上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

Interim Report

2003

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Cai Lai Xing *(Chairman)**

Mr. Chen Wei Shu *(Vice Chairman)***

Mr. Lu Ming Fang
*(Chief Executive Officer)***

Mr. Lu Da Yong *(Executive Deputy CEO)***

Mr. Li Wei Da *(Deputy CEO)***

Mr. Lu Yu Ping *(Deputy CEO)***

Mr. Qian Shi Zheng *(Deputy CEO)***

Mr. Zhou Jie *(Deputy CEO)***

Mr. Yao Fang

Mr. Ge Wen Yao

Mr. Huang Yan Zheng

* *Chairman of the Executive Committee*

** *Members of the Executive Committee*

Independent Non-executive Directors

Mr. Lee Quo Wei

Mr. Lo Ka Shui #

Mr. Woo Chia-Wei ##

Mr. Leung Pak To, Francis ##

Chairman of the Audit Committee

Members of the Audit Committee

COMPANY SECRETARY

Mr. Leung Lin Cheong, Roger

AUTHORISED REPRESENTATIVES

Mr. Lu Ming Fang

Mr. Leung Lin Cheong, Roger

REGISTERED OFFICE

26th Floor, Harcourt House
39 Gloucester Road, Hong Kong
Tel: (852) 2529 5652
Fax: (852) 2529 5067

WEB SITE

http://www.sihl.com.hk

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Woo, Kwan, Lee & Lo (HKSAR)
Morrison & Foerster (USA)
ZhongLun Law Office (PRC)
Jingtian & Gongcheng (PRC)

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications
Citibank, N.A.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
28th Floor, BEA Harbour View Centre,
56 Gloucester Road
Wanchai, Hong Kong
Tel: (852) 2980 1888

Highlights

- The Group's overall business has been growing steadily with breakthroughs in business adjustments and achieved the expected results

- The Group's net profit for the period was approximately HK$491,490,000, representing an increase of approximately 1.3% over the same period last year

- The Group will distribute an interim dividend of HK18 cents per share, up 20% over the same period last year, and the dividend payout ratio is approximately 34.3%

- During the period, the Group made two major re-organization moves with total considerations amounting to approximately HK$1,335,070,000:

  - the acquisition of SI United, an A-share company listed in the PRC, subject to the approval of the relevant PRC government authorities

  - the privatization of Hong Kong GEM-listed SIIC MedTech, the listing of which will be withdrawn on 17 September 2003

- On 29 August 2003, the Group disposed of its entire interests in two elevated road projects in Shanghai and will receive full reimbursement of the carrying value of the investments amounting to US$702,475,363 together with an after-tax compensation of RMB300,000,000

- The Group has submitted application to the Ministry of Commerce to establish a wholly foreign-owned investment company in the PRC with a view to building up further its investments in infrastructure business in the PRC. The registered capital of such company will be US$200,000,000

- On 29 August 2003, the Group signed a letter of intent for the acquisition of the entire interests in Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited for a consideration of RMB2,000,000,000. The company will be granted the right to operate the Shanghai-Nanjing Expressway (Shanghai Section) for a period of 25 years

- On 26 August 2003, the Group entered into a heads of agreement with China Energy Conservation Investment Corporation and China National Environmental Protection Corp. to establish a joint venture company for the joint investment and operation of water-related business in the PRC. The joint venture company will have a registered capital of RMB500,000,000

- During the period, the Group further streamlined its non-core businesses by the disposal of its 51% interest in Orient Shopping and realized exceptional profit of approximately HK$28,230,000

Condensed Consolidated Income Statement

For the Six Months ended 30 June 2003

	NOTES	Six months ended 30 June 2003 HK$'000 (unaudited)	2002 HK$'000 (unaudited)
Turnover	3	1,463,289	1,720,301
Cost of sales		(549,238)	(807,372)
Gross profit		914,051	912,929
Investment income		51,210	43,488
Other operating income		12,395	27,888
Distribution costs		(302,544)	(259,356)
Administrative expenses		(180,586)	(169,941)
Other operating expenses		(4,057)	–
Profit from operations	4	490,469	555,008
Finance costs		(18,256)	(41,564)
Share of results of jointly controlled entities		91,616	87,190
Share of results of associates		54,254	28,090
Net gain on disposal of interests in a subsidiary and an associate		25,200	–
Profit from ordinary activities before taxation		643,283	628,724
Taxation	5	(92,109)	(80,583)
Profit before minority interests		551,174	548,141
Minority interests		(59,686)	(62,863)
Net profit for the period		491,488	485,278
Dividends	6	280,908	312,688
Earnings per share	7		
– Basic		HK52.5 cents	HK53.6 cents
– Diluted		HK52.4 cents	HK52.5 cents

Condensed Consolidated Balance Sheet

At 30 June 2003

	NOTES	30 June 2003 HK$'000 (unaudited)	31 December 2002 HK$'000 (audited)
Non-Current Assets			
Investment property	8	3,300	3,300
Property, plant and equipment	8	1,178,537	1,188,483
Goodwill		30,491	27,717
Interest in jointly controlled entities		1,931,091	1,877,633
Interest in associates	9	2,689,927	2,583,108
Investments in infrastructure and other projects		5,547,323	5,547,855
Investments in securities	10	455,737	274,918
Loans receivable		7,443	8,703
Deposits paid on acquisition of property, plant and equipment		5,602	6,632
		11,849,451	11,518,349
Current Assets			
Inventories		359,998	401,571
Trade and other receivables	11	639,130	796,018
Taxation recoverable		4,014	–
Investments in securities	10	255,722	286,370
Placement of deposits with finance institutions		264,151	214,953
Pledged bank deposits		41,569	42,869
Bank balances and cash		3,269,356	3,202,532
		4,833,940	4,944,313

Condensed Consolidated Balance Sheet

At 30 June 2003

	NOTES	30 June 2003 HK$'000 (unaudited)	31 December 2002 HK$'000 (audited)
Current Liabilities			
Trade and other payables	12	**524,908**	552,717
Taxation payable		**82,915**	73,920
Short-term bank and other borrowings		**831,030**	843,451
		1,438,853	1,470,088
Net Current Assets		**3,395,087**	3,474,225
		15,244,538	14,992,574
Capital and Reserves			
Share capital		**93,636**	93,630
Reserves		**13,705,759**	13,404,176
		13,799,395	13,497,806
Minority Interests		**568,886**	618,549
Non-Current Liabilities			
Unsecured long-term bank borrowing		**800,000**	800,000
Deferred taxation		**76,257**	76,219
		876,257	876,219
		15,244,538	14,992,574

Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2003

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	PRC statutory reserves HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2002	89,806	9,350,049	473	299	7,913	(1,001,256)	227,670	3,763,454	12,438,408
Exercise of share options	2,561	-	-	-	-	-	-	-	2,561
Premium arising on issue of shares	-	260,210	-	-	-	-	-	-	260,210
Expenses incurred in connection with the issue of shares	-	(224)	-	-	-	-	-	-	(224)
Profit for the period	-	-	-	-	-	-	-	485,278	485,278
Transfers, net of minority interests' share	-	-	-	-	-	-	10,495	(10,495)	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	(312,688)	(312,688)
At 30 June 2002	92,367	9,610,035	473	299	7,913	(1,001,256)	238,165	3,925,549	12,873,545
Exchange difference arising from translation of financial statements of PRC operations	-	-	-	-	(35)	-	-	-	(35)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	-	-	-	-	60	-	-	-	60
Net gain not recognised in the income statement	-	-	-	-	25	-	-	-	25

Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2003

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	PRC statutory reserves HK$'000	Accumulated profits HK$'000	Total HK$'000
Exercise of share options	1,861	-	-	-	-	-	-	-	1,861
Premium arising on issue of shares	-	178,343	-	-	-	-	-	-	178,343
Expenses incurred in connection with the issue of shares	-	(137)	-	-	-	-	-	-	(137)
Shares repurchased and cancelled	(598)	-	-	-	-	-	-	-	(598)
Premium on shares repurchased and cancelled	-	-	-	-	-	-	-	(69,665)	(69,665)
Transfer arising on shares repurchased and cancelled	-	-	598	-	-	-	-	(598)	-
Realised on disposal of interest in a jointly controlled entity	-	-	-	-	-	(360)	-	-	(360)
Realised on deemed disposal of interest in a jointly controlled entity	-	-	-	-	(83)	2,347	(5,213)	5,213	2,264
Realised on partial disposal of interest in a subsidiary	-	-	-	-	(60)	-	-	-	(60)
Impairment loss on goodwill reserve	-	-	-	-	-	12,855	-	-	12,855
Profit for the period	-	-	-	-	-	-	-	641,065	641,065
Transfers, net of minority interests' share	-	-	-	-	-	-	33,690	(33,690)	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	(141,332)	(141,332)

Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2003

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	PRC statutory reserves HK$'000	Accumulated profits HK$'000	Total HK$'000
At 31 December 2002	93,630	9,788,241	1,071	299	7,795	(986,414)	266,642	4,326,542	13,497,806
Exchange difference arising from translation of financial statements of PRC operations not recognised in the income statement	-	-	-	-	26,093	-	-	-	26,093
Exercise of share options	6	-	-	-	-	-	-	-	6
Premium arising on issue of shares	-	623	-	-	-	-	-	-	623
Realised on disposal of interest in a subsidiary	-	-	-	-	(38)	62,597	(4,490)	4,490	62,559
Realised on disposal of interest in an associate	-	-	-	-	(10)	1,738	-	-	1,728
Profit for the period	-	-	-	-	-	-	-	491,488	491,488
Transfers, net of minority interests' share	-	-	-	-	-	-	10,522	(10,522)	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	(280,908)	(280,908)
At 30 June 2003	93,636	9,788,864	1,071	299	33,840	(922,079)	272,674	4,531,090	13,799,395

Condensed Consolidated Cash Flow Statement

For the Six Months ended 30 June 2003

	Six months ended 30 June	
	2003	2002
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**641,528**	475,360
Net cash used in investing activities	**(647,289)**	(586,316)
Net cash (used in) from financing activities	**(393,984)**	270,032
Net (decrease) increase in cash and cash equivalents	**(399,745)**	159,076
Cash and cash equivalents at 1 January	**3,064,690**	3,006,635
Cash and cash equivalents at 30 June	**2,664,945**	3,165,711
Being:		
Bank balances and cash	**3,269,356**	3,231,494
Less: Bank deposits with more than three months of maturity	**(604,411)**	(65,783)
	2,664,945	3,165,711

Notes to the Condensed Financial Statements

For the Six Months ended 30 June 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Statement of Standard Accounting Practice ("SSAP") 25 Interim Financial Reporting issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

In the opinion of the directors, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002, except as described below.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. SEGMENT INFORMATION

Business Segments

For the six months ended 30 June 2003

	Consumer products & automobile and parts HK$'000	Infrastructure and modern logistics HK$'000	Medicine and bio-technology HK$'000	Consolidated HK$'000
TURNOVER				
External sales	607,522	283,019	572,748	1,463,289
Segment results	130,576	282,094	96,422	509,092
Less: Net corporate administrative expenses				(39,881)
Add: Interest income				21,258
Profit from operations				490,469

For the six months ended 30 June 2002

	Consumer products & automobile and parts HK$'000	Infrastructure and modern logistics HK$'000	Medicine and bio-technology HK$'000	Consolidated HK$'000
TURNOVER				
External sales	946,095	354,322	419,884	1,720,301
Segment results	111,267	353,698	84,544	549,509
Less: Net corporate administrative expenses				(23,898)
Add: Interest income				29,397
Profit from operations				555,008

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Six months ended 30 June	
	2003 HK$'000	2002 HK$'000
Depreciation and amortisation of property, plant and equipment	**53,911**	49,548
Dividend income from listed investments	**(3,362)**	(416)
Gain on disposal of investments in securities	**(26,437)**	(8,136)
Interest income	**(21,258)**	(29,397)
Net unrealised loss (gain) on investments in securities	**4,057**	(3,712)

5. TAXATION

	Six months ended 30 June 2003 HK$'000	Six months ended 30 June 2002 HK$'000
The charge comprises:		
Current period taxation of the Company and its subsidiaries:		
Hong Kong Profits Tax	19,589	10,862
PRC income tax	26,929	28,314
	46,518	39,176
Underprovision of PRC income tax in prior years	4,303	8,011
	50,821	47,187
Share of PRC income tax of jointly controlled entities	10,135	25,198
Share of PRC income tax of associates	31,153	8,198
	92,109	80,583

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), the Group's PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries and associates are also entitled to reduced tax rates because they are classified as high technology entities under relevant rules. The PRC income tax charges for the period are arrived at after taking into account these various tax incentives.

6. DIVIDENDS

	Six months ended 30 June	
	2003 HK$'000	2002 HK$'000
2002 final dividend of HK30 cents (2001 final dividend: HK34 cents) per share	**280,908**	312,688

The directors have determined that an interim dividend of HK18 cents per share (2002 interim dividend: HK15 cents per share, totalling approximately HK$141,332,000) should be paid to shareholders of the Company whose names appear on the Register of Members on 30 September 2003.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2003 is based on the following data:

	Six months ended 30 June	
	2003 HK$'000	2002 HK$'000
Net profit for the period and earnings for the purpose of basic earnings per share	491,488	485,278
Effect of dilutive potential ordinary shares – adjustment to the share of results of a subsidiary based on potential dilution of its earnings per share	(7)	(199)
Earnings for the purpose of diluted earnings per share	491,481	485,079

	Six months ended 30 June	
	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**936,341,425**	905,509,890
Effect of dilutive potential ordinary shares – share options	**828,278**	17,687,640
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**937,169,703**	923,197,530

8. MOVEMENTS IN INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs for construction in progress of approximately HK$23 million and acquired plant and machinery at a cost of approximately HK$35 million, motor vehicles at a cost of approximately HK$7 million and furniture, fixtures and equipment at a cost of approximately HK$5 million for the purpose of expanding the Group's business. The Group also disposed of certain property, plant and equipment with carrying value of approximately HK$29 million upon the disposal of a subsidiary.

