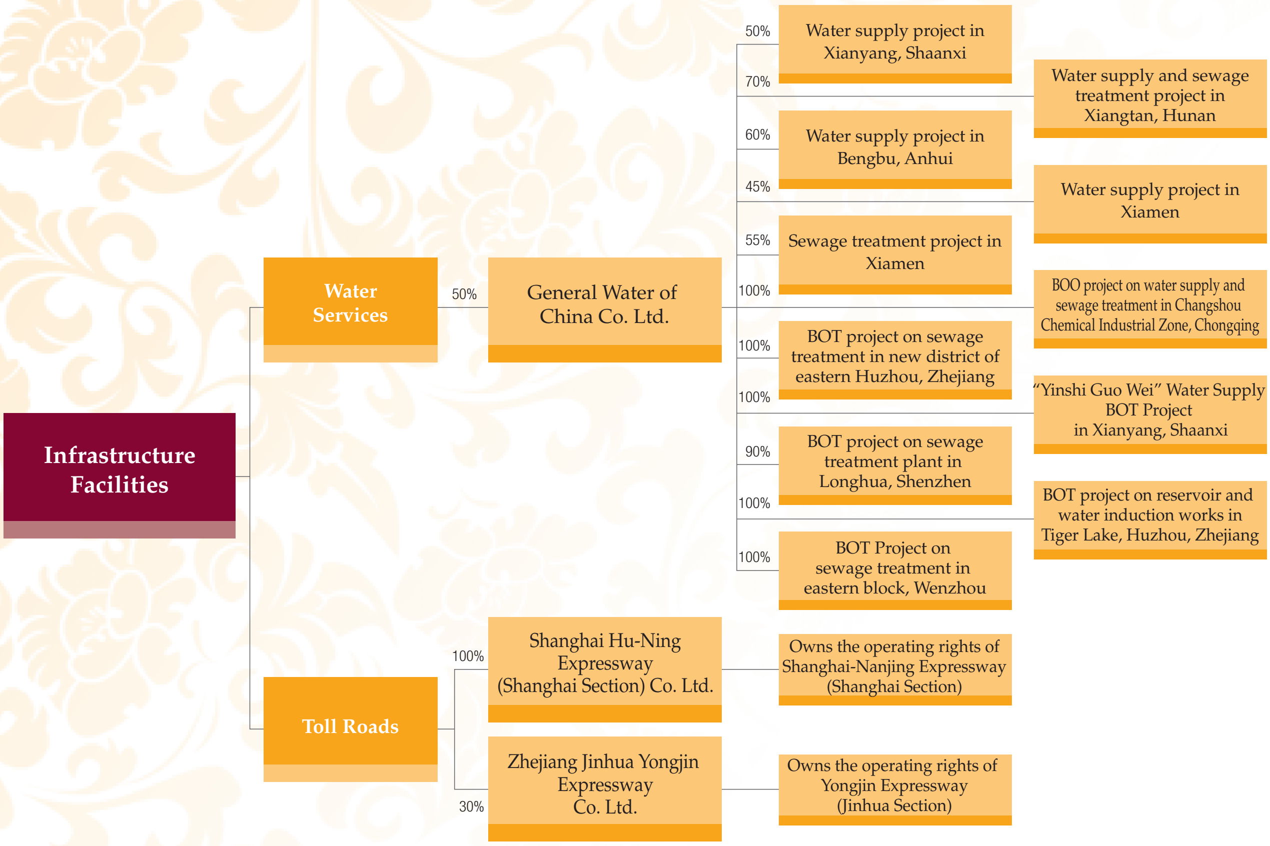
INFRASTRUCTURE FACILITIES



Capitalizing on its regional monopoly, the infrastructure facilities business provides a stable income and an abundant cash flow to the Group. In 2005, profit from the segment increased by 19% to HK$186 million, accounting for 19.8% of the Group's net business profit. This increase in earnings is attributable to an increase in profit contribution from the water services business as well as positive performance from port facilities investment project. The Group has a 10% equity interest in Pudong Container, which owns the operating rights of Phase One of Shanghai Weigaoqiao Container Terminal. The investment income received from the company during the year amounted to RMB33.05 million. As at the end of 2005, with the completion of three European trade lanes assigned to the Yangshan Port, and with the official operation of Phase Five of Shanghai Weigaoqiao Container Terminal, the volume of containers handled is expected to diverge in the coming year. In April 2006, the Group disposed of this investment for a consideration of RMB465 million. Upon the completion of the transaction, the Group is expected to receive a pre-tax profit of RMB275 million.

