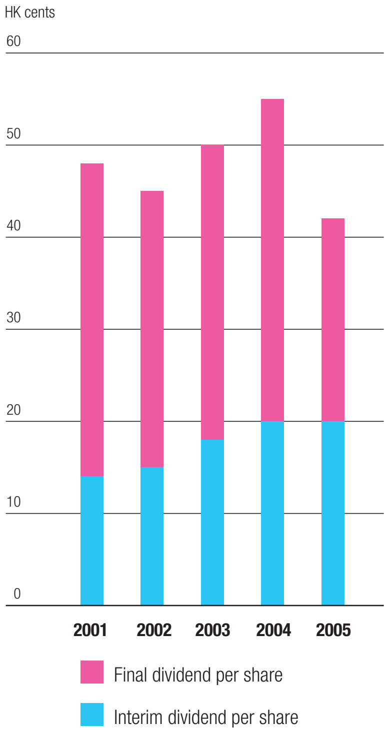
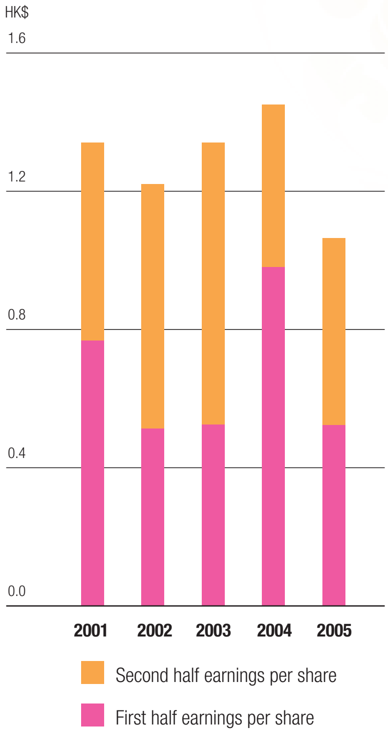
FINANCIAL REVIEW

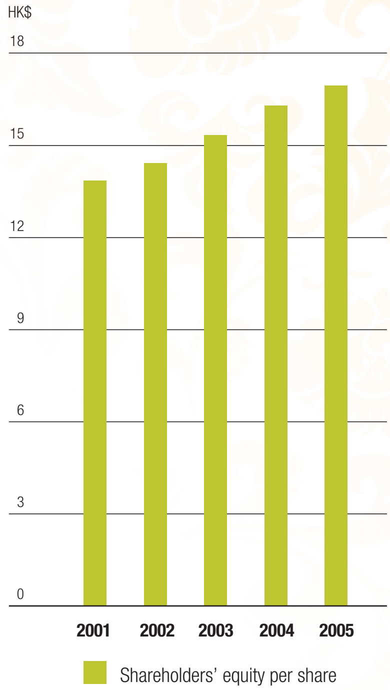
KEY FIGURES

	2005	2004 (As restated)	Increase (Decrease)
Financial highlights			
Turnover (HK$'000)	**6,025,285**	3,428,939	75.7%
Profit attributable to shareholders (HK$'000)	**1,027,940**	1,377,660	(25.4%)
Total assets (HK$'000)	**21,972,155**	20,606,861	6.6%
Shareholders' equity (HK$'000)	**16,375,892**	15,614,861	4.9%
Share information			
Earnings per share – basic	**HK$1.07**	HK$1.45	(26.2%)
Dividend per share	**HK42 cents**	HK55 cents	(23.6%)
– interim (paid)	**HK20 cents**	HK20 cents	
– final (proposed)	**HK22 cents**	HK35 cents	
Number of shares in issue (shares)	**967,533,000**	958,638,000	
Share price at year end (HK$)	**16.15**	16.60	
Market capitalisation at year end (HK$ billion)	**15.626**	15.913	
Financial ratios			
Gearing ratio (Note (1))	**11.2%**	10.9%	
Interest cover (Note (2))	**23 times**	100 times	
Dividend payout ratio	**39.3%**	37.9%	

Note (1): interest-bearing loans / (shareholders' equity + minority interests + interest-bearing loans)
Note (2): profit before taxation, interest expenses, depreciation and amortisation / interest expenses





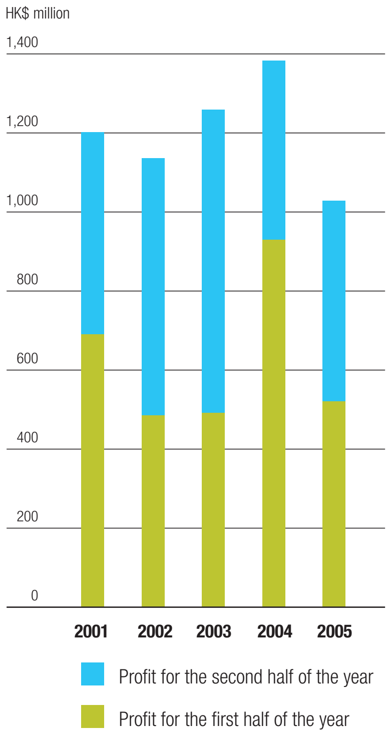


I ANALYSIS OF FINANCIAL RESULTS

1. Profit attributable to shareholders of the Company

The profit attributable to shareholders for the year 2005 was HK$1,027.94 million, a decrease of approximately 25.4% over the restated profit of HK$1,377.66 million for the year 2004.