The directors have considered the carrying amount of the Group's investment property carried at revalued amount at 30 June 2003 and have estimated that the carrying amount did not differ significantly from that which would be determined using fair value at 31 December 2002. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. INTEREST IN ASSOCIATES

During the period, the Group acquired a further 25% equity interest in EAS International Transportation Limited ("EAS International") for a consideration of approximately HK$141 million, resulting in goodwill arising on acquisition of additional interest in an associate of approximately HK$31 million. The goodwill will be amortised over its estimated useful life of 12 years. EAS International has repaid the unsecured interest bearing loan of approximately HK$103 million during the period.

During the period, the Group acquired a 30% interest in Hangzhou Huqingyutang Pharmaceutical Co. Ltd. ("Huqingyutang Pharmaceutical") for a consideration of approximately HK$79 million, resulting in goodwill arising on acquisition of an associate of approximately HK$54 million. The goodwill will be amortised over its estimated useful life of 20 years. Huqingyutang Pharmaceutical is engaged in the manufacturing and trading of certain Chinese medicines and health products in the PRC.

10. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, the Group acquired certain investments for approximately HK$392 million and certain investments in the amount of approximately HK$254 million were disposed of.

11. TRADE AND OTHER RECEIVABLES

The Group allows credit period ranging from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK$296,077,000 (31 December 2002: HK$292,419,000) and their aged analysis is as follows:

	30 June 2003 HK$'000	31 December 2002 HK$'000
Trade receivables:		
Within 30 days	**118,514**	136,135
Within 31 – 60 days	**82,118**	74,313
Within 61 – 90 days	**41,793**	39,334
Within 91 – 180 days	**41,030**	33,865
Within 181 – 360 days	**10,985**	7,692
Over 360 days	**1,637**	1,080
	296,077	292,419

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$73,818,000 (31 December 2002: HK$132,995,000) and their aged analysis is as follows:

	30 June 2003 HK$'000	31 December 2002 HK$'000
Trade payables:		
Within 30 days	44,684	98,160
Within 31 – 60 days	14,447	17,905
Within 61 – 90 days	6,009	8,948
Within 91 – 180 days	6,129	3,452
Within 181 – 360 days	1,944	3,061
Over 360 days	605	1,469
	73,818	132,995

13. CAPITAL COMMITMENTS

Since 31 December 2002, the Group has partially paid up approximately HK$141 million on the commitment for the investment in EAS International. The Group has also paid up the commitment for the investment in securities of approximately HK$177.6 million.

At 30 June 2003, the Group had commitments to acquire property, plant and equipment of approximately HK$175 million and a subsidiary of approximately HK$817.42 million. In addition, the Group had commitments for the privatization of a non-wholly owned listed subsidiary of approximately HK$517.65 million.

14. CONTINGENT LIABILITIES

At the balance sheet date, the guarantees given to banks by the Group in respect of banking facilities granted to associates amounted to approximately HK$83 million (31 December 2002: HK$83 million).

15. POST BALANCE SHEET EVENTS

The following significant events occurred after the balance sheet date:

(a) On 11 August 2003, the proposed privatization of SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a non-wholly owned subsidiary of the Company with its shares listed on the Growth Enterprise Market of the Stock Exchange, by the Company by way of a scheme of arrangement was approved at the Court Meeting and the Extraordinary General Meeting. The withdrawal of the listing status of SIIC MedTech on the Stock Exchange will be on 17 September 2003.

(b) On 26 August 2003, the Group entered into a heads of agreement with China Energy Conservation Investment Corporation and China National Environmental Protection Corp. to establish a joint venture company for the joint investment and operation of water-related business in the PRC. The joint venture company will have a registered capital of RMB500 million (approximately HK$471.7 million). The Group will own 50% interest in the joint venture company.

(c) On 29 August 2003, the Group entered into two agreements to dispose of its investments in infrastructure projects in the PRC, Yanan Road and Inner Ring Road and the North-South Elevated Expressway, and receive full reimbursement of the carrying value of the infrastructure projects amounting to approximately US$702.48 million (approximately HK$5,479.3 million) together with an after-tax compensation of RMB300 million (approximately HK$283.0 million).

(d) On 29 August 2003, the Group signed a letter of intent for the acquisition of the entire interests in Shanghai Hu-Ning Expressway (Shanghai Section) Development Co., Ltd. for a consideration of RMB2,000 million (approximately HK$1,886.8 million). The company will be granted the right to operate the Shanghai-Nanjing Expressway (Shanghai Section) for a period of 25 years.

德勤‧關黃陳方會計師行
Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE BOARD OF DIRECTORS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 4 to 20.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a half-yearly interim financial report to be in compliance with the Statement of Standard Accounting Practice 25 *Interim Financial Reporting* issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 *Engagements to Review Interim Financial Reports* issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 29 August 2003

Business Review, Discussion and Analysis

During the first half of 2003, global economic growth encountered continuous slowdown. The war in Iraq brought new uncertainties to economic recovery, while the outbreak of SARS further created an unprecedented impact on the business environment of mainland China and Hong Kong. Facing such difficult situations, the management took a decisive and pragmatic attitude to follow through on its strategy of driving business transformation and at the same time focused on sharpening the competitive edge of the Group's principal businesses. This year, the Group's overall business has been growing steadily with breakthroughs in business adjustments and achieved satisfactory results notwithstanding the harsh business environment. The Group recorded an unaudited net profit of approximately HK$491,490,000 for the period, representing an increase of approximately 1.3% over the same period last year. The Board has resolved to pay an interim dividend of HK18 cents per share, up 20% over the same period last year and the dividend payout ratio is approximately 34.3%.

During the first half year, the Group has successively implemented new business development initiatives enabling furtherance of its business transformation strategy, which has been carrying through during the past few years, and laid a solid foundation for future development striving towards creating new values for our shareholders. In May, the Group announced two major re-organization moves including the acquisition of Shanghai Industrial United Holdings Co., Ltd. ("SI United", an A-share company listed on the Shanghai Stock Exchange) and the privatization of Hong Kong GEM-listed SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"). Total considerations for the two transactions amounted to approximately HK$1,335,070,000.

SI United is principally engaged in bio-medicine and commercial network operations. The Group acquired from its parent company and independent third parties respectively a total of 56.63% equity stake in SI United for a total consideration of approximately RMB866,460,000 (equivalent to approximately HK$817,420,000). Through this acquisition, the Group is envisaged to reap the fruits under the fast-growing PRC economy, especially in the Yangtze River Delta Region, and to expedite earnings growth of its own medicine and bio-technology business. By acquiring a controlling stake in SI United, the Group also seeks to build up a financing channel in the PRC domestic capital market. The proposed acquisition has been approved at the respective shareholders' meetings of the Group and SI United and is currently subject to the approval by relevant PRC government authorities.