Water Services

In 2005, GWC made considerable efforts to expand new markets and to monitor the performance of its operating projects. Together with the five water services projects newly established during the year, a total of 11 water services projects were acquired in eight cities nationwide. Total investments for these projects amounted to RMB3,306 million, with a scale of operation for 3,750,000 tonnes in daily sewage treatment and water supplies capabilities. Among these 11 projects, four have officially commenced operation, while the procedure for transfer of equity interests in one of the projects is nearing completion. The remaining six projects are BOT/BOO projects. Construction of these projects has commenced. Construction for the water supply and sewage treatment project (phase one) in Changshou Chemical Industrial Zone, Chongqing and sewage treatment plant in Longhua, Shenzhen is scheduled for completion in 2006 and will become operational by the end of the year.

Since August 2005, sewage treatment fees in Xiamen have been adjusted from RMB0.5 per tonne to RMB0.91 per tonne. Also, in 2006, household water supply prices in Xiangtan increased from RMB0.95 per tonne to RMB1.15 per tonne, while water supply for industrial purposes increased from RMB1.04 per tonne to RMB1.32 per tonne. A public hearing on the adjustment of water supply prices in Bengbu, Anhui is under way and expected to be finalised in 2006. The water services projects under GWC control will directly benefit from increases in water supply prices. The rapid urbanization in Mainland China resulting from the further opening of the water supply market will fuel growth for the water services industry and will in turn create ample business opportunities for GWC.

Overview of the water services projects newly established in 2005

1. **Water supply project in Xianyang, Shaanxi**
   GWC owns 50% stake in this project. The project company owns the operating rights of water supply to Xianyang for 30 years. The daily capacity of water supply is 180,000 tonnes. The procedure for transfer of equity interests in the project is pending completion.

2. **"Yinshi Guo Wei" water supply project in Xianyang, Shaanxi**
   GWC owns a 100% stake in the project, and is responsible for investing, constructing and managing the "Yinshi Guo Wei" water supply project in the form of a BOT. The concession's operating term is 30 years. Works involved include the construction of water inflow sites and an underground water transmission pipeline from Sitouhe Reservoir to Xian. A water purification plant with daily capacity of 300,000 tonnes and other auxiliary and annex facilities will also be constructed. The project is expected to be complete and commence operation in 2007.

3. **Sewage treatment plant project in Longhua, Shenzhen**
   GWC owns a 90% stake in this project, and is responsible for investment, construction and operation of the Longhua sewage treatment works in Baoan District, Shenzhen in the form of a BOT. The concession's operating term is 22 years. The daily capacity of sewage treatment for Phase One is 150,000 tonnes. However, it is expected to expand in different phases in future to a sewage treatment plan with capacity of 400,000 tonnes. It is anticipated that the Phase One project will commence operation by the end of 2006.

4. **Reservoir and water induction works in Tiger Lake, Huzhou, Zhejiang**
   GWC owns a 100% stake in the project, and is responsible to invest, construct and operate the reservoir and water induction works in Tiger Lake, Huzhou. This concession's operating term is 34 years. The daily capacity of water supply will be 200,000 tonnes. The project is expected to be complete and commence operation in 2009.

5. **Sewage treatment project in eastern block, Wenzhou**
   GWC owns a 100% stake in the project. The 15 sewage systems from east to west of Wenzhou are divided into three sections, namely eastern block, centre block and western block. The project company is responsible to invest, construct and operate a sewage treatment work of 100,000 tonnes in Phase One of eastern block in Wenzhou. The concession's operating term is 27 years, and it is expected to complete and commence operation by the end of 2007.

Toll Roads

In early 2005, the Group completed the acquisition of a 30% stake in Yongjin Expressway for a consideration of RMB283 million. The project company has an operating term of the Yongjin Expressway (Jinhua Section) for 25 years. The section, about 70km long, officially opened for traffic on 28th December 2005. Traffic flow is increasing gradually and the project will become a new profit centre for the Group's toll road business in the future.

