

Financial Review

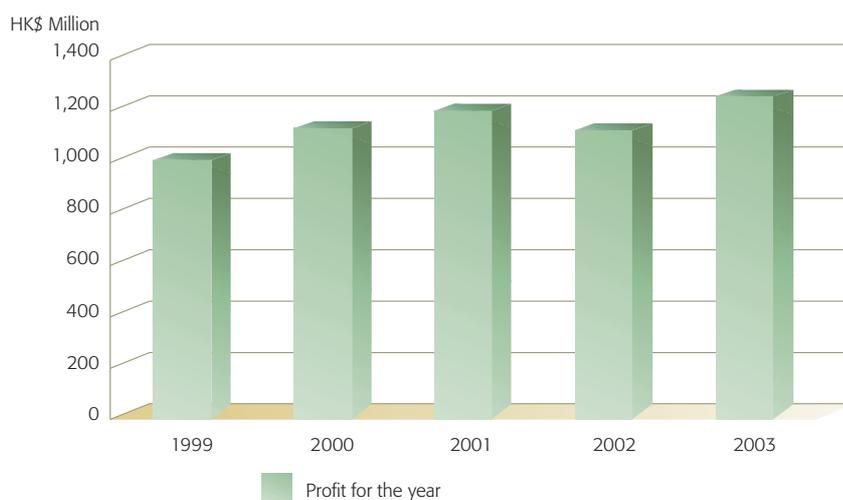
A) Basis of Preparation

The financial statements in the 2003 annual report of the Group have been prepared in accordance with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants that are generally accepted in Hong Kong. The major difference between the basis of preparation of the Group's 2003 financial results and that of 2002 has been the adoption of SSAP 12 (Revised) Income Taxes, which came into effect on 1 January 2003. The adoption of SSAP 12 (Revised) Income Taxes represents a change in the accounting policy. As required, such change should be applied retrospectively. However, such change has had no material effect on the results of the Group for the years 2003 and 2002 and, accordingly, no prior period adjustment is required.

B) Analysis of Financial Results

1. Profit for the Year

The Group's profit for 2003 was HK\$1,259.17 million, representing an increase of approximately 11.8% from HK\$1,126.34 million in 2002. While income from the guaranteed fixed return elevated highway projects for 2003 dropped by HK\$420.63 million from 2002, all other businesses recorded considerable increases in earnings, contributing to a satisfactory growth in the Group's overall profit for the year.

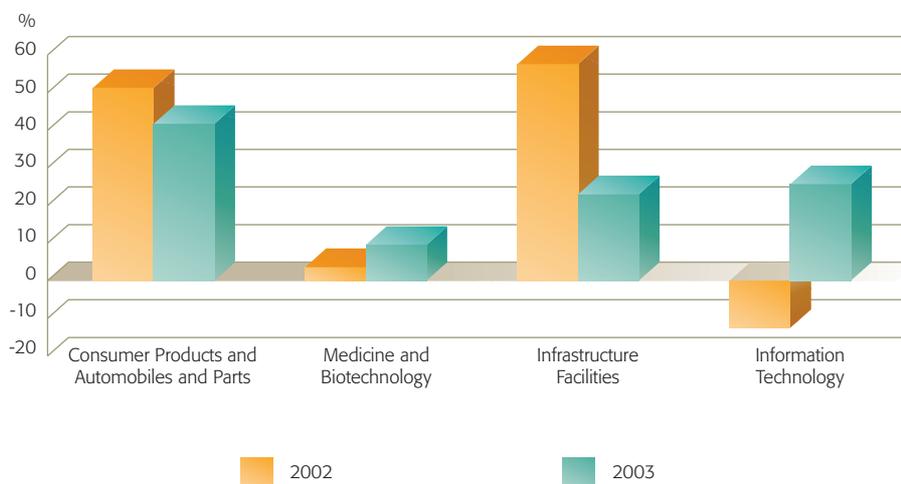


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2. Profit Contribution from Each Business

A comparison of the Group's profit contributed by each business for 2003 and 2002 is as follows:

	2003 HK\$'000	2002 HK\$'000	Increase (decrease) %
Consumer Products and Automobiles and Parts	574,429	631,388	(13.3)
<i>Pro forma: Consumer Products and Automobiles and Parts</i>	<i>519,204</i>	<i>413,388</i>	<i>25.6</i>
Medicine and Biotechnology	125,281	44,753	179.9
Infrastructure Facilities	301,630	708,894	(57.5)
Information Technology	337,226	(154,533)	N/A



