上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

Interim Report 2004

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Cai Lai Xing *(Chairman)*
Mr. Qu Ding *(Vice Chairman)*
Mr. Lu Ming Fang *(Chief Executive Officer)*
Mr. Lu Da Yong *(Executive Deputy CEO)*
Mr. Ding Zhong De
Mr. Lu Shen
Mr. Qian Shi Zheng *(Deputy CEO)*
Mr. Yao Fang
Mr. Tang Jun

Independent Non-executive Directors

Mr. Lo Ka Shui
Mr. Woo Chia-Wei
Mr. Leung Pak To, Francis

COMPANY SECRETARY

Mr. Leung Lin Cheong, Roger

AUTHORISED REPRESENTATIVES

Mr. Lu Ming Fang
Mr. Leung Lin Cheong, Roger

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AUDITORS

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LEGAL ADVISERS

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Yuan Tai Law Offices (PRC)
Jingtian & Gongcheng (PRC)
Morrison & Foerster (USA)

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
Industrial & Commercial Bank of China (Asia) Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
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ADR DEPOSITORY BANK

The Bank of New York
Investor Relations
P. O. Box 11258
Church Street Station
New York, NY 10286-1258

Highlights

- The Group set a record high for half-year profits since its establishment and listing.
- The profit for the period was approximately HK$930.06 million, representing an increase of approximately 89.2% compared with the same period last year.
- Earnings per share were around HK98.1 cents, up by approximately 86.9% on the same period last year.
- Interim dividend per share was HK20 cents, a rise of around 11.1% over the same period last year.
- The Shanghai Hu-Ning Expressway (Shanghai Section) operated satisfactorily and generated stable cash flows for the Group.
- The Group is making smooth progress with its water services investment projects in a number of provinces and cities, and the joint-venture company has won tenders for three projects.
- The overall operations of the Group's medicine business maintained continued solid growth. Regarding the Group's acquisition of a stake of approximately 56.63% in SI United, the State-owned Assets Supervision and Administration Commission of the State Council approved the transfer of the state-owned portion of these shares to the Group. Meanwhile, the acquisition is still pending approval by the Ministry of Commerce, as well as the China Securities Regulatory Commission's waiver of an obligation to make a general offer.
- Earnings from all the Group's consumer products businesses, including tobacco and printing, dairy products, and automobiles and parts, grew steadily during the first half of 2004, and contributed remarkable recurring income to the Group.
- SMIC has enjoyed rapid business growth, and in March this year, was successfully listed simultaneously in Hong Kong and the United States.

Condensed Consolidated Income Statement

For the Six Months ended 30 June 2004

	NOTES	Six months ended 30 June 2004 HK$'000 (unaudited)	2003 HK$'000 (unaudited)
Turnover	3	**1,692,465**	1,463,289
Cost of sales		**(722,166)**	(549,238)
Gross profit		**970,299**	914,051
Investment income		**89,886**	51,210
Other operating income		**7,001**	12,395
Distribution costs		**(386,521)**	(302,544)
Administrative expenses		**(179,631)**	(157,656)
Other operating expenses		**(151,462)**	(4,057)
Profit from operations	4	**349,572**	513,399
Finance costs		**(7,730)**	(18,256)
Share of results of jointly controlled entities		**90,699**	91,616
Share of results of associates		**175,399**	54,254
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities		**688,596**	25,200
Allowance for amount due from a jointly controlled entity		**(33,376)**	(22,930)
Impairment loss recognised in respect of goodwill relating to a jointly controlled entity		**(113,386)**	–
Profit from ordinary activities before taxation		**1,149,774**	643,283
Taxation	5	**(160,560)**	(92,109)
Profit before minority interests		**989,214**	551,174
Minority interests		**(59,157)**	(59,686)
Net profit for the period		**930,057**	491,488
Dividends	6	**303,465**	280,908
Earnings per share	7		
– Basic		**HK98.1 cents**	HK52.5 cents
– Diluted		**HK97.2 cents**	HK52.4 cents

Condensed Consolidated Balance Sheet

At 30 June 2004

	NOTES	30 June 2004 HK$'000 (unaudited)	31 December 2003 HK$'000 (audited)
Non-Current Assets			
Investment property	8	**3,690**	3,690
Property, plant and equipment	8	**1,268,613**	1,198,019
Toll road operating right		**1,803,759**	1,841,082
Goodwill		**252,531**	256,736
Interest in jointly controlled entities		**2,224,981**	2,133,351
Interest in associates	9	**3,725,621**	3,210,651
Investments in other projects		**51,031**	87,709
Investments in securities	10	**515,456**	584,971
Loans receivable		**5,043**	5,043
Deposits paid on acquisition of property, plant and equipment		**58,045**	29,014
		9,908,770	9,350,266
Current Assets			
Inventories		**442,124**	303,500
Trade and other receivables	11	**1,174,332**	898,144
Investments in securities	10	**1,822,252**	1,168,741
Pledged bank deposits		**39,157**	41,762
Bank balances and cash		**5,012,677**	5,313,041
		8,490,542	7,725,188
Current Liabilities			
Trade and other payables	12	**765,205**	395,594
Taxation payable		**187,380**	116,240
Short-term bank and other borrowings		**909,450**	819,945
		1,862,035	1,331,779
Net Current Assets		**6,628,507**	6,393,409
		16,537,277	15,743,675
Capital and Reserves			
Share capital		**94,994**	94,575
Reserves		**15,128,406**	14,396,265
		15,223,400	14,490,840
Minority Interests		**411,518**	380,934
Non-Current Liabilities			
Long-term bank and other borrowings		**831,089**	800,000
Deferred taxation		**71,270**	71,901
		902,359	871,901
		16,537,277	15,743,675

Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2004

	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 2003	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
Net 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 Statement of Changes in Equity

For the Six Months ended 30 June 2004

	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 30 June 2003	93,636	9,788,864	1,071	299	33,840	(922,079)	272,674	4,531,090	13,799,395
Surplus arising on revaluation of investment property	–	–	–	215	–	–	–	–	215
Exchange difference arising from translation of financial statements of PRC operations	–	–	–	–	(27)	–	–	–	(27)
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	–	–	–	–	72	–	–	–	72
Share of exchange difference arising from translation of financial statements of PRC operations of an associate	–	–	–	–	(65)	–	–	–	(65)
Net gain not recognised in the income statement	–	–	–	215	(20)	–	–	–	195
Exercise of share options	939	–	–	–	–	–	–	–	939
Premium arising on issue of shares	–	98,128	–	–	–	–	–	–	98,128
Expenses incurred in connection with the issue of shares	–	(88)	–	–	–	–	–	–	(88)
Realised on partial disposal of interest in a subsidiary	–	–	–	–	–	1,082	–	–	1,082
Realised on disposal of interest in subsidiaries	–	–	–	–	–	(6,169)	(1)	1	(6,169)
Realised on disposal of interest in an associate	–	–	–	–	–	(116)	–	–	(116)
Net profit for the period	–	–	–	–	–	–	–	767,678	767,678
Transfers, net of minority interests' share	–	–	–	–	–	–	45,119	(45,119)	–
Dividends paid (Note 6)	–	–	–	–	–	–	–	(170,204)	(170,204)
At 31 December 2003	94,575	9,886,904	1,071	514	33,820	(927,282)	317,792	5,083,446	14,490,840

Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2004

	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 2003	94,575	9,886,904	1,071	514	33,820	(927,282)	317,792	5,083,446	14,490,840
Exchange difference arising from translation of financial statements of PRC operations	–	–	–	–	79	–	–	–	79
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	–	–	–	–	106	–	–	–	106
Net gain not recognised in the income statement	–	–	–	–	185	–	–	–	185
Exercise of share options	419	–	–	–	–	–	–	–	419
Premium arising on issue of shares	–	46,764	–	–	–	–	–	–	46,764
Expenses incurred in connection with the issue of shares	–	(36)	–	–	–	–	–	–	(36)
Realised on disposal of interest in subsidiaries	–	–	–	–	(316)	–	(736)	736	(316)
Realised on deemed disposal of interest in a subsidiary	–	–	–	–	–	1,140	–	–	1,140
Impairment loss recognised	–	–	–	–	–	57,812	–	–	57,812
Net profit for the period	–	–	–	–	–	–	–	930,057	930,057
Transfers, net of minority interests' share	–	–	–	–	–	–	12,676	(12,676)	–
Dividends paid (Note 6)	–	–	–	–	–	–	–	(303,465)	(303,465)
At 30 June 2004	94,994	9,933,632	1,071	514	33,689	(868,330)	329,732	5,698,098	15,223,400

Condensed Consolidated Cash Flow Statement

For the Six Months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**559,005**	641,528
Net cash from (used in) investing activities	**89,467**	(647,289)
Net cash used in financing activities	**(138,615)**	(393,984)
Net increase (decrease) in cash and cash equivalents	**509,857**	(399,745)
Cash and cash equivalents at 1 January	**4,038,696**	3,064,690
Cash and cash equivalents at 30 June	**4,548,553**	2,664,945
Being:		
Bank balances and cash	**5,012,677**	3,269,356
Less: Bank deposits with more than three months of maturity	**(464,124)**	(604,411)
	4,548,553	2,664,945

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 No. 25 *Interim Financial Reporting* issued by the Hong Kong Society of Accountants.

Certain comparative figures have been reclassified to conform with the current period's presentation.

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.

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 2003.