Hu-Ning Expressway is a toll road project company wholly owned by the Group. It has an operating term for the Shanghai-Nanjing Expressway (Shanghai Section) for 25 years. The section, which is 26km long, features a dual four-lane expressway. Traffic flow as recorded at the toll stations for 2005 totalled 14.64 million vehicles. Toll revenue for the year was RMB198 million.

Following the completion of an expansion of the Shanghai-Nanjing Expressway (Jiangsu Section) from four to eight lanes, traffic flow at the Shanghai section continued to increase, and considerably exceeded the daily designed traffic flow capacity of 40,000 vehicles. The traffic at the toll stations of the trunk had been slow and crowded, although this was mitigated with the construction of additional toll stations and increased information alerts for traffic conditions and road guidance. In the long term, further expansion for the Shanghai section shall be commenced as soon as practicable. From 2006, goods vehicles were not allowed to use the section entering Shanghai at the peak hours in the afternoon.

Relevant government authorities have approved the feasibility report on the expansion and widening works for the Shanghai section in early 2005. The design for the construction work is being reviewed. Construction work is expected to commence in 2006, and scheduled for completion and opening to traffic in 2009. Upon completion, traffic flow capabilities will be considerably enhanced and toll income is expected to grow significantly.

MEDICINE

Medicine

	Major Enterprises	Key Products
55%	Chia Tai Qingchunbao Pharmaceutical Co. Ltd.	"Dengfeng" Shen Mai Injection, "Qingchunbao" Anti-ageing Tablets
61%	Xiamen Traditional Chinese Medicine Co. Ltd.	"Dinglu" Xinhuang Tablets, Babaodan Capsules, Shenshu Granules
55%	Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.	"Herbapex" Rupixiao Tablets, Qiangshen Tablets
51%	Hangzhou Huqingyutang Pharmaceutical Co. Ltd.	"Huqingyutang" Stomach Rejuvenation Tablets, Qiangli Pipa Syrup, Herba Dendrobium Grain
70.41%	Shanghai Sunway Biotech Co. Ltd.	"H101" - State Category I New Drug
55.75%	Changzhou Pharmaceutical Co. Ltd.*	"TNF" - State Category I New Drug, "Changzhou Pharmaceutical" Captopril Tablets, Qiangli Meisu
51%	Guangdong Techpool Biochem Pharma Co. Ltd.*	"Kai Li Kang" - State Category I New Drug, "Techpool Luoan"
58.19%	Chifeng Arker Pharmaceutical Technology Co. Ltd.*	Production base for ephedrine
52.75%	Chifeng Mysun Pharma Co. Ltd.*	"Leimengxin" Anmameimin Tablets, "Leimengte" Anfenweima Tablets
99%	Shanghai Medical Instruments Co. Ltd.*	Electronic endoscope, anesthesia and respiration equipments, and operation tables
21.31%	MicroPort Medical (Shanghai) Co. Ltd.	Various hi-tech interventional medical devices

* The said interests are held by SI United

Following years of development in the medicine business, the Group owns a number of reputable pharmaceutical manufacturing enterprises in China. The medical products offered cover Chinese medicine, herbal medicine, biomedicine and health food. 287 types of the products are listed in the State's Catalogue of Medicine and Health, and 27 types have been certified as State Protected Tradition Chinese Medicine.

During the year, the Group's medicine segment achieved major breakthroughs in research and development. Currently the Group has three projects certified as State Category I New Drugs. These include "H101", "Kai Li Kang" and "TNF" project, a project jointly developed with the Shanghai PLA Second Military Medical University. These three State Category I New Drugs are targeted at diseases with high morbidity in China such as cancer and stroke and have enormous market development potential.

Implementation of the austerity measures and the variation of administration rules in the pharmaceutical industry in Mainland China have triggered market uncertainties. The industry as a whole is undergoing substantial changes and is becoming increasingly competitive. Nevertheless, growth of the Group's medicine business remained robust. Profit contribution grew 57.6% to HK$236 million, accounting for 25.2% of the Group's net business profit. This was mainly attributable to the consolidation of the results of SI United (SSE Stock Code 600607) commencing the beginning of 2005 upon completion of the acquisition of SI United's controlling interest at the end of 2004.

During the year, the Group made a further investment of RMB145 million to increase its shareholdings in Huqingyutang Pharmaceutical and Xiamen TCM. Meanwhile, the Group disposed of certain medical projects in which it did not have controlling interests. These included Kehua Biotech, Sunve Pharmaceutical and Helishi Dental. Such changes will help further centralize the Group's resources and increase management efficiency. Upon the completion of these transactions, the Group will realize approximately RMB352 million in total.