The decrease in profit attributable to shareholders was mainly due to the non-recurrence of exceptional profit similar to that recorded in 2004 in relation to the listing of SMIC. Contributions from its automobile and parts and information technology businesses were reduced as the general business environment to the entities in the domestic automobile market and the semiconductor industry was sluggish. However, the profit derived from the disposal of China Netcom (HK), the new earnings source added to the medicine business following completion of the acquisition of SI United and the profit breakthrough of MicroPort Medical partly mitigated the pressures on earnings.

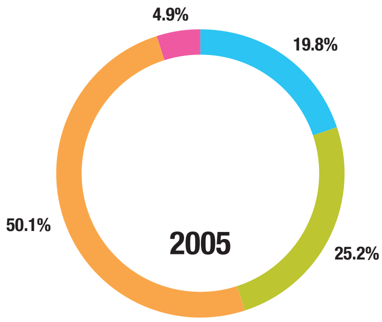


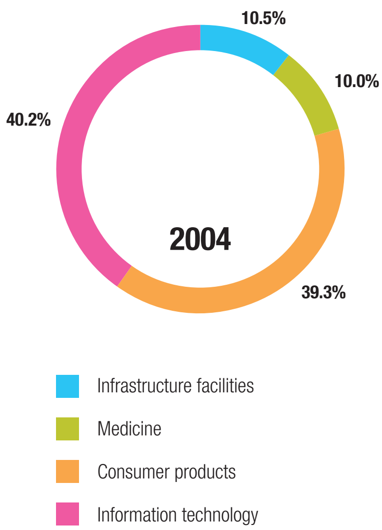
2. Profit Contribution from Each Business

The profit contributed by each business in the Group for the year 2005 and the comparative figures last year was summarised as follows:

	2005 HK$'000	2004 HK$'000 (As restated)	Increase (Decrease) %
Infrastructure facilities	185,769	156,131	19.0
Medicine	235,625	149,522	57.6
Consumer products	467,764	586,554	(20.3)
Information technology	45,336	599,377	(92.4)

While GWC expanded its water supply and water processing capacity, it also started to contribute to the earnings of the Group. This, together with the continuous stable profit contribution from Pudong Container and Hu-Ning Expressway, infrastructure facilities business recorded a 19.0% growth in profit contribution this year.





The medicine businesses recorded a magnificent growth this year, which was mainly due to the profit contribution from SI United, which the acquisition was completed at the end of last year, as well as the profit breakthrough of MicroPort Medical, which improved the earnings performance of the medicine business as a whole, upon the launch of its Firebird® Rapamycin Eluting Stent early this year after years of research and development dedication. MicroPort Medical was invested by the Group in 2002 and the Group currently holds a 21.31% equity stake.

In respect of the consumer products business, our stable profit contributor, the Group recorded a loss in its automobile and parts business for the first year due to the marco economic measures, cost hikes and price competition in China market. However, tobacco and printing, which also belonged to the consumer products business, achieved continuous growth in profit contribution, offsetting in part the negative impact of the automobile and parts business. Nevertheless, the profit contribution from the overall consumer products business showed a decline.

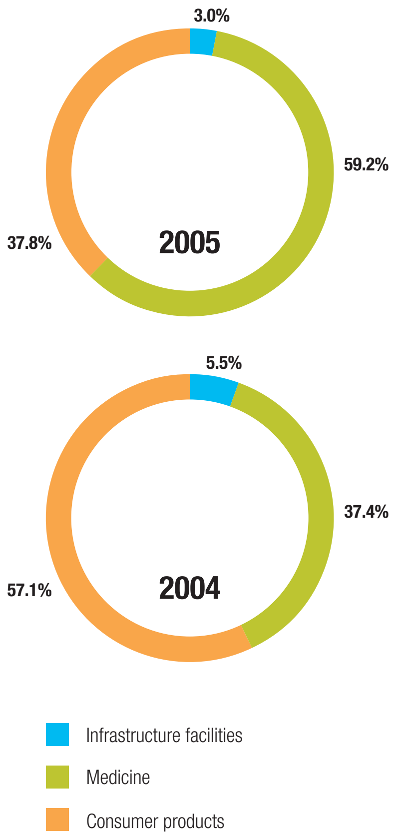
Even though the semiconductor industry experienced a downturn, the performance of SMIC's operations continued to remain strong. Cash from operations in 2005 increased by 24.9% from that in 2004. However, being a new foundry with only four years of commercial operations, SMIC incurred enormous depreciation charges in its operations, and hence recorded a loss in its operating results for the year. Furthermore, the profit derived from the information technology business this year was mainly attributable to the gain of disposal of investments in China Netcom (HK), for which was not comparable to the significant exceptional profit derived from the gain in the spin-off of SMIC last year.