3. Segment Information by Business

For the six months ended 30 June 2004

	Consumer products HK$'000	Medicine HK$'000	Infrastructure facilities HK$'000	Information technology HK$'000	Consolidated HK$'000
TURNOVER					
External sales	981,935	607,043	103,487	–	1,692,465
Segment results	299,356	79,131	76,819	(2,151)	453,155
Less: Net corporate administrative expenses					(142,655)
Add: Interest income					39,072
Profit from operations					349,572
Finance costs					(7,730)
Share of results of jointly controlled entities	78,844	8,594	1,433	1,828	90,699
Share of results of associates	115,641	4,551	2,539	52,668	175,399
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					688,596
Allowance for amount due from a jointly controlled entity					(33,376)
Impairment loss recognised in respect of goodwill relating to a jointly controlled entity					(113,386)
Profit from ordinary activities before taxation					1,149,774
Taxation					(160,560)
Profit from ordinary activities after taxation					989,214

For the six months ended 30 June 2003

	Consumer products HK$'000	Medicine HK$'000	Infrastructure facilities HK$'000	Information technology HK$'000	Consolidated HK$'000
TURNOVER					
External sales	607,522	572,748	283,019	–	1,463,289
Segment results	130,576	96,422	282,094	–	509,092
Less: Net corporate administrative expenses					(16,951)
Add: Interest income					21,258
Profit from operations					513,399
Finance costs					(18,256)
Share of results of jointly controlled entities	68,753	19,751	283	2,829	91,616
Share of results of associates	119,908	2,524	8,571	(76,749)	54,254
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					25,200
Allowance for amount due from a jointly controlled entity					(22,930)
Profit from ordinary activities before taxation					643,283
Taxation					(92,109)
Profit from ordinary activities after taxation					551,174

4. Profit from Operations

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

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
Amortisation of goodwill	**8,030**	1,084
Amortisation of toll road operating right	**37,323**	–
Depreciation and amortisation of property, plant and equipment	**56,505**	53,911
Dividend income from investments	**(26,447)**	(3,362)
Loss on disposal of property, plant and equipment	**783**	89
Gain on disposal of investments in securities	**(23,756)**	(26,437)
Interest income	**(39,072)**	(21,258)
Net unrealised loss on investments in securities	**28,914**	4,057

5. Taxation

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
The charge (credit) comprises:		
Taxation of the Company and its subsidiaries		
– Hong Kong Profits Tax	45,140	19,589
– PRC income tax	42,297	26,929
	87,437	46,518
Underprovision of Hong Kong Profits Tax in prior years	37,496	–
(Over) underprovision of PRC income tax in prior years	(1,444)	4,303
	123,489	50,821
Deferred taxation	(631)	–
	122,858	50,821
Share of PRC income tax of jointly controlled entities	12,341	10,135
Share of PRC income tax of associates	25,361	31,153
	160,560	92,109

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) 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 current period's PRC income tax charges are arrived at after taking into account these various tax incentives, ranging from 10% to 33%.

6. Dividends

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
2003 final dividend paid of HK32 cents (2002 final dividend: HK30 cents) per share	**303,465**	280,908

The directors have determined that an interim dividend of HK20 cents per share (2003 interim dividend: HK18 cents per share, totalling approximately HK$170,204,000) should be paid to shareholders of the Company whose names appear on the Register of Members on 30 September 2004.

7. Earnings Per Share

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2004 is based on the following data:

	Six months ended 30 June	
	2004	2003
	HK$'000	HK$'000
Net profit for the period and earnings for the purpose of basic earnings per share	**930,057**	491,488
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)
Earnings for the purpose of diluted earnings per share	**930,057**	491,481

	Six months ended 30 June	
	2004	2003
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**947,890,170**	936,341,425
Effect of dilutive potential ordinary shares – share options	**8,564,685**	828,278
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**956,454,855**	937,169,703

8. Movements in Investment Property and Property, Plant and Equipment

During the period, the Group incurred costs for construction in progress of approximately HK$54 million and acquired plant and machinery at a cost of approximately HK$27 million, motor vehicles at a cost of approximately HK$6 million and furniture, fixtures and equipment at a cost of approximately HK$9 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$13 million upon written off of interest in a subsidiary.

The directors have considered the carrying amount of the Group's investment property carried at revalued amount at 30 June 2004 and have estimated that the carrying amount did not differ significantly from that which would be determined using fair value at 31 December 2003. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. Interest in Associates

During the period, the Group's equity interest in Semiconductor Manufacturing International Corporation ("SMIC") was diluted from 13.4% to 9.96% followed by the private placements by SMIC and the listing of SMIC in Hong Kong and the United States, resulting in a gain on deemed disposal.

10. Movements in Investments in Securities

During the period, the Group acquired investments for approximately HK$1,904 million and investments in the amount of approximately HK$1,291 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$335,944,000 (31 December 2003: HK$405,350,000) and their aged analysis is as follows:

	30 June 2004 HK$'000	31 December 2003 HK$'000
Trade receivables:		
Within 30 days	162,807	279,082
Within 31 – 60 days	69,694	46,529
Within 61 – 90 days	51,098	25,215
Within 91 – 180 days	29,419	34,795
Within 181 – 360 days	14,650	17,007
Over 360 days	8,276	2,722
	335,944	405,350

12. Trade and Other Payables

Included in trade and other payables are trade payables of HK$165,458,000 (31 December 2003: HK$85,178,000) and their aged analysis is as follows:

	30 June 2004 HK$'000	31 December 2003 HK$'000
Trade payables:		
Within 30 days	**103,591**	59,976
Within 31 – 60 days	**26,823**	11,442
Within 61 – 90 days	**20,487**	5,105
Within 91 – 180 days	**5,982**	6,413
Within 181 – 360 days	**6,891**	486
Over 360 days	**1,684**	1,756
	165,458	85,178

13. Capital Commitments

At 30 June 2004, the Group had commitments to acquire property, plant and equipment and additions to construction in progress of approximately HK$188 million and HK$134 million respectively. In addition, the Group had commitments for equity investments of approximately HK$856 million as at 30 June 2004.