Overview of Three State Category I New Drugs

"H101" (Recombinant Human Adenovirus Type 5 Injection)

It is mainly used in treatment for tumors in the head and neck, and has significant effect in clinical treatment for cancers such as non-small-cell lung cancer, intestinal cancer and chondrosarcoma. It is the first cancer-fighting drug that applies re-engineered virus to attack the tumor cell and not damage the healthy cell.

"Kai Li Kang" (Urinary Kallidinogenase for Injection)

This drug is mainly used in the treatment of light to medium blood clot severe cell infarction or cardiac arrest, including hypertension and occlusion of cerebral and surrounding blood vessels. The drug is the first treatment medicine that focuses on ischemia, and has attracted extensive interest from the medical sector.

"TNF" (Restoration and Re-engineering of Human Tumor Necrosis Factor for Injection)

It is mainly used in the clinical treatment of various malicious tumors, such as malicious pleural fluid, malicious lymph tumor, prothoracic gland cancer and kidney cancer. It can also be used as a supplementary drug to treat tumor patients after completing surgery, chemical treatment and radiological treatment, and to enhance the restoration of the immunomodulation mechanism inside the body.

Medicine and Health Food

The Group's Chinese medicine segment recorded strong growth in the sales of "Dengfeng" injection products including Shen Mai Injection, Dan Shen Injection and Herba Houttuyniae Injection, which increased by 6.8%, 13.1% and 21.3% respectively compared with last year. The Group will capitalize on its leading market position to enhance the competitiveness of its injection products. Affected by changes in distribution channels, sales of "Qingchunbao" Anti-ageing Tablets, an OTC drug have been declining. Sluggish sales seen in the first half of the year continued, with a decrease for the year reaching 48.7%. The Group will adopt measures to reverse the situation through strengthening sales forces to expand market share.

During the year, sales of "Techpool Luoan", a biomedicine, grew 26% to RMB153 million. The upstream raw material resources for "Techpool Luoan", "Low molecular heparin" and "Kai Li Kang", a State Category I New

List of Medicine Research Projects that entered clinical test phases and obtained New Drug Certificates within 2005	
New Drug	**Research and Development Phase**
"H101"	Certificate on New Drug was obtained
"Kai Li Kang"	Certificate on New Drug was obtained
"Argy Wormwood Oil Soft Capsule"	Certificate on New Drug was obtained
"Compact Bone Capsule"	Third Phase Clinical Test is underway
"Shenshu Granules"	Third Phase Clinical Test is underway
"Fengshe Capsule"	In Second Phase Clinical Test
"H103"	First Phase Clinical Test is underway

Drug, are now under the control of Changzhou Techpool. In order to control such resources, the Group acquired a 69.6% stake in the company for a consideration of RMB71 million. The company also holds a 45% stake in one of the few high quality heparin raw material production bases being certified by Federal Drug and Food Administration of the US. Such resources are crucial for the Group to spearhead the growth of the low molecular heparin project into the international market.

With respect to health food, growth in yearly sales of "Huqingyutang" Herba Dendrobium Grain launched in 2004 was strong, with sales increased more than two-fold to RMB50.64 million. Following the launch of the new product "Qingchunbao" Yizhikang Capsules in the first half of 2005, a new series, "Qingchunbao Pearl Lsoflavones", was put into the market in the latter half of the year. Riding on the strength of the "Qingchunbao" brand name, the Group will continue to develop new products to meet different customer needs.

Sales of Major Medicine Products in 2005

Name	Type/Indication	Sales RMB'000	Change %
"Dengfeng" Shen Mai Injection	Cardiovascular	336,226	+6.8%
"Dengfeng" Dan Shen Injection	Cardiovascular	122,935	+13.1%
"Dengfeng" Herba Houttuyniae Injection	Anti-inflammation and detoxication	54,603	+21.3%
"Huqingyutang" Stomach Rejuvenation Tablets	Gastritis	86,013	+9.3%
"Herbapex" Rupixiao Tablets	Gynaecological	124,941	+14.7%
"Dinglu" Xinhuang Tablets	Anti-bacterial, anti-inflammatory, pain relieving	75,614	-4.9%
"Qingchunbao" Anti-ageing Tablets	Immunity strengthening	197,642	-48.7%
"Qingchunbao" Yongzhen Tablets	Health food	25,966	+25.5%
"Qingchunbao" Beauty Capsules	Health food	61,114	-32.6%
"Huqingyutang" Herba Dendrobium Grain	Health food	50,641	+200.7%
"Techpool Luoan"	Urinary trypsin enzyme inhibitor	153,430	+26.0%
"Changzhou Pharmaceutical" Captopril Tablets	Anti-hypertension	39,860	+20.2%
"Changzhou Pharmaceutical" Qiangli Meisu	Raw pharmaceuticals	98,020	+190.8%

