allocation of resources. At present, the Group remains in a net cash position in respect of its debt-equity structure with affluent liquidity and a sound interest cover, allowing the Group to raise funds from the market whenever the situation requires.

2. Exchange rate risk

The Group mainly operates in Mainland China and Hong Kong. Since the exchange rate risk mainly arises from fluctuations of the Hong Kong dollar against US dollars and Renminbi, the Group closely monitors any movement in these currencies, as well as market trends. During the year, the Group did not enter into any derivative contracts, which aimed at minimizing exchange rate risk.

3. Interest rate risk

The Group's major financing loan is a syndication loan of HK$1.6 billion. To exercise prudent management against interest rate risks, the Group entered into a structured interest rate hedging arrangement against the long-term portion of this loan.

F) Independence of External Auditors

To ensure the independence of its external auditors, the Group has developed and implemented "Policy on the engagement of an external auditor to supply non-audit services". The Group will not engage external auditors to carry out such work, except for approved work as defined under the Sarbanes-Oxley Act and only on condition that the work will not have a negative impact on the independence of their audit work.