14. Contingent Liabilities

At 30 June 2004, the guarantees given to banks by the Group in respect of banking facilities utilised by associates and a supplier amounted to approximately HK$20 million (31 December 2003: HK$80 million).

Deloitte.
德勤

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 19.

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 No. 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.

Independent Review Report

Review Work Performed

We conducted our review in accordance with the Statement of Auditing Standards No. 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 2004.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 30 August 2004

Operating Results

I am pleased to announce that the Group's unaudited consolidated profit for the six months ended 30 June 2004 was approximately HK$930.06 million, representing an increase of approximately 89.2% compared with the same period last year. It also set a record high for half-year profits since the Group's establishment and listing. We saw substantial profit growth during this period, particularly for our consumer products business, which achieved significantly increased sales as well as a satisfactory earnings performance. Also, Semiconductor Manufacturing International Corporation ("SMIC"), an associated company, recorded continued growth in its results, and in March, it was successfully listed simultaneously in Hong Kong and the United States. The profit for the period, after deducting the exceptional items totalling approximately HK$509 million relating to the information technology business, was approximately 102% higher than in the corresponding period last year, excluding from last year's profit an after-tax compensation of approximately HK$283 million received from disposal of fixed-return investment projects. Earnings per share were around HK98.1 cents, an increase of approximately 86.9% compared to the same period last year. The Board of Directors has resolved to pay an interim dividend of HK20 cents per share on 6 October 2004, to shareholders whose names appear on the register of members of the Company on 30 September 2004.

Summary of results for the period	HK$	Increase over the same period last year
Turnover	1,692.47 million	15.7%
Net profit	930.06 million	89.2%
Earnings per share	HK98.1 cents	86.9%
Interim dividend per share	HK20 cents	11.1%
Net asset value	15,223.40 million	10.3%

Over the past year or so, the Group took a positive approach to facing many challenges that arose in its business operations, and it made a number of breakthroughs to implement its business initiatives. It not only achieved fruitful results but also set clearer perspectives for future development, while injecting greater impetus for profits growth into the business structure. Following the favourable trend of its business operations last year, the Group achieved a good overall operating performance during the first half of 2004, and made concrete progress in restructuring its infrastructure and medicine businesses. The steady growth in profits in the consumer products business, together with the favourable returns achieved in information technology investment projects, laid a solid foundation for the Group's future business development.

Core Businesses

Infrastructure Facilities

The Group took initiatives to invest in the urban public utilities sector in mainland China. During the period under review, the operation of the Hu-Ning Expressway (Shanghai Section) progressed steadily and generated considerable cash flow. In addition, timely and effective contingency measures taken in response to market conditions also demonstrated the management team's operating capabilities. The management seized opportunities presented by the opening up of the market, and entered the water services business. At present, the Group is making smooth progress with investment projects in a number of provinces and cities. Having realigned and consolidated its operations, the infrastructure business has delivered good performance so far and it effectively drove the rapid development of the Group's projects. The Group will progressively expand the scale of its investments in this business, and this area is expected to become increasingly profitable.

Medicine

The Group's medicine business grew rapidly, while its existing business operations developed steadily. The acquisition of shares in an A-share listed company in mainland

China, Shanghai Industrial United Holdings Co., Ltd, was made as scheduled, and the State-owned Assets Supervision and Administration Commission of the State Council approved the transfer of the state-owned portion of these shares to the Group. In recent years, the State Food and Drug Administration has promulgated a number of measures aimed at increasing scrutiny and improving technological standards in pharmaceutical product manufacturing. These were implemented successively during the year, and they will facilitate structural adjustment throughout the entire industry. The Group will capitalise on its competitive edge, and, through active acquisitions and mergers, strengthen its capabilities in scientific research and development, achieve breakthroughs in the scale of its operations, diversify the range of its pharmaceutical products, and secure a larger market share.

Consumer Products

The Group's consumer products business benefited from the sustained growth of the consumer market in China, and its overall performance continued to improve, producing a stable recurring income. The Group will continue to share in the continuous growth in profits contributed by this business segment. The state's macro-economic control measures are expected to affect the automobile and parts industry in the short run. Even so, the automobile market in China still has the greatest development potential in the world, and with the state's support for the development of this industry, the Group believes that investments in the automobile sector will remain attractive.

Information Technology

SMIC performed satisfactorily in its business operations, particularly its consumer products, for which substantial orders were received. Continuous improvement in its wafer development technology and production capacity is providing the company with a competitive edge in China's semiconductor market. In addition, the Group's strategic investments in the high-tech area generated exceptional income, thereby improving the overall return on investments for this entire business segment.