Medical Equipment

During the year, the Group further increased its stake in Shanghai Medical Instruments to 99%. With a solid foundation, the company is becoming the flagship for the Group's medical instruments operation. The Group will continue to develop business relationships with international medical equipment manufacturers and increase market share through its established sales network and regional market experience. In 2005, turnover for Shanghai Medical Instruments amounted to RMB610 million, with a year-on-year net profit increase of 58.5% to RMB28.72 million.

MicroPort Medical reported record sales and profits for the year with honorary awards from the Shanghai Municipality for two consecutive years. In 2004, "PTCA Balloon Catheters" and "Coronary Interventional Devices (including drug eluting stents)", were awarded first class prizes for "Advancement in Science and Technology". In 2005, the company's project "Industrialization of Interventional Devices for Cardiovascular and Cranial Vascular Diseases" was listed as one of the Key Technology Projects of the Shanghai Municipality. This project involves the research and development of cutting-edge technologies for the mass production of interventional medical devices.

CONSUMER PRODUCTS

Consumer Products

Shareholding	Major Enterprises	Principal Business
100%	Nanyang Brothers Tobacco Co. Ltd.	Manufacture and sale of cigarettes
30.78%	Bright Dairy and Food Co. Ltd.	Manufacture and sale of dairy products
50%	Shanghai Huizhong Automotive Co. Ltd.	Manufacture and sale of vehicles, automobile components and spare parts
30%	Shanghai SIIC Transportation Electric Co. Ltd.	Manufacture and sale of automobile components and spare parts
93.44%	The Wing Fat Printing Co. Ltd.	Manufacture and sale of packaging materials, printed products and paper making business

The Group's consumer products business benefited enormously from the rapid growth of the consumer market in China. Keen competition and rising operating costs have however put pressure on these enterprises. Huizhong Automotive, which is mainly engaged in the automobile components and spare parts business, turned from profit to loss for the year. In 2005, profit from the consumer products segment fell 20.3% to HK$468 million, and accounted for 50.1% of the Group's net business profit. During the year, the Group disposed of its 28.15% stake in Shanghai Jahwa thereby and entirely divesting its personal care products business. The transaction is expected to be completed in the first half of 2006. Upon the completion of the transaction, the Group will realize an income of approximately RMB337 million.

Tobacco

In 2005, turnover for Nanyang Tobacco decreased by 12% to HK$1,520 million, while net profits increased by 34.3% to HK$385 million. The decrease in turnover was due to changes in sales policy effective in 2005 requiring the exclusion of trade discounts from sales. During the year, Nanyang Tobacco actively expanded its market share in Mainland China with sales of cigarettes exclusively for the market rising by 56%. In line with promotional activities for the company's centennial anniversary, a new product, "Centennial Dragon & Phoenix Double Happiness", was launched and was well received in the market. Currently, 90% of the sales of Nanyang Tobacco are derived from the Group's-manufactured cigarettes. Of this, the sales from soft pack "Double Happiness" and box pack "Double Happiness" accounted for nearly 70% of the Group's-manufactured cigarettes. In the coming year, Nanyang Tobacco will devote its efforts to expand new markets while consolidating its existing businesses.

Dairy

In August 2005, "Bright" Brand dairy products produced by Bright Dairy (SSE Stock Code 600597) once again was awarded the Famous Brand of China by the General Administration of Quality Supervision, Inspection and Quarantine. However, in the wake of negative media coverage in June 2005 on product quality management of Bright Dairy, the company responded with a positive and proactive attitude. On the one hand, it has thoroughly reviewed and improved the product formula, technique, technologies and quality system. On the other hand, it sought to gradually revamp the image of the brand through additional promotion of products and the brand itself, as well as building up a closer relationship with its customers. All of these efforts were devoted to maintaining the market share of "Bright" products. Despite this, the company recorded negative growth as a result of adverse impact brought about by the report. Income from the company's principal business declined to RMB6,887 million. Net profit was RMB211 million, a decrease of 33.6% over last year. The company will continue to increase its efforts in marketing and sales and, strengthen its quality management systems in order to maintain steady growth and operating results.