Full details of the operating performances and progress of individual businesses for the year are contained in the section headed "Business Review, Discussion and Analysis".

3. Turnover

The Group's turnover by principal activities for the year 2005 and prior year comparatives was summarised as follows:

	2005 HK$'000	2004 HK$'000 (As restated)	Increase (Decrease) %
Infrastructure facilities	181,578	189,208	(4.0)
Medicine	3,567,264	1,283,622	177.9
Consumer products	2,276,443	1,956,109	16.4
	6,025,285	3,428,939	75.7



The turnover of the Group was increased by 75.7%, it is mainly attributable to adding of new sources of turnover from newly consolidated subsidiaries from the medicine and consumer products businesses. This attractive sales growth was partly offset by the adjustment in the turnover of the infrastructure facilities and tobacco business due to the change in sales terms.

Turnover in the medicine business increased by 177.9%, which was mainly driven by the consolidation of subsidiaries after the completion of the acquisition of 56.63% equity stake in SI United and increase of equity stake in Huqingyutang Pharmaceutical to 51%. Apart from the growth in turnover, the composition of the turnover from the medicine business during the year also changed from mainly comprising of traditional Chinese medicine, to also covering chemical compound OTC drugs, biomedicine, medical equipment and medicine retailing.

Turnover of infrastructure facilities business primarily reflected the toll fee income of Hu-Ning Expressway. As a result of the expansion works undergone at other sections of Shanghai-Nanjing Expressway, the toll fee income was adversely affected. However with the introduction of sales tax reduction from 5% to 3% with effect from 1 June 2005, the pressure resulted from the fall in toll fee income of Hu-Ning Expressway was partly mitigated.

Lower turnover of consumer products was attributable to the change of sale terms by Nanyang Tobacco, which sales discounts were deducted directly from turnover instead of being expensed as distribution costs in the previous year. This change only affected the turnover and the distribution costs of Nanyang Tobacco, but not on its profit and cash flow. Growth in turnover of the printing business remained stable, following its development of business in the PRC. Increase the equity interest in a recycle paper manufacturing entity to controlling stake in the mainland was completed during the year, realising a vertical business expansion.

4. Profit before Taxation

(1) GROSS PROFIT MARGIN

Gross profit margin for the year was 38.3%, representing a decrease of 17.8% as compared to 56.1% last year. The decrease was attributable to the consolidation of SI United's profit and loss during the year. Since a portion of SI United's turnover belonged to low-margin medicine retailing business, the Group's overall gross margin fell despite the increase in turnover of the medicine business.

(2) INVESTMENT INCOME

Investment income increased from HK$233.57 million to HK$389.46 million for the year, which was mainly attributable to the gain from disposal of investment in China Netcom (HK), the increase of dividend received from Pudong Container and the increase in interest income resulting from upward adjustments in interest rates.

(3) OTHER INCOME

Other income was increased by approximately HK$131.23 million, which was primarily due to the written back of risk provision for the consumer product business last year, the increase of re-investment tax refund and the appreciation of Renminbi that bought forth with foreign exchange income.

(4) SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

Being affected by the macro economic measures, cost hikes and price competition in the PRC, Huizhong Automotive incurred an operating loss for the year. Even though MicroPort Medical, another jointly controlled entity, recorded substantial profit after the launch of its products with years of product development dedication, the share of results of jointly controlled entities was reduced by approximately HK$73.36 million.

(5) SHARE OF RESULTS OF ASSOCIATES

The major reason for the decrease in the Group's share of results of associates by approximately HK$151.60 million was attributable to the enormous depreciation charges that resulted in an operating loss of SMIC for the year compared with an operating profit made last year.

(6) NET GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The net gain from the disposal of interests for the year was mainly derived from the disposal of Sunve Pharmaceutical and two other medicine companies under SI United. Such net gain decreased significantly by approximately HK$517.86 million as compared with the net gain from the spin-off of SMIC last year.

(7) IMPAIRMENT LOSS ON ASSETS CLASSIFIED AS HELD FOR SALE

It was resolved in a shareholders' meeting of Shanghai Jahwa, an associated company of the Group, to repurchase all the shares held by the Group. At the balance sheet date, this repurchase arrangement is still subject to the approvals from relevant government authorities. Provisions on impairment was estimated on the basis of the proceeds from the disposal, the dividends to be received and the carrying amount of the investment on the date the transaction is expected to complete.