Principal Businesses of the Group

Infrastructure facilities	Medicine	Consumer products	Information technology
• Toll expressways • Water services • Port facilities	• Chinese medicine and health food • Biomedicine • Medical equipment • Chemical pharmaceuticals	• Tobacco • Printing • Dairy • Personal care products • Automobiles and parts	• Semiconductor manufacturing • Information infrastructure • Strategic investments in high-tech projects

Business Operations and Management

This year marks the eighth anniversary of the Group's listing on the Hong Kong Stock Exchange. During this period, it has recorded continuous growth in its net asset value and achieved steady improvement in both its total earnings and profitability, thus resulting in a significant enhancement of shareholders' value. The Group's existing corporate development objectives and business strategies have been proactively formulated. The allocation of resources made from critical investment decisions have been focused on industries with sustainable development prospects, as well as on projects with growth capacities that can create long-term benefits for the Group. With the Shanghai Municipal Government's strong support over the years, the Group has possessed a relative advantage when participating in large-scale quality investment projects in Shanghai, and in exploring business opportunities. Through the business transformation that has been actively implemented in recent years, the Group has established its core businesses and increased their size and competitiveness, thereby achieving continuous expansion in the scale of its operations. At the same time, it has gradually divested itself of non-core investment projects and made additional investments in businesses that it directly operates and manages, and this will serve as the prime driver for further business development.

Meticulous Management

During the period under review, the Group's management has promoted a meticulous management style in all its investment projects. By making "cash flows, profits and growth" the top priorities, its enterprises were able to sustain stable growth, improve their management standards at all levels, and implement business strategies they have formulated by themselves. In these ways, they can generate shareholder value and improve both their efficiency and effectiveness, thereby creating a competitive edge that enables them to increase their cash flows and achieve profit growth.

Internal Training and Sharing of Experience

Since the beginning of the year, the Group has organised a number of staff training programmes and seminars among its enterprises, with a view to strengthening team spirit and further promoting the principles of meticulous management. At a discussion forum on operations and management held during this period, the participants received training on a number of subjects, such as analysis of mainland China's economy, evaluation and management of enterprise performance, and interpretation of laws, rules and regulations. These further expanded the skills of the management of its member enterprises in formulating business strategies. To enhance the standards of project management, project managers from both Hong Kong and Shanghai recently conducted reviews and participated in training programmes and interactive seminars on this subject, thus pooling useful ideas and sharing experiences among themselves and adding fresh impetus to the building of a high-quality project management team.

Corporate Governance

The Group adopted an active approach to enhancing corporate governance, in order to ensure that its enterprises operate under a highly effective, standardised and sound corporate governance system, and to heighten the monitoring of its resources allocation and operating performance, so as to be accountable to shareholders with the ultimate objective of serving their best interests.

Audit Committee

An Audit Committee was established under the Board of Directors. Its main responsibilities are to review and consider the Group's financial reporting and internal control system, and to examine its accounting policies. The Audit Committee also reviews and approves the annual audit plan, and the engagement and remuneration of external auditors. It consists of three members, all of whom are independent non-executive directors.

Remuneration Committee

To enhance its corporate governance, the Group also established a Remuneration Committee subsequent to the period under review. The Committee is responsible for reviewing and monitoring the Group's remuneration policy, including criteria for determining the overall remuneration of directors and senior management staff. The company's three independent non-executive directors form the majority of the Remuneration Committee's membership. The two other members are representatives from the management.

Risk Management and Internal Control

The Group endeavours to implement a sound risk management and internal control system. The objectives of such a system are to provide early warning for the risks existed in business operations and financial management and monitor the reasonableness of decisions in operations and resources allocation. During the period under review, an external professional advisor, KPMG, was also engaged to perform an independent performance appraisal of the internal audit functions of the Group, to assist the Group in further enhancing its risk management and internal control system.

Investor Relations

Management places great emphasis on improving the transparency of corporate operations and strengthening investor relations activities. During the period under review, the Group organised press conferences and meetings with fund managers and analysts, and it also participated in a number of local and overseas investor conferences. The purposes of these were to enable shareholders and investors to understand the Group's investment strategies, business operations and prospects, to facilitate exchanges of views, and to maintain and promote good corporate image.

Prospects

Overall, the Chinese economy remained strong during the first half of 2004. The macro-economic control measures made good progress and laid a solid foundation for maintaining steady and healthy development in the nation's economy. China's markets possess huge potential for further development, thus creating favourable conditions and good development prospects for the Group's investments and operations there, especially those in Shanghai and the Yangtze River Delta Region. The Group's strong financial position safeguards and supports its business expansion, while the tremendous opportunities available to our core businesses will drive the Group's overall operations to achieve solid advances and steady growth.

The Group is confident of its future development prospects, and it will continue to pursue the solid development of its core businesses, ***consolidate*** its existing business performance, ***enhance*** its overall operating management capabilities, achieve ***breakthroughs*** in the level of profits growth, and seek to explore new horizons for ***further development***, with the objective of creating greater value for its shareholders.

On behalf of the Board of Directors, I would like to thank our shareholders for their unceasing support to the Group, and extend my heartfelt gratitude to our management team and staff members for their unremitting efforts and hard work.