Automobiles and Parts

The vehicle market in Mainland China was sluggish during the year. This, together with the surge in raw material prices, brought considerable pressure to the Group's automobiles and parts business. Huizhong Automotive and Transportation Electric were able to mitigate the effects of a sluggish market and the pricing pressure brought by upstream industries through various cost saving and efficiency enhancement measures. However, they were still unable to reverse the fall in operating results. During the year, sales of Huizhong Automotive and Transportation Electric decreased by 28.8% and 34.3% respectively. Profit of Transportation Electric was RMB30.81 million, a decrease of 71.0%. Huizhong Automotive incurred a loss of RMB232 million.





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Printing

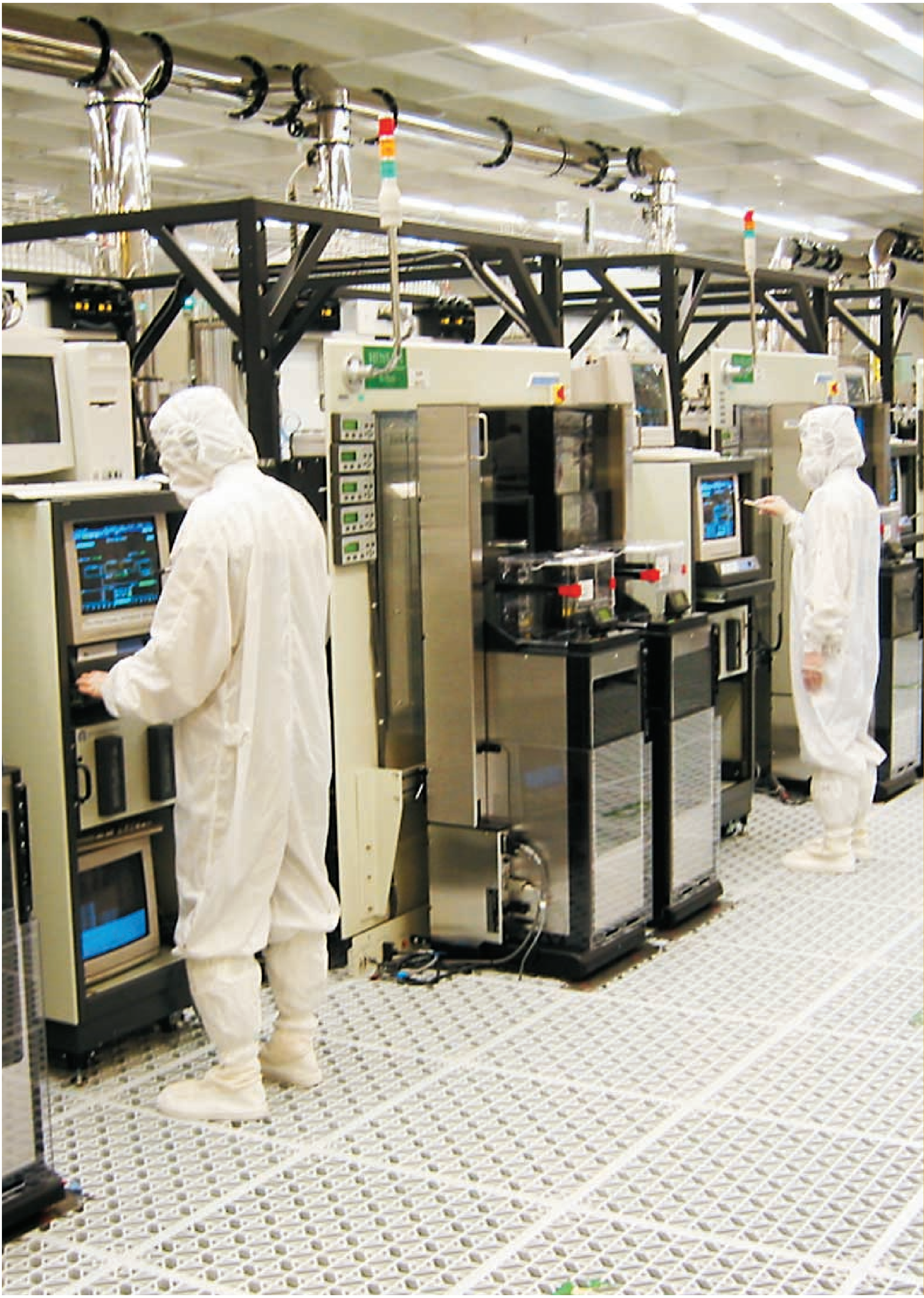
During the year, the turnover for Wing Fat Printing increased by 103% to HK$945 million. Net profit grew 10.3% to HK$126 million. The company's scale of operation was expanded, primarily attributable to an increased investment of RMB156 million to the existing projects, including Hebei Yongxin Paper, Zhejiang Rongfeng Paper and Chengdu Wing Fat Printing, thereby increasing its stakes and profit shares in these companies. Currently, the company plans to expand its business in the paper making industry in China. While the percentage of packaging and sales of cigarette box gradually decreased, the business mix of Wing Fat Printing will shift to paper making. According to the statistics, from 2002 to 2004 the consumption of containerboard paper products has been exceeding the domestic production of such products. The Group expects that there is enormous potential in the paper making industry in China.