SIIC MedTech has been delivering satisfactory results since its listing on GEM in late 1999. It recorded an annual compound growth rate in operating profit of approximately 36% during the three and a half years after its listing. However, the trading liquidity of shares on the GEM board has been thin, and consequently, the ability to raise funds from the equity markets may be limited, hampering the expansion of the scale of operation for enterprises. The privatization of SIIC MedTech will result in a leaner and optimized structure of the Group's medical related operations and it will be more flexible for the Group to plan and formulate overall development strategies for the expansion of its medicine and bio-technology business. The Group will purchase an aggregate minority interests of approximately 34% in SIIC MedTech at HK$2.15 in cash per share. The proposed privatization has been approved at the Extraordinary General Meeting of SIIC MedTech on 11 August and the listing of SIIC MedTech's shares will be withdrawn on 17 September. Through the SI United acquisition and SIIC MedTech privatization, all medical related operations under the Group will be integrated on a common platform for investment and operation growth. This would result in a more distinct business structure, more rational resource allocation, while avoiding potential intra-group competition between the Group and its parent company. In addition, investment in the Group's medical related operations and the scale of business will be further expanded.

Following the announcement by the PRC State Council in September 2002 regarding the proposed settlement of the guaranteed fixed return on investment projects of foreign entities, there have been concerns over the Group's existing infrastructure projects in the market. After repeated negotiations, on 29 August, the Group has reached an agreement with relevant PRC government authorities on proper settlement of the issue. Pursuant to which, the Group will dispose of its entire investment interests in both Yanan Elevated Road, and the Inner Ring Road, North-South Elevated Expressway projects to its project partners and receive full reimbursement of the carrying value of the project investments amounting to US$702,475,363 together with an after-tax compensation of RMB300,000,000. The Group will use the amounts so received to invest in new projects related to its principal businesses and seek further acquisition and merger opportunities with a view to easing pressure on revenue as arose from the cancellation of fixed return on elevated road projects and turn around the declining trend of annual earnings of the original infrastructure projects caused by the amortization of their investment costs every year.

The Group has submitted application to the Ministry of Commerce to establish a wholly foreign-owned investment company in the PRC with a view to building up further its investments in infrastructure business in the PRC. The registered capital of such company will be US$200,000,000. On 29 August, the Group signed a letter of intent with Shanghai Municipal Engineering Bureau for the transfer of the entire interests of the Bureau in Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited ("SH Expressway") for a consideration of RMB2,000,000,000. The Group will also invest in the widening projects of the Expressway in future. SH Expressway will be granted the right to receive toll fees from vehicles using the Expressway and operate the service facilities in designated areas along the Shanghai Section of the Shanghai-Nanjing Expressway for a period of 25 years.

On 26 August, the Group entered into a heads of agreement with China Energy Conservation Investment Corporation ("CECIC") and its wholly-owned subsidiary, China National Environmental Protection Corp. for joint investment and operation of the water-related business in the PRC. CECIC is the only State-level investment company in the PRC investing in the energy conservation and environmental protection sector. In accordance with the heads of agreement, the two parties will jointly invest in the establishment of a joint venture company having a registered capital of RMB500,000,000 and each party will own 50% interest. The two parties will cooperate in the development and operation of water supply and sewage treatment projects in the Yangtze River and Pearl River delta areas and the research and development of water treatment technologies and environmental protection facilities.

The Group believes that the water-related business investment market will provide the Group with good investment opportunities and growing and stable revenue.

Business Review, Discussion and Analysis

Shanghai Pudong International Container Terminals Limited ("Pudong Container Terminals"), a joint venture under the Shanghai Pudong Waigaoqiao Container Terminal Phase One Project jointly invested in by the Group, Shanghai Port Authority, Hutchison Whampoa and COSCO Pacific, has commenced operation on 1 March. The company achieved satisfactory performance with earnings rose by approximately 22% over the same period last year.

Medicine and bio-technology business is one of the Group's core businesses. SIIC MedTech has been making steady improvement and recorded a double-digit growth in both turnover and profits for the first half of 2003. It is now actively procuring acquisitions and mergers for medical related projects, aiming to strengthen the competitiveness of its pharmaceutical products. The H101 project of Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech"), a breakthrough anti-tumour drug, has been included in the National 863 Project and recognised as one of the major science and technology development projects of Shanghai. The project is currently in the final stage of Phase 3 clinical trials and preparations for product launch are actively underway. The H103 project has obtained State approval for proceeding to the stage of clinical trial.

The consumer products business segment has been generating recurrent stable revenue for the Group and achieved good results for the period. Nanyang Brothers Tobacco Company, Limited ("Nanyang Tobacco") maintained solid sales growth and successfully consolidated and established its overseas market. Shanghai Bright Dairy and Food Co., Ltd. ("Bright Dairy") achieved a double-digit earnings growth of 31% with expanding business scale. Driven by the continuous rapid growth in output and sales of PRC's domestic automotive market, the Group also enjoyed significant growth in its automobile and parts business. With the implementation of cost effective measures, Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") achieved excellent results with its net profit grew at almost double. The Group disposed of all its 51% interest in Shanghai Orient Shopping Centre Ltd. ("Orient Shopping") in May and quit department retail business, further streamlining its non-core businesses.

Benefiting from the increasing demand for integrated circuits in the PRC's domestic market, Semiconductor Manufacturing International Corporation ("SMIC") has been experiencing rapid growth since its establishment, due to world-class technological capability, a large scale of production and the establishment of strong alliances with global leaders in the semiconductor industry. The company continues to improve its production capacity and has been making progressive resource allocations to projects in relation to the expansion of its production facilities. Preparations are underway for the listing of SMIC on the overseas capital markets at a suitable time in the first half of next year. It is intended that such listing will facilitate faster business growth and deliver satisfactory gains for the respective investors.

2003 has been a year of consolidation for the logistics sector in the PRC. With China's accession to World Trade Organization, prominent figures in the global logistics industry poured investment into mainland China's logistic market. Under its strategic positioning policy, the Group started to make acquisition and increase its equity stakes in EAS International Transportation Limited ("EAS International"), which owns a nationwide logistics network in mainland China, at different phases from last year and by late April this year, the Group held a 50% interest in EAS International. The company achieved steady growth in operation during the first half year. The Group intends to further consolidate its existing logistics resources, upgrade the standards of operation and services, and increase competitiveness.

During this year, the Group has further strengthened the day-to-day management of its investments in member enterprises. The Shanghai regional head office was established for coordination purpose and sufficient professional personnel was retained in order to enhance the development of related business. The Group has always adopted prudent and flexible investment and management strategies regarding its financial management with the deployment of financial resources and fund management strategies being kept under constant review. During the first half year, the management took aggressive moves to enhance the internal audit functions of its operations in Shanghai and Hong Kong. Through consultation with external professional advisors, the scope of internal audit has been enlarged and thereby exerting effective control over the management and risks of the operations of the respective enterprises under the Group. Meanwhile, the Group keeps providing training seminars of relevant laws, rules and regulations to the staff concerned through implementing the system of monthly alert for connected transactions carried out by its member enterprises, so as to achieve strict compliance with relevant laws, rules and regulations and disclosure requirements and consequently improve the level of corporate governance.