The consumer products and automobiles and parts business of the Group achieved outstanding performance during the year, of which automobiles and parts and tobacco businesses both recorded favourable growth. If profit and loss from major non-operating items for 2002 and 2003, including an exceptional profit of approximately HK\$218 million contributed to the Group from the listing of Bright Dairy and Food Co., Ltd. ("Bright Dairy") on the Shanghai Stock Exchange in 2002 and an exceptional profit of approximately HK\$28.23 million realised from the successful disposal of Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") in the first half of 2003, shall be excluded for pro forma purpose, actual profit growth of the consumer products and automobiles and parts business would have been approximately 25.6%.

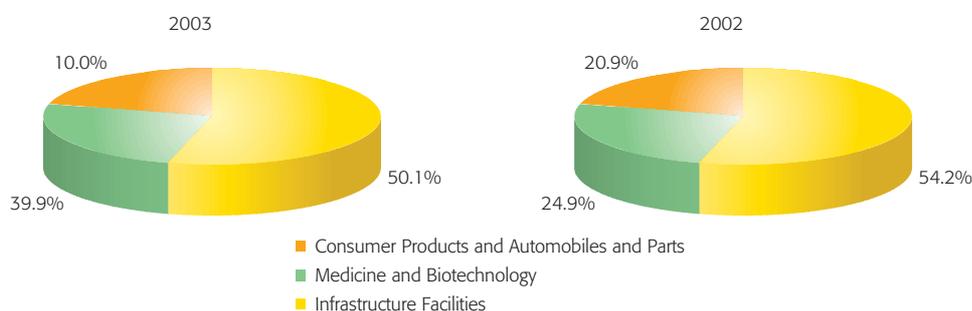
Further details of the operating performance and progress of each business for 2003 can be found in the section under the heading of "Business Review, Discussion and Analysis".

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3. Turnover

An analysis of the Group's turnover by principal activities for the year ended 31 December 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000	Increase (decrease) %
Consumer Products and Automobiles and Parts	1,415,067	1,832,933	(22.8)
Medicine and Biotechnology	1,127,892	842,386	33.9
Infrastructure Facilities	283,019	704,718	(59.8)
	2,825,978	3,380,037	(16.4)



Turnover for the consumer products and automobiles and parts business fell by approximately 22.8% from 2002, primarily as a result of the disposal of Orient Shopping for the year. Excluding the effect on turnover of Orient Shopping, the turnover for the consumer products and automobiles and parts business actually increased by approximately 33.0% over the previous year. Pro forma turnover of the consumer products and automobiles and parts business for 2002 and 2003 is as follows:

	2003 HK\$'000	2002 HK\$'000	Increase (decrease) %
Consumer Products and Automobiles and Parts	1,415,067	1,832,933	(22.8)
Less: turnover of Orient Shopping	–	769,139	
Pro forma: Consumer Products and Automobiles and Parts	1,415,067	1,063,794	33.0

As two elevated highways projects of the Group were affected by the cancellation of guaranteed fixed return on investment projects of foreign entities by the PRC State Council, an after-tax compensation in the sum of RMB300 million was received during the year and was included in the turnover for the first half of the year. As a result, the turnover therefrom declined by approximately 60% from 2002.

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During the year, the turnover for the medicine and biotechnology business grew by approximately 33.9% over 2002. Other than the business growth achieved in the existing medicine companies, Xiamen Traditional Chinese Medicine Co., Ltd. acquired in July 2002 also helped contribute to further increases in turnover. Sales from our flagship Chinese medicine product – “Qingchunbao Anti-ageing Tablets” – stood at over RMB400 million, representing an increase of 16.1% over the previous year. Meanwhile, sales for the “Shen Mai Injection” and the “Herba Houத்துyniae Injection” of the “Dengfeng” injection product series also increased by about 15.5% and 35.5% respectively.

4. Profit from Ordinary Activities before Taxation

(1) *Gross profit margin*

Gross profit margin (excluding income from infrastructure projects) for 2003 rose significantly to approximately 53.0% from about 42.2% in 2002, due mainly to an improvement in overall gross profit margin resulting from upward adjustments driven by surging demand for consumer products as well as the disposal of Orient Shopping, which was engaged in commercial retail business that has a relatively low gross profit margin.