5. Dividends

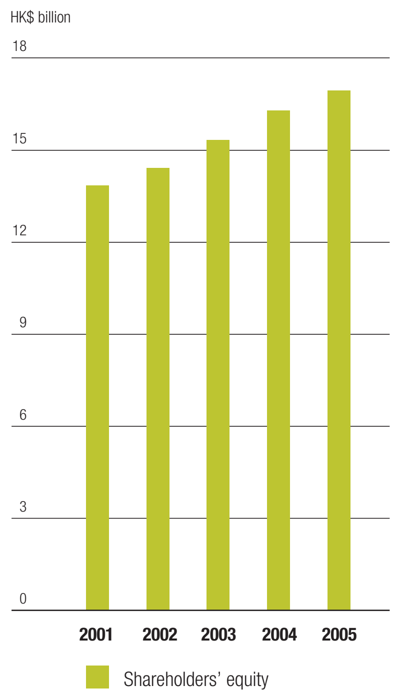
The Group adopts a stable growth dividend payout policy. The Board of Directors of the Group has proposed to declare a final dividend of HK22 cents per share, together with an interim dividend of HK20 cents per share, the total dividend amounts to HK42 cents per share for the year, the payout ratio was approximately 39.3% as compared with the payout ratio of approximately 37.9%, increased by 1.4%.

II FINANCIAL POSITION OF THE GROUP

1. Capital and shareholders' equity

As at 31st December 2005, the Group had a total of 967,533,000 shares in issue. The number of shares in issue increased by 8,895,000 shares as compared with the 958,638,000 shares in issue at the end of 2004.

Shareholders' equity increased by HK$761.03 million to HK$16,375.89 million during the year, which was attributable to the increase in number of shares and the operating profits for the year after deducting the dividend actually paid during the year.



2. Indebtedness

(1) BORROWINGS

As at 31st December 2005, the total borrowings of the Group amounted to HK$2,293.75 million, which was mainly comprised of loans of HK$693.75 million of subsidiaries and a HK$1,600 million five-year term syndication loan of the Company. The syndication loan was comprised of a long-term loan amounting to HK$800 million and a revolving loan of HK$800 million, which have been stated in the balance sheet as long-term bank borrowings and short-term bank borrowings respectively. Unsecured credit facility accounted for 82.9% of the total borrowings.

(2) PLEDGE OF ASSETS

As at balance sheet date, the following assets were pledged by the Group in order to secure general credit facilities granted to the Group:

(a) plant and machinery with a net book value of approximately HK$32,034,000;

(b) land and buildings with a net book value of approximately HK$230,099,000; and

(c) motor vehicles with a net book value of approximately HK$165,000.

(3) CONTINGENT LIABILITIES

As at 31st December 2005, the Group has given guarantees to banks in respect of banking facilities utilised by 西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co. Ltd.) and a third party of HK$19.63 million in total.

3. Bank deposits and short-term investments

As at 31st December 2005, bank balances and short-term investments held by the Group amounted to HK$6,068.40 million and HK$1,070.04 million respectively. The proportions of US dollars, Renminbi and HK dollars were 47%, 39% and 14% respectively. Short-term investments mainly consisted of investments such as funds, equity-linked notes, bonds and Hong Kong listed shares.

At present, the Group is in net cash position. Having sufficient working capital and a healthy interest cover, there are sufficient financial resources and fund raising capability available to the Group for the funding of capital investments and operations should the needs arise.

III MANAGEMENT POLICIES FOR FINANCIAL RISK

1. Exchange rate risk

The Group mainly operates in China and the Hong Kong Special Administrative Region and the exposure in exchange rate risks mainly arises from fluctuations in the US dollar, HK dollar and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. As HK dollar and Renminbi are both under managed floating system, after reviewing the Group's exposure for the time being, the Group did not enter into any derivative contracts aimed at minimising exchange rate risks during the year.

2. Interest rate risk

The major financing loan of the Group is a HK$1,600 million syndication loan. To exercise prudent management against interest rate risk, the Group has a structured interest rate hedging arrangement against the long-term portion of this syndication loan of HK$800 million prevailing as at the balance sheet date. The Group will continue to review the market trend, as well as its business operation needs and its financial position in order to identify the most effective tools for interest rate risk management.

3. Credit risk

The Group's principal financial assets are bank balances and cash, equity and debt investments, and trade and other receivables. The Group's trade and other receivables presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made according to the Group's accounting policy or where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of the Group's treasury operations, the Group's bank balances and cash, securities and debt investments must be placed and entered into with financial institutions of good reputation. There are strict requirements and restrictions as to the outstanding amount and credit ratings on equity and debt investments to be held, so as to minimise the Group's credit risk exposure.