Business Review, Discussion and Analysis

(1) INFRASTRUCTURE AND MODERN LOGISTICS

- Shanghai Pudong International Container Terminals Limited (10%)
- EAS International Transportation Limited (50%)
- Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited (50%)
- Shanghai Industrial Sinotrans International Logistics Company Limited (34%)

Infrastructure facilities

The existing infrastructure projects invested in and operated by the Group in Shanghai mainly comprise the Yanan Elevated Road, and the Inner Ring Road and North-South Elevated Expressway projects as well as the Waigaoqiao Container Terminal Phase One Project. In September 2002, as informed by the PRC State Council, local governments were required to properly settle on the issue of existing guaranteed fixed return investment projects of foreign entities. Being affected by such, the two elevated road projects of the Group mentioned above also needed to be terminated ahead of time. After repeated negotiations with relevant PRC government authorities, on 29 August 2003, the Group has entered into two agreements pursuant to which it will dispose of its entire investment interests in the above elevated road projects to the joint venture partners and receive full reimbursement of the carrying value of the project investments amounting to US$702,475,363 together with an after-tax compensation of RMB300,000,000. The compensation payment has been received in full in the first half year and was included in the Group's profit for the period. A circular containing further details will be sent to the shareholders in due course.

Pudong Container Terminals, the company newly established by the four joint venture parties from Hong Kong and Shanghai under the Shanghai Pudong Waigaoqiao Container Terminal Phase One Project commenced formal operation on 1 March 2003. By the end of this June, the terminal achieved a total revenue of approximately RMB221,110,000 and a net profit of approximately RMB102,000,000 with an aggregate throughput of over 680,000 TEUs. Currently, the terminal covers 17 international shipping routes. By leveraging the natural superiority of the Waigaoqiao Container Terminal together with the extensive management experience of its joint venture team and advanced technology, the new company will further facilitate the development of Shanghai's container sector, enhance the operating capability of the Waigaoqiao Phase One Project, and deliver quality service to customers.

Modern Logistics

In late April, the Group made an investment of RMB150,000,000 in EAS International and successfully completed the second phase of acquisition. The Group now owns a 50% interest in EAS International.

Since its takeover of the management of EAS International in last May, the Group's management has been dedicated to improving operating efficiency and diversifying the scope of business. As a result, steady growth has been achieved. Turnover and profit before tax for the first half of 2003 both increased by more than 20% over the same period last year. Its existing customer base mainly comprises Dell, 3M, Motorola, Kodak, Siemens, Intel, Johnson & Johnson, Samsung, etc., covering different business sectors such as computer products, consumer electronics products, automobiles, pharmaceutical products and medical equipment, etc..

After a year of business processes integration, in the first half of 2003, Shanghai Industrial Wai Lian Fa International Logistics Corporation Limited recorded a growth in turnover over the same period last year and started to generate earnings. For the second half year, the company will step up its business development and by taking advantage of the extensive network of EAS International, seek to expand into logistics warehouse delivery business and set up its first delivery branch in Beijing.

Shanghai Industrial Sinotrans International Logistics Company Limited started formal operations in July 2002. Foundation work for the establishment of a warehouse and container freight station in the Shanghai Chemical Industry Zone will commence shortly and is expected to be completed within this year. At present, the company is actively procuring new customers and purchasing additional major warehousing equipment with a view to embarking on the development of various warehousing and freight forwarding agency projects upon completion of the construction work.

(2) MEDICINE AND BIO-TECHNOLOGY

- SIIC Medical Science and Technology (Group) Limited (65.9%, privatization in progress)
- Shanghai Sunway Biotech Co., Ltd. (55%)
- Shanghai Sunve Pharmaceutical Co., Ltd. (48%)
- Mergen Limited (50%)
- Shanghai Industrial United Holdings Co., Ltd. (56.63%, acquisition in progress)

The Group's medicine and bio-technology business segment continued to perform well and recorded a net profit of approximately HK$51,890,000 for the first half year, representing a growth of approximately 66.3% as compared with the same period last year and constituting approximately 9.8% of the Group's net business profit*.

The Group announced on 21 May 2003 a proposed privatization of SIIC MedTech by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands. Pursuant to the proposal, the minority shareholders would be entitled to HK$2.15 in cash for each share of SIIC MedTech held. The proposed privatization has been approved by the shareholders of SIIC MedTech on 11 August. SIIC MedTech will become a wholly-owned subsidiary of the Group and the Group will be able to increase its share in the profit contribution of SIIC MedTech from 65.9% to 100%. The listing of SIIC MedTech's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong will be withdrawn on 17 September. As stated in the announcement, the proposed privatization will result in a leaner and optimized group structure and represents a principal step for the Group's restructuring exercise for its medical business. The Group intends to further strengthen and enlarge the operating base for medical related businesses through active mergers and acquisitions, aiming to achieve consolidated growth in medical related businesses.

* *net business profit represents net profit before net corporate administrative expenses.*

Business Review, Discussion and Analysis

In the first half of 2003, SIIC MedTech recorded a net profit of approximately HK$50,400,000, an increase of approximately 10.6% over the same period last year. Its turnover rose by approximately 35.1% over the same period of 2002 to approximately HK$567,440,000. In this April, SIIC MedTech acquired a 30% stake in Hangzhou Huqingyutang Pharmaceutical Co. Ltd. ("Huqingyutang") at a total consideration of approximately HK$78,670,000. Leveraging the prestige enjoyed by "Huqingyutang", a well-known brand name having a history of over 100 years, SIIC MedTech is expected to further expand its production and marketing capabilities for traditional Chinese medicine and health products.

During the period, SIIC MedTech's prescription drugs recorded an overall sales growth of approximately 29.3%. Sales of OTC drugs and health products grew by 41% over the corresponding period of last year. During the period, the turnover of MicroPort Medical (Shanghai) Co. Ltd. grew approximately four times. Following the SARS outbreak, the demand for monitoring and diagnostic equipment kept increasing in most hospitals, the overall turnover of Guangdong Biolight Medical Technology Co. Ltd. was 1.2 times greater than in the corresponding period of last year. Under the impact of SARS, sales of medical radiographic equipment and information systems for medical applications of E-COM Technology Ltd. achieved a better growth rate than last year. Revenue from the principal activities of Shanghai Jahwa United Co. Ltd. during the period ended 30 June was slightly higher than in the corresponding period of last year and contributed approximately HK$14,400,000 to the Group's profits.

During the period, H101 project of Sunway Biotech entered the final stage of Phase 3 clinical trials and made satisfactory progress. Clinical approval for new drug under H103 has been obtained and clinical trials are planned to formally commence within the year. This year, "SunGran", a gene product of Sunway Biotech, had successfully bid the tender on the Shanghai market. The product was relaunched in the market and achieved satisfactory performance with its sales hit historical highs in monthly sales volume since this May.

Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical") recorded a sales revenue of approximately RMB187,460,000 for the period with its net profit significantly grew more than 7.6 times over the same period last year to approximately RMB40,860,000. Such increase was mainly attributable to the inclusion of "Levofloxacin Lactate" of Roche's Shanghai, an associate, in the lists of drugs for the prevention and treatment of SARS during the period, thereby driving significant demand growth and contributing to an increase of RMB22,530,000 in the net profit attributable to the company. Application for the transfer of a 15% stake in Shanghai Givaudan has been approved by the Shanghai Foreign Investment Committee during the period and the company is expected to receive a transfer income of 10,000,000 Swiss Francs during the next half year.

In 2003, investors tend to adopt a prudent approach towards enterprise investments amid a fluctuating economic market in the United States. As a result, Mergen Limited ("Mergen") faced difficulties when securing investments for products development. In view of this, Mergen implemented stringent cost reduction measures and as its competitors exited the market one after another, it capitalized on the opportunity to make up the gap in the sector and procure new customers and seek to expand into new product areas. During the period, Mergen introduced new bacterial array and developed "multi-arrays" in response to market demand.