INFORMATION TECHNOLOGY

During the year, the Group disposed of its entire interests in China Netcom (HK), thereby bringing an exceptional profit of HK$91.74 million to the information technology segment of the Group. However, affected by a slowdown in the semiconductor industry, profit contribution from the segment decreased to HK$45.34 million, accounting for 4.9% of the Group's net business profit.

Since the end of 2004, the product cycle of the semiconductor industry has been on a downward trend. Although the sales of SMIC (Stock Exchange Stock Code 981) still recorded a sales growth of 20.2% to US$1,171 million for 2005, a loss of US$112 million for the year was incurred due to weaker wafer prices and increased depreciation costs. The situation has however been improving gradually. Gross margins of SMIC were 12.9% in the fourth quarter of 2005 compared to 8.2% in the third quarter of 2005. Net loss decreased to US$14.98 million in the fourth quarter of 2005 compared to a net loss of US$26.12 million in the third quarter of 2005.

In the fourth quarter of 2005, SMIC commenced commercial production for new products for nine new customers. Of these, two are among the top fabless companies in the world. In December 2005, more than 8% of SMIC's revenues were generated from mainland Chinese fabless companies. These new products included the first 3G baseband chips on 0.13 micron process for the TD-SCDMA, WCDMA and CDMA2000 standards, a digital satellite receiver chip for set-top boxes, and an HDTV video processor chip.



The turnover and net profit of SII increased 32.4% and 17.3% to RMB1,330 million and RMB89.25 million respectively. Growth remained relatively high for SII's certain fellow companies engaging in construction and operation of infrastructure networks and functional facilities. Of these, the turnover and net profit of Dongfang Cable increased 31% and 27% to RMB1,088 million and RMB114 million respectively. The turnover and net profit of Pipelines Co. increased 24.1% and 23.7% to RMB215 million and RMB41.81 million respectively.

While assuring the transmission of analog television programmes, Dongfang Cable proactively developed "Youxiantong" and digital television. In 2005, the company acquired 76,000 new broadband users, representing an increase of 49% over the previous year. Accumulated users for "Youxiantong" reached 240,000, making it a strong competitor in the urban broadband business market in Shanghai. A total of 431 duct km of information pipelines were built in the year, providing new network access to 338 buildings, an increase of 50.2% as compared with last year.

Constructed and operated by Yitong Co., the electronic port clearance platform in Shanghai, became increasingly mature during the year. Clearance documents transmitted to the port amounted to 51.85 million for the year, an increase of 107.5% over last year. Users of the electronic port payment system in Shanghai, the largest such system in China dedicated to support intra-bank payment by enterprises, increased from 1,500 in 2004 to 2,200 in 2005. The company is now actively expanding payment business for other areas, namely electronic commerce and insurance. SII has a 23% stake in Yitong Co.

SII will continue to pursue significant breakthroughs with respect to information technology development in logistics, finance, family integrated services and enterprise data custody relating to crisis management backup. The company will also facilitate the construction of major information technology development projects in the city that have full financial support from the government.