Cai Lai Xing
Chairman

Hong Kong, 30 August 2004

Business Review

Infrastructure Facilities

Over the past year, the Group restructured and strengthened its infrastructure business portfolio, having completed the disposal of its interests in the Shanghai elevated highway projects, and it also implemented a number of new investments. The infrastructure business currently consists mainly of toll expressways, water services and port facilities. All these projects possess great potential for further development, and they are expected gradually to build long-term, steady and substantial sources of income and cash flow for the Group. Net profit from its infrastructure facilities businesses during the first half of 2004 was approximately HK$64.59 million, around 6.0% of the Group's net business profit*.

Toll Expressways

This has been the first year since the Group began operating the Shanghai Hu-Ning Expressway (Shanghai Section). During the period under review, the Group smoothly took over operating rights and related assets for this section of the Expressway, while ensuring the smooth flow of traffic and its orderly operation. Moreover, the Group successfully managed the flow of traffic during the peak Lunar New Year and Ching Ming Festival seasons, thus winning extensive recognition. The Group also adopted effective measures to ensure smooth and safe traffic flow on the Shanghai Section, while the operator of the Jiangsu Section undertook widening works in June that barred use by trucks. These measures successfully overcame pressure on toll fee income. In general, the section operated satisfactorily during the first half of 2004. Vehicle traffic increased significantly compared to the first half of the previous year, a period that saw both the SARS outbreak and pavement repair and construction works. Toll-fee income rose steadily, totalling approximately HK$103.49 million during the period between January and June, an increase of approximately 39.3% over the same period last year. Meanwhile, approximately 8.38 million vehicles passed along the section, about 46.4% more than that in the first half of last year. During the

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

second half of the year, the Group will embark on various preparatory works for the alteration and widening of the Shanghai Hu-Ning Expressway (Shanghai Section). These works are scheduled to commence in 2005, and they are expected to create long-term benefits for the section in the future.

Water Services

The opening up of the water services market in China has created promising opportunities for investors. The Group seized these opportunities and entered the water utility sector last year. Its joint-venture company has achieved a remarkable presence in the market during the few short months since it commenced formal operations last November. A professional investment team has been established, and it is participating in water services investment projects in a number of cities. The company has also won tenders for three projects. Negotiations are currently underway for a sewage treatment plant with a daily capacity of 300,000 cubic metres in the north of Nanjing City. In May, the joint-venture company entered into an agreement with the People's Government of Bengbu City, Anhui Province, to acquire, for a consideration of RMB155.55 million, a 60% stake in 蚌埠供水有限公司 (Bengbu Water Supply Company Limited), which has a water production capacity of 410,000 tonnes per day.

Port Facilities

In recent years, the Shanghai port has seen rapid growth in container throughput, becoming mainland China's largest container port terminal, and the third largest in the world. This has created favourable conditions for the Group's Shanghai Pudong Waigaoqiao Container Terminal Phase One Project. During the period under review, the terminal's throughput totalled 1.10 million TEUs, an increase of approximately 10.1% over the same period last year, while its net profit grew by approximately 11.9% to HK$160.86 million. To meet the needs of business development, its container freight station will be expanded and altered during the coming half year, and further improvements will be made in its operations and management to improve its container loading capacity and develop container-related businesses, thereby leveraging on its geographical advantages and expanding its logistics functions.

During the period under review, the Group further optimised and realigned the structure of its infrastructure business portfolio, and it decided to terminate its investments in logistics-related businesses and exit the EAS International logistics project. It reached a consensus about this with its PRC partner and signed a shareholding transfer agreement in late June 2004. The Group has been reimbursed for its entire investment in the project, which is the Hong Kong dollar equivalent of RMB205 million.

Medicine

During the period under review, the overall operations of the Group's medicine business maintained continued solid growth, with a turnover of HK$607.04 million, an increase of approximately 6.0% over the same period last year. This business contributed a net profit of HK$86.74 million to the Group, approximately 86.6% more than that for the corresponding period last year; and it accounted for approximately 8.1% of the Group's net business profit*. The growth in its turnover has slowed down, mainly because of a change in the product certification of its key Chinese medicine, "Qingchunbao" Anti-ageing Tablets, from "Jian" (health supplement product) to the national drug "Zhun" (drug) classification. This policy required an adjustment in sales channels for the product, resulting in a temporary fall in sales. After the adjustment period, product sales are expected to resume gradually.

The Group took active measures to restructure its medicine business. Regarding its acquisition of a stake of approximately 56.63% in Shanghai Industrial United Holdings Co., Ltd., an A-share listed company in mainland China, the State-owned Assets Supervision and Administration Commission of the State Council approved the transfer of state-owned shares to the Group on 29 June 2004. Meanwhile, the acquisition is still pending approval by the Ministry of Commerce, as well as the China Securities Regulatory Commission's waiver of an obligation to make a general offer. In March, the Group also acquired a 55% stake in Liaoning Herbapex Pharmaceutical (Group) Company Limited for RMB85 million. The company's principal product – Rupixiao

Tablets, which are used to treat fibrocystic disease – presently ranks among the Group's top five pharmaceutical products.