(3) CONSUMER PRODUCTS & AUTOMOBILE AND PARTS

- Nanyang Brothers Tobacco Company, Limited (100%)
- The Wing Fat Printing Company, Limited (93.3%)
- Shanghai Bright Dairy and Food Co., Ltd. (30.8%)
- Shanghai Huizhong Automotive Manufacturing Co., Ltd. (50%)
- Shanghai Wanzhong Automotive Components Co., Ltd. (50%)
- Shanghai SIIC Transportation Electric Co., Ltd. (30%)

Net profit arising from the Group's consumer products business for the first half year was approximately HK$186,720,000, representing an increase of approximately 42.9% over the same period last year and constituting approximately 35.1% of the Group's net business profit*.

Tobacco and Printing

Nanyang Tobacco achieved satisfactory sales performance during the period with its turnover grew by approximately 22.7% over the same period last year to approximately HK$501,770,000. Its net profit stood at HK$85,080,000, up approximately 81.9%. Export markets, including Singapore and Taiwan, and the Hong Kong market all showed remarkable performance. Of the mainland markets, sales in Guangzhou and Shanghai grew by approximately 67% and 34% respectively over the same period last year while Tianjin achieved a significant sales growth of 124% boosted by sales promotional programmes. Nanyang Tobacco is making considerable efforts in enhancing product quality and pursuing steady expansion into new markets. Production of the "Winner" blended cigarette series developed in the first half year will be commenced during the next half year.

During the first half year, operation of The Wing Fat Printing Company, Limited remained stable and recorded a turnover of approximately HK$170,370,000 and a net profit of approximately HK$40,140,000. Construction of the new production facilities in Dongguan, Guangdong is in the final stage of completion. The company secured the purchase of additional production equipment during the first half year. It is expected that the production facilities will commence operation in phases by the end of this year upon which gradual reduction of production costs will be achieved and such operation will facilitate expansion of the company's business into the mainland markets.

Dairy

During the first half of 2003, Bright Dairy achieved growth in both sales revenue and profit with its sales revenue stood at approximately RMB2,853,140,000, up approximately 24% over the same period last year, and recorded an increase of approximately 31.4% in net profit over the same period last year. Net profit of Bright Dairy for the period attributable to the Group was approximately RMB39,220,000, up approximately 2.6% over the same period last year, notwithstanding the Group's attributable interest in Bright Dairy has been diluted upon its listing in last year. The committed investments announced by Bright Dairy at the time of its listing in last August all proceeded as scheduled and actual investments totaled approximately RMB546,870,000 were made during the period. With effect from 1 July 2003, Bright Dairy has been selected a constituent stock of the Shanghai Stock Exchange 180 A-share Index.

Bright Dairy has developed 13 new products during the period. "Probiotic Milk", a new product of Bright Dairy, made an early debut in the market during the outbreak of SARS and achieved remarkable sales performance. Ultra High Temperature (UHT) milk products continued to enjoy high sales. During the first half year, Bright Dairy has further consolidated the market of preserved dairy products with its sales revenue under the brand "Bright" recorded in regions outside Shanghai increased by approximately 36.2% over the same period last year, accounting for approximately 64.7% of total sales. Bright Dairy has been taking gradual steps to establish itself into a nationwide dairy enterprise.

Automobile and Parts

Net profit of the Group's automobile and parts business for the first half year was approximately HK$80,080,000, up approximately 89.2% over the same period of 2002, and contributing approximately 15% to the Group's net business profit*.

Driven by the growth momentum sustained in PRC's macro economic environment, domestic sales of sedans saw sharp increase during the first half of 2003 and has successively hit new historical highs over the corresponding periods. Benefited from the substantial market growth, Shanghai Huizhong was able to meet its respective production and sales targets with better results. Sales revenue for the period grew by approximately 67.3% over the same period last year, realizing a net profit of approximately RMB129,010,000, which represented a strong increase of approximately 93% over the same period of 2002. For commercial vehicle projects, Shanghai Huizhong convened the first press conference in Songjiang, Shanghai this January for the introduction of its new heavy truck products and has completed trial production of various models of heavy truck during the first half year so as to complement sales for the next half year. The coach series will also be launched in the market in due course. For autoparts and assessories export, Shanghai Huizhong has been included in the list of suppliers by prominent international automobile companies such as Ford Motor. Domesticalization project regarding chassis system assessories for saloon car progresses smoothly.

During the first half of 2003, sales revenue of Shanghai Wanzhong Automotive Components Co., Ltd. achieved a satisfactory growth at approximately RMB25,920,000. Its net profit grew by approximately 46.2% over the same period last year to approximately RMB2,690,000. As at the end of this June, total investment for the production plant amounted to approximately RMB200,000,000 with 144 sets of equipment in place. The plant has commenced full operation for the production of heavy trucks and coaches, etc..

Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation") achieved continuous growth in sales and during the first half of 2003. The company recorded an increase in sales of approximately 61% as compared with last year and a net profit of approximately RMB63,430,000, up approximately 67.2% over the corresponding period of 2002. Orders for autoparts and assessories from Shanghai Volkswagon and Shanghai General Motors increased by approximately 82% and 132.4% respectively. Loudspeaker and power window motor switch assessories also successfully entered North American market under OEM. A total of 40 new products were developed during the period with 16 of such new products now being available for batch delivery. Further progress will be made for the e-intelligence box and sky-light window projects during the next half year.

Disposal of Interest in Orient Shopping

On 7 May 2003, the Group disposed of a 51% stake in Orient Shopping to Shanghai Yibai (Holdings) Company Ltd., at a cash consideration of approximately RMB127,140,000 (representing 5.1 times compared with the attributable adjusted net asset value after deducting the appropriated earnings). As a result, the Group recorded an exceptional profit of approximately HK$28,230,000 for the first half year. The disposal complements well the Group's business transformation strategy and through gradual streamlining of non-core businesses, the Group will be able to better consolidate its resources, which is to the interest of the shareholders.

(4) INFORMATION TECHNOLOGY

- Semiconductor Manufacturing International Corporation (16.2%)
- Shanghai Information Investment Inc. (20%)
- Shanghai Optical Communications Development Co., Ltd. (24.9%)
- Shanghai Communications Technologies Centre (25%)

The Group still has not achieved overall earnings in the investments made in its information technology business and recorded considerable loss for the first half year.

SMIC has established three semiconductor wafer foundries in the Pudong New Area, Shanghai. In May 2003, SMIC's Fab 1 was named "Top Fab of the Year for 2003". This is a prestigious award presented annually by the *Semiconductor International* journal to top-of-the-line fab facilities and SMIC's Fab 1 is the first semiconductor foundry in the PRC to receive such an honour. This has enabled SMIC to position itself as a high-quality foundry in the global IC manufacturing landscape.