(2) *Investment income – net*

Investment income – net for 2003 increased significantly by about HK\$230.89 million to approximately HK\$309.11 million from about HK\$78.22 million in 2002. The increase was mainly attributed to investment income derived from the listing of Ctrip.com International, Ltd. on NASDAQ in the United States during the year, out of which an investment income of HK\$21.33 million was realised from the disposal of such investment. The Group still holds part of the equity interests in the investment with a corresponding unrealised profit of approximately HK\$158.26 million. Other contributors to the increase were short-term investment income derived from the use of internal funds.

(3) *Administrative expenses*

Administrative expenses for 2003 increased by HK\$44.93 million over the previous year, due mainly to an increase in the number of subsidiaries that were consolidated under the medicine and biotechnology business.

(4) *Other operating expenses*

Other operating expenses increased by HK\$71.63 million over the previous year, mainly due to a provision of approximately HK\$67.33 million made for a jointly controlled entity's borrowings.

(5) *Finance costs*

Finance costs for the year declined by approximately HK\$32.74 million from the previous year as the Group repaid a syndication loan of HK\$1.17 billion and raised another syndication loan of HK\$1.6 billion at more favourable interest rates. These, together with the benefits deriving from a general decline in market interest rates, helped to reduce finance costs for the year significantly as compared to last year.

(6) *Gain on disposal of interests in subsidiaries, associates and jointly controlled entities*

During the year, the Group made gain of approximately HK\$28.23 million and HK\$12.06 million respectively from the disposal of a 51% interest in its subsidiary, Orient Shopping and the indirect disposal of a 13.5% interest in Shanghai Sunway Biotech Co., Ltd. In addition, the issue and placement of Series C and Series D preference shares at a premium by Semiconductor Manufacturing International Corporation (“SMIC”) in 2003 contributed a dilution gain of approximately HK\$239.15 million to the Group.

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Profit from deemed disposal of interest in a jointly controlled entity last year was derived from the listing of Bright Dairy on the Shanghai Stock Exchange in August 2002. The Group's interest in Bright Dairy was then diluted from 40% to 30.8%, generating an exceptional profit of approximately HK\$218 million for the Group.

(7) *Share of results of jointly controlled entities*

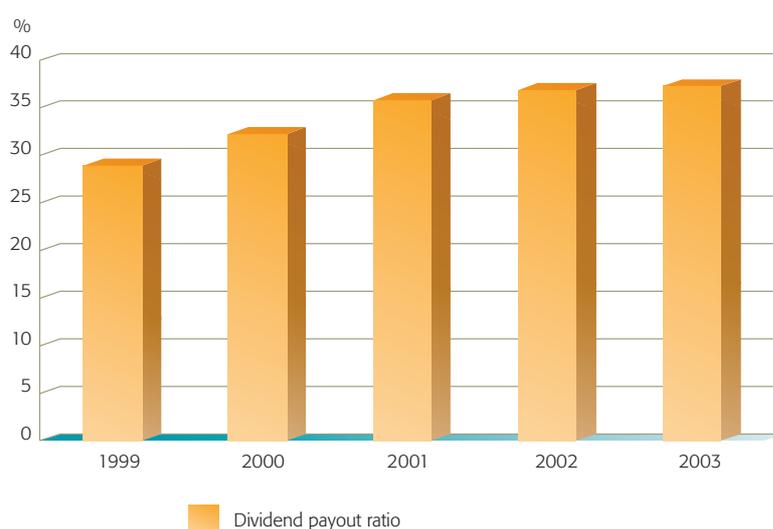
Share of results of jointly controlled entities for the year increased to approximately HK\$172.64 million from about HK\$141.85 million last year. The increase was primarily due to earnings growth of Shanghai Huizhong Automotive Manufacturing Co., Ltd. driven by the soaring automobile market in Mainland China and an increase in investment income of Shanghai Sunve Pharmaceutical Co., Ltd. Besides, the provision of HK\$21.25 million made for Clear Media Ltd. in 2002 was no longer required for the year. All these favourable factors have offset the effect of the transfer of the Group's share in Bright Dairy's profit from share of results of jointly controlled entities to share of results of associates since Bright Dairy's listing on the Shanghai Stock Exchange in August last year, and that share of results of jointly controlled entities still increased by approximately HK\$30.79 million.

(8) *Share of results of associates*

Share of results of associates for the year recorded a substantial increase of approximately HK\$154.51 million from approximately HK\$7.03 million to about HK\$161.54 million. The increase was primarily due to the fact that Bright Dairy has become an associate and that SMIC achieved better operating results, such that loss for the year narrowed as compared to last year.