Chinese Medicine and Health Food

The Group maintained steady growth in its Chinese medicine and health food businesses, sales of which accounted for over 90% of the total turnover of its entire medicine business segment. Sales revenue during the first half-year amounted to HK$600 million. Among its various proprietary Chinese medicines, cardiovascular drugs achieved the highest sales totalling more than HK$200 million. Sales of its flagship product, Shen Mai Injections, increased by approximately 13.5% compared to the same period last year; while sales of Xinhuang Tablets, an antibiotic and anti-inflammatory analgesic drug, increased by nearly 17% compared to the same period last year.

Sales of the principal Chinese medicines were as follows:

Product name	Type of product	First half of 2004 HK$'000	Increase over the same period last year
"Dengfeng" Dan Shen Injection	cardiovascular	49,634	12.7%
"Dengfeng" Shen Mai Injection	cardiovascular	140,937	13.5%
"Cang Song" Rupixiao Tablets	gyniatric	45,546	31.6%
"Dinglu" Xinhuang Tablets	antibiotic and anti-inflammatory analgesic	34,749	17.0%

As for the Group's health food products, its new "Qingchunbao" Beauty Capsules and "Qingchunbao" Yong Zhen Tablets continued to produce the fastest growth in sales. In the first six months of this year, sales of "Qingchunbao" Beauty Capsules totalled HK$49.40 million, up approximately 50.6% over the same period last year. Sales of "Qingchunbao" Yong Zhen Tablets, a sister product of "Qingchunbao" Anti-ageing Tablets, totalled HK$19 million between its launch last September and the end of June. The sales prospects for this product are promising. Sales of "Qingchunbao" Anti-ageing Tablets totalled HK$169 million, a decline of approximately 19.8% compared to the same period of the previous year, due to changes in its sales channels.

Biomedicine

Of all the Group's medicine businesses, biomedicine possesses the greatest potential for future development. Research and development of genetically engineered adenovirus drugs to combat tumours have been ongoing for five years, and they are making satisfactory progress. The H101 project to find a cure for head and neck neoplasm was among the first batch of projects to be awarded a "Shanghai New Hi-Tech Result Converting Project Certificate" by the Shanghai New Hi-Tech Result Converting Service Center in February. Phase III clinical trials for this project have been completed. It is expected to be certified as a State Class One New Drug by the State Food and Drug Administration, and production will commence within this year. Phase I clinical trials for the H103 project to cure the spread of tumours commenced; whereas mechanism research for the H102 project to cure liver cancer was completed and various pre-clinical experiments are now underway. The "SunGran" gene medicine, which has already been launched, recorded sales of approximately HK$4.20 million during the first half year, representing an increase of approximately 22.8% compared to the same period last year. This product cures tumours by increasing the number of white blood cells after chemotherapy and radiotherapy.

Medical Equipment

The high-tech medical equipment projects in which the Group has invested are remarkably competitive in the mainland China market. MicroPort Medical (Shanghai) Co. Ltd. ("MicroPort"), a company engaged in producing interventional therapy equipment such as heart catheters and stents, recorded an increase of approximately 1.2 folds in sales, compared to the same period last year. Applications for trial production of neuro stents and aorta stent grafts for use in operation were made during the period under review; and these products are expected to receive certification by the third quarter of this year. The first generation of the "Firebird" brand of drug stent products was granted certification for trial production. MicroPort thus became the first manufacturer in China to obtain a registration certificate for drug stent products. As a result of this certification and its intention to expand into the Japanese market, Firebird is expected to enjoy rapid sales growth in the future. In May, Otsuka of Japan became the major shareholder of MicroPort, and this move will enhance market expansion for related products. During the period under review, Guangdong Biolight Medical Technology Co. Ltd. commenced the formal operation of its new Zhuhai manufacturing plant. Sales of the monitoring apparatus product series totalled approximately HK$9.95 million during the first half year. Its new products, the BLT-507III Wireless Monitoring System, BLT-3000 Interference Current Therapy Instrument, and the BTS-1000 Plasma Surgery System, were examined, approved, and certified for relevant product registration.

Chemical Pharmaceuticals

Shanghai Sunve Pharmaceutical Co., Ltd. ("Sunve Pharmaceutical"), a group company engaged in the chemical pharmaceuticals business, achieved a sales revenue of HK$173.25 million during the first half of 2004, of which sales of finished pharmaceutical products and raw pharmaceuticals accounted for approximately 54.1% and 45.9%, respectively. Sales of its key finished pharmaceutical products, "Sunvecon" Capsules and "Wei Shaxin" Tablets, were both satisfactory, and approximately 38.9% higher than that in the same period last year. Among Sunve Pharmaceutical's seven major raw pharmaceutical product categories, its sulfa product series achieved the best sales performance, with sales revenue of more than HK$27.90 million for the first half-year. Moreover, Sunve Pharmaceutical's multi-function mini-production line was completed during this period and commenced operations in April. This production line is intended to obtain GMP accreditation, and to produce small volumes of high value-added products to meet market needs. It will also be used to produce outturn samples for the production of new products, and conduct trial production of new products.

Consumer Products

Consumer spending in mainland China is growing strongly, and national consumption power continues to rise. These factors, together with a gradual turnaround in Hong Kong's retail market and the increasing number of tourists from mainland China visiting on individual basis, have created tremendous opportunities for the consumer products market. Earnings from all the Group's consumer products businesses, including tobacco and printing, dairy products, and automobiles and parts, grew steadily during the first half of 2004. Their overall net profit amounted to approximately HK$360.69 million, an increase of around 30.5% over the same period last year, and they accounted for approximately 33.7% of the Group's net business profit*.