Since its establishment in April 2000, SMIC continuously formed different alliances or collaborations with global leaders in the semiconductor industry and achieved steady growth in its customer base. The current output capacity of SMIC has exceeded 40,000 wafers per month. SMIC is still in a stage of continuous investment with industry-standard equipment depreciation expenses. As at the end of June 2003, the loss attributable to the Group amounted to approximately HK$75,390,000. Nevertheless, SMIC has shown continuous growth towards profitability with a positive EBITDA.

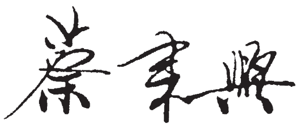
Shanghai Information Investment Inc. reported a net profit of approximately RMB9,540,000 for the first half of 2003. During the period, more than 100,000 subscribers have access to the “Cableplus” broadband data service and over 3,000 subscribers have access to the digital TV service. The company plans to complete the upgrade of its two-way cable television network for 120,000 subscribers during the year. Construction of the Shanghai integrated information pipeline infrastructure has now created a network that covers substantially all major business districts within Shanghai’s urban area. The pipeline network has accumulated a total length of over 900 kilometers and network access is currently provided in 259 buildings. For Credit Information System, as at the end of the first half year, it had personal credit information of approximately 3,260,000 individuals stored in its consumer credit information databank and received an average of over 3,400 queries per day for personal credit inquiries. The system comprised 600,000 enterprises.

Shanghai Optical Communications Development Co., Ltd. (“Shanghai Optical Communications”) reported a net profit of approximately RMB2,140,000 for the first half of 2003. Lucent Technologies of Shanghai, Ltd. is now in its final stage of liquidation. On the other hand, discussions between Shanghai Optical Communications and Corning Inc. of the United States regarding the transfer of shares held by Lucent in Lucent Technologies Shanghai Fibre Optics Co., Ltd. are currently underway. Shanghai Optical Communications will procure new joint venture partners and new investment projects should suitable opportunities arise. Shanghai Communications Technologies Centre recorded a loss of approximately RMB5,760,000 for the first half year.

PROSPECTS

Against the uncertainties faced by many parts of the world concerning economic prospect, the PRC economy managed to achieve a sustained growth. Major cities in the PRC, especially Shanghai, even become global investment hot spots. The Group endeavors to develop its operations in Shanghai and the Yangtze River Delta, which will enable it to reap the fruits of the flourishing growth in the regions. Meanwhile, economic interactions between Hong Kong and Shanghai also create new business opportunities for the Group. The “Closer Economic Partnership Arrangement” (CEPA) recently entered into between the PRC government and Hong Kong SAR government will be beneficial to the economic development of Hong Kong in the long run, and is expected to speed up local economic recovery while improving the business environment.

The Group has made solid progress towards its objectives for business transformation. The restructuring of the Group’s medical related businesses and the proper settlement of infrastructure projects undertaken this year both represent important initiatives complementing to the subsequent consolidation for the Group’s business development. The Group owns a professional and proactive management team, which together with our motivated and dedicated staff, have been contributing tremendous efforts and striving for continuous advancement. While the intensifying market competition will bring both challenges and opportunities to the Group, the management is confident that by focusing on our core businesses and making cautious selection of new investments projects under the Group’s prudent but flexible corporate strategies, the Group will be able to give full play to its own competitive edge and achieve greater profitability, in a bid to maximize shareholders’ value.



Cai Lai Xing
Chairman

Hong Kong, 29 August 2003

Financial Review

1. TURNOVER

An analysis of turnover by principal activities for the six months ended 30 June 2003 is as follows:

	30 June 2003 HK$'000	30 June 2002 HK$'000
Consumer products & automobile and parts	**607,522**	946,095
Medicine and bio-technology	**572,748**	419,884
Infrastructure and modern logistics	**283,019**	354,322
	1,463,289	1,720,301

During the period, turnover of medicine and bio-technology business grew by approximately 36% over the corresponding period of 2002. Sales of non-prescription drugs and health products increased by approximately 41% while sales of prescription drugs also grew by 29.3%, due primarily to the significant growth in the sales of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. during the period. Besides, the newly acquired Xiamen Traditional Chinese Medicine Co. Ltd. and Huqingyutang began to make contributions to the results of the Group for the period which further increased the turnover of medicine and bio-technology business.

During the period, turnover of consumer products & automobile and parts business fell by approximately 36% from the corresponding period of 2002, primarily as a result of the disposal of Orient Shopping. After deducting the turnover of Orient Shopping for the same period last year, turnover rose by approximately 19%.

During the period, turnover of infrastructure and modern logistics business fell by approximately 20% from the corresponding period of 2002 because two elevated road projects of the Group were affected by the cancellation of guaranteed fixed return on investment projects of foreign entities by the PRC

State Council. The after-tax compensation received in the sum of RMB300,000,000 was dealt with in the account in the first half of the year.

II. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

1. Gross profit margin

Gross profit margin (excluding income from infrastructure projects) for the period rose from approximately 40.9% to approximately 53.5% for the same period last year, due mainly to higher gross profit margin of Nanyang Tobacco and the disposal of Orient Shopping which had a relatively low gross profit margin.

2. Investment income

Investment income for the period increased from approximately HK$43,490,000 for the corresponding period last year to approximately HK$51,210,000. This was primarily due to the increased gains in the amount of approximately HK$18,300,000 from the disposal of securities investments. However, after taking into account the decrease in interest income from bank deposits of approximately HK$8,140,000 resulted from the reduction in bank deposit rates, investment income as a whole increased by approximately HK$7,720,000.

3. Finance costs

Finance costs for the period decreased by approximately HK$23,310,000 over the same period last year primarily because the Group has repaid a syndicated loan of HK$1,170,000,000 and raised another syndicated loan of HK$1,600,000,000 at more favorable interest rate last year. These together with the benefits from a general decline in market interest rate during the period helped to save finance costs significantly as compared to the same period last year.

4. **Net gain on disposal of interests in a subsidiary and an associate**

During the period, the Group made a profit of approximately HK$28,230,000 from the disposal of a 51% interest in its subsidiary, Orient Shopping. As Orient Shopping is engaged in department retail business, its turnover of inventories is on average faster than that of other enterprises within the Group. The disposal of Orient Shopping has caused the average turnover of inventories of the Group to increase from 86 days to 127 days.

5. **Share of results of jointly controlled entities**

Share of results of jointly controlled entities for the period increased to approximately HK$91,620,000 from approximately HK$87,190,000 for the same period last year. The increase in the share of results was primarily attributed to the increase in profit of Shanghai Huizhong and the increase in Sunve Pharmaceutical's share of investment income of one of its associates. In addition, Bright Dairy became an associate instead of a jointly controlled entity after its listing in August last year. The profit contributed by Bright Dairy was therefore excluded from the share of results of jointly controlled entities for the period. Offsetting the effect of such factor, the share of results of jointly controlled entities increased by only approximately HK$4,430,000.

6. **Share of results of associates**

Share of results of associates for the period increased to approximately HK$54,250,000 from the corresponding period last year of approximately HK$28,090,000. The increase in share of results was primarily due to the increase in profit of SIIC Transportation and that Bright Dairy has become an associate. However, as a result of the increase in share of loss of SMIC, the increase in share of results of associates was approximately HK$26,160,000.