5. Dividends

According to the Group's dividend policy, shareholders shall be paid with dividends based on a steady dividend payout ratio linked to the Group's result performance. In 2003, the Board, based on this dividend policy, has recommended the payment of a final dividend of HK32 cents (2002: HK30 cents) per share at the forthcoming annual general meeting which, together with the interim dividend, make a total dividend of HK50 cents (2002: HK45 cents) per share for the year. The dividend payout ratio was approximately 37.3% for the year (2002: approximately 36.9%).

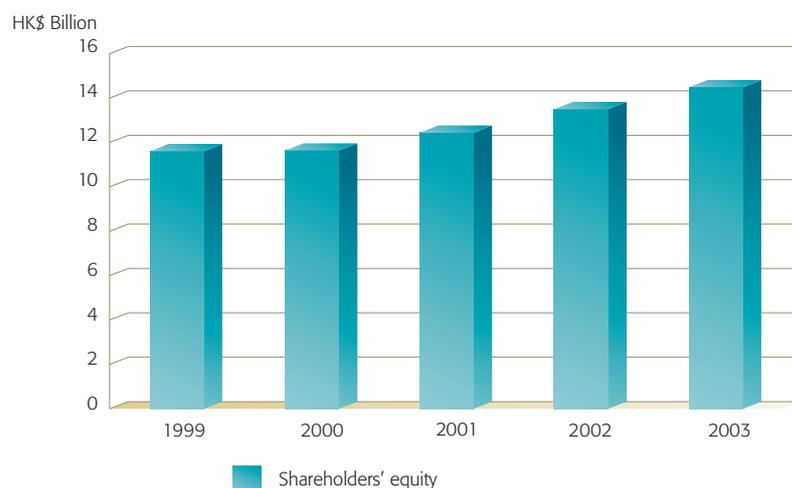


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C) Financial Positions of the Group

1. Capital

As at 31 December 2003, the Group had issued a total of 945,748,000 shares of par value HK\$0.1 each. The number of shares in issue increased by 9,450,000 shares over the end of 2002. This was mainly due to the exercise of share options by the staff members of the Group. Based on a market price of HK\$17.75 per share as at 31 December 2003, the Group had a market capitalisation of HK\$16,787 million.



2. Loans

As at 31 December 2003, the Group had total loans of HK\$1,619.95 million, comprising primarily RMB short-term loans equivalent of HK\$19.95 million and a five-year term syndication loan of HK\$1.6 billion. Such syndication loan, which was engaged in April 2002, shall become due in April 2007. The long-term portion of the HK\$800 million and the revolving portion of the HK\$800 million comprising a total amount of the syndication loan were dealt with under long-term bank loan and short-term borrowings in the financial statements respectively.

3. Liquidity

As at the end of 2003, cash held by the Group was approximately HK\$5,354.80 million, of which the proportions of US\$, HK\$ and RMB were approximately 80%, 5% and 15% respectively. The total amount of cash held by the Group increased by HK\$2,109.40 million over the end of 2002 which was mainly due to the receipt of approximately US\$702 million from the disposal of the elevated highway projects.

D) 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. In order to implement effective control over cash management, the Group's financing and cash management responsibilities are both under centralised operations at the Head Office level. 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 and faces exchange rate risk mainly arising from fluctuations in the exchange rates of HK\$ against US\$ and RMB. The Group closely monitors any exchange rate fluctuations in these currencies and the market trends. During the year, the Group did not enter into any derivative contracts, which aimed at minimising exchange rate risk.

3. Interest rate risk

The Group's major financing loan comprises a syndication loan of HK\$1.6 billion. In order to exercise prudent management against interest rate risk, the Group reviews market trends, requirements of its business operations and its financial position from time to time, so as to identify the most effective management tool for interest rate risk. In 2003, the Group did not enter into any hedging contracts against interest rate risk after taking all related factors into account.

E) Independence of External Auditors

In order to ensure independence of the Group's external auditors, the Group will not engage external auditors to carry out non-audit work, except for those approved non-audit work as defined under the Sarbanes-Oxley Act and that any of the related work shall not impose any negative impact on the independence of their audit work.

The external auditors of the Group are Deloitte Touche Tohmatsu. Non-audit work rendered by them to the Group and related fees during the years 2003 and 2002 are as follows:

	2003 HK\$'000	2002 HK\$'000
Due diligence on acquisitions	55	1,389
Taxation services	36	46
Other consulting services	47	5