III. DIVIDENDS

During the period, the Group paid a final dividend for 2002 of HK30 cents (2001 final dividend: HK34 cents) per share. The Board has resolved to pay an interim dividend for 2003 of HK18 cents (2002 interim dividend: HK15 cents) per share.

IV. ASSETS

As at 30 June 2003, the Group had total assets HK$16,683,390,000 (31 December 2002: approximately HK$16,462,660,000).

V. LOANS AND CAPITAL

1. As at 30 June 2003, the Group's short-term loan was reduced by approximately HK$12,420,000 from last year end to approximately HK$831,030,000, primarily as a result of the Group's repayment of part of its short-term loans.

2. Long-term loan remained at HK$800,000,000, being the long term portion of the five-year loan of HK$1,600,000,000.

3. Loans of the Group are denominated in HK$ and RMB only, of which the five-year term loan of HK$800,000,000 is repayable in full by 2007. As at 30 June 2003, approximately 98% of the loans were HK$ loans.

4. Cash held was approximately HK$3,310,930,000, of which the proportions of US$, HK$ and RMB were approximately 52%, 15% and 33% respectively.

5. The Group remains a net cash position in respect of its indebtedness. Sound debt-equity structure of the Group lends key support to the Group's business development. In line with the pace of business development and actual funding requirements, the Group will seek for capitalizing on the current low interest rates to improve its financial structure with an aim to lowering its overall funding costs.

6. Shareholders' fund of the Group rose by approximately HK$301,590,000 to approximately HK$13,799,400,000.

7. Gearing ratio of the Group was reduced from approximately 10.4% as at the end of last year to approximately 10.2%.

VI. POLICY ON FINANCIAL RISK MANAGEMENT

Exchange rate and interest rate risk

During the period, the Group did not enter into any forward foreign exchange and interest rate hedging contracts, which aimed at minimizing business and investment risks arising from unfavourable fluctuations in exchange and interest rates.

The Group will review the market, its business operating conditions and financial position from time to time and will prudently undertake appropriate hedging activities against interest rate and foreign exchange risks as required, so as to offset unfavourable fluctuations in interest rates and foreign currency exchange rates which may have adverse financial impacts on the Group.

Interim Dividend

The Board of Directors of the Company has resolved to pay an interim dividend of HK18 cents (2002: HK15 cents) per share for the six months ended 30 June 2003. The dividend will be paid on 6 October 2003 (Monday) to shareholders whose names appear on the Register of Members of the Company on 30 September 2003 (Tuesday).

CLOSE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 29 September 2003 (Monday) to 30 September 2003 (Tuesday), during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant transfer documents and share certificates must be lodged with the Company's share registrar, Secretaries Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on 26 September 2003 (Friday).

DIRECTORS' INTERESTS

As at 30 June 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, are set out below:

1) Interests in Shares of the Company

Name of Director	Number of shares of the Company held as personal interests	% of the issued share capital
Cai Lai Xing	4,000,000	0.43
Chen Wei Shu	3,500,000	0.37
Lu Ming Fang	2,700,000	0.29
Lu Da Yong	2,700,000	0.29
Li Wei Da	1,200,000	0.13
Zhou Jie	2,700,000	0.29

All interests stated above represent long positions.

11) Share Options

(a) The following table discloses movements in the Company's share options during the period:

	Month of grant	Exercise price per share HK$	Number of the Company's shares subject to share options: Outstanding at 1.1.2003	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2003
Directors						
Lu Ming Fang	July 2001	10.432	1,500,000	–	–	1,500,000
Lu Yu Ping	March 2001	10.496	1,550,000	–	–	1,550,000
Gu Wen Xing *	March 2001	10.496	500,000	–	–	500,000
Total for directors			3,550,000	–	–	3,550,000
Employees						
	January 1999	9.568	1,000,000	–	(1,000,000)	–
	March 2001	10.496	4,320,000	(60,000)	–	4,260,000
	July 2001	10.432	4,000,000	–	–	4,000,000
	September 2002	11.710	27,150,000	–	(400,000)	26,750,000
Total for employees			36,470,000	(60,000)	(1,400,000)	35,010,000
Total for the Company's option schemes			40,020,000	(60,000)	(1,400,000)	38,560,000

* The director resigned during the period.

Note: As at 30 June 2003, the outstanding number of shares issuable under the Company's share options granted to the directors of the Company represents less than 0.4% of the then issued share capital of the Company.

Options granted under the Company's share option scheme(s) are exercisable at any time during the three and a half years commencing on the expiry of six months after the date of acceptance of the share options.

During the period, no options of the Company were granted to or were exercised by the directors and chief executives of the Company.

During the period, the closing price of the Company's shares on the trading day immediately before the date on which the options were exercised was HK$12.

(b) Pursuant to the share option scheme adopted by SIIC Medical Science and Technology (Group) Limited ("SIIC MedTech"), a subsidiary of the Company on 11 November 1999, certain directors and employees of SIIC MedTech have interests in share options ("SIIC MedTech Options") to subscribe for shares in SIIC MedTech ("SIIC MedTech Shares") which were granted to them in January 2000 at an exercise price of HK$1.69 per share as follows:

			Number of SIIC MedTech Shares subject to SIIC MedTech Options
	Outstanding at 1.1.2003	Exercised during the period	Outstanding at 1.1.2003 and 30.6.2003
Directors:			
Li Wei Da	6,000,000	–	6,000,000
Ge Wen Yao	2,500,000	–	2,500,000
Other directors	12,500,000	–	12,500,000
	21,000,000	–	21,000,000
Employees	17,200,000	(300,000)	16,900,000
	38,200,000	(300,000)	37,900,000

Note: As at 30 June 2003, the outstanding number of SIIC MedTech Shares issuable under SIIC MedTech Options granted to the directors of the Company represents less than 1.4% of the then issued share capital of SIIC MedTech.

The SIIC MedTech Options can be exercised during the period from 21 January 2003 to 20 January 2006.

During the period, no SIIC MedTech Options were granted to or were exercised by the directors and chief executives of the Company.

Apart from the above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2003 were recorded in the register required to be kept under section 352 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the section of "Share Options" above, at no time during the period was the Company or any of its associated corporations a party to any arrangement to enable the directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or underlying shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2003, the interests or short positions of every person, other than the directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Name of shareholder	Capacity	Number of ordinary shares held	% of the issued share capital
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	Corporate	550,626,000	58.8%

Note: Shanghai Investment Holdings Limited ("SIH"), SIIC Capital (B.V.I.) Limited ("SIIC Capital BVI") and SIIC CM Development Limited (formerly named as Top Modern Limited) ("SIIC CM Development") are the beneficial owners of 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively. SIIC owns 100% of SIIC CM Development and Shanghai Industrial Investment Treasury Company Limited ("STC") respectively whereas STC owns 100% of SIH which in turns owns 100% of SIIC Capital BVI.

Billion More Investments Limited, Gem Capital Investment (BVI) Limited and Nanyang Enterprises Limited are the beneficial owners of 1,645,000, 485,000 and 420,000 ordinary shares of the Company respectively. SIIC indirectly owns 100% of these companies respectively.

All interests stated above represents long positions.

Apart from the above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 30 June 2003.

Other Information

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with the management and the external auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and has discussed internal controls and financial reporting matters including review of the unaudited interim financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the period under review.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.