Tobacco and Printing

The economic environment has improved significantly, both in Hong Kong and around the world. As a result, the sales of the Group's tobacco business grew steadily and recorded satisfactory results in the first half of 2004, with a total turnover of approximately HK$865.01 million, which is a substantial increase of approximately 72.4% on the same period last year. Net profit amounted to approximately HK$159.18 million, an increase of around 87.1% over the same period last year. Besides strengthening its sales in mainland China, Taiwan and Singapore, and in respective duty-free outlets, the Group also expanded into the Korean market, achieving increased sales for its Super Mild and Ultra Mild cigarettes. Sales in Southeast Asia accounted for 50.3% of its total tobacco business. The Phase II expansion of the Group's production plant in Tuen Mun, Hong Kong commenced in April. The estimated total cost of this project will be around HK$127.60 million, plus additional production facilities valued at approximately HK$32.60 million. The entire project is scheduled for completion around the end of next year.

Cigarette package printing dominated the Group's printing business, accounting for more than 70% of its total turnover, with sales to the Group's member company Nanyang Brothers Tobacco Company, Limited accounting for approximately 50% of its total turnover. Its overall business performance continued to improve during the period under review, with turnover increasing significantly to approximately HK$234.71 million, around 37.8% more than that for the same period last year. The gross profit margin was approximately 37.4%, up by around 29.9% on the same period last year. Net profit rose to approximately HK$63.28 million, a significant increase of around 57.6% compared to the same period last year. The business operations of its joint-venture companies in mainland China also grew steadily. Construction works on a new factory in Dongguan was completed at the end of 2003, and some of its newly acquired production facilities were installed and gradually went to operation during the first half of 2004. The printing business is expected to maintain its growth momentum in the second half of the year. Once the Dongguan factory commences full-scale operation, both its production capabilities and product-design standards will be further enhanced, providing further scope for expansion in the market.

Dairy

Despite a slight slowdown in the growth of the dairy products market in mainland China, as well as intense price competition within the sector, the Group's dairy business continued to maintain double-digit growth during the first half of 2004, in terms of both sales revenue and net profit. During that period, Bright Dairy and Food Co., Ltd. ("Bright Dairy") took a consumer-oriented approach in establishing its brand name and developing high-quality Bright Dairy products. By initiating a number of strategic positionings for its business operations, the company further improved its profitability, achieving sales of HK$3,054.29 million, an increase of approximately 13.7% over the same period last year. Net profit attributable to the Group was approximately HK$42.73 million, up by around 15.5% compared to the corresponding period of last year.

Jiaming Dairy, a joint-venture project with the local government of Jiamusi, Heilongjiang Province, commenced formal operations during the same period. Thus, Bright Dairy now owns two production bases for thermostatic products in Heilongjiang Province, an area with an abundant milk supply. In June, Bright Dairy signed a strategic alliance agreement with International Paper Company, a US-based Fortune 500 company, to promote pasteurised milk in China. The pasteurisation process kills the bacteria that are harmful to human health in raw milk, yet it preserves the bulk of its nutritional ingredients. During the period under review, the company developed 21 new products in seven categories, including two specialised milk products: "Bright Shutang Milk", which caters for the nutritional needs for diabetics, and "Bright Sleeping Milk", which helps to regulate the brain nerves and enhance natural sleep. These two specialised milk products have been well received in the market since they were introduced in April.

Automobiles and Parts

The state's implementation of macro-economic control measures exerted an impact on the automobiles and parts industry in mainland China and intensified competition in the sector during the first half of 2004. Economic efficiency in the industry has declined since May and sales as well as production volume have slowed down. Automobile manufacturers in mainland China, led by Shanghai Volkswagen and Shanghai General Motors, have cut prices in an effort to boost sales and reduce inventory. This has exerted some pressure on the Group's automobile companies in Shanghai to cut its prices for automobiles and parts, resulting in a downturn in its profit margins. Overall, the results of the Group's automobile companies, including Shanghai Huizhong Automotive Manufacturing Co., Ltd. ("Shanghai Huizhong") and Shanghai SIIC Transportation Electric Co., Ltd. ("SIIC Transportation") were less satisfactory than expected between January and June. However, they still achieved a total sales revenue of approximately RMB3,446.11 million, about 15.1% more than that for the same period last year, and they contributed earnings of around HK$91.44 million to the Group's automobiles and parts business segment, about 14.2% more than that in the same period last year.

During this period, Shanghai Huizhong maintained its policy of manufacturing both commercial vehicles and sedan chassis system accessories. It commenced trial production and bulk production of commercial vehicles (heavy duty trucks and coaches). The "ISTANA" mini van made its debut in March, and around 1,100 vehicles have so far been produced. Sales and marketing activities for this model are gradually being expanded into more regions. The sedan chassis system accessories project also made good progress. The joint-venture project between SIIC Transportation and ArvinMeritor Inc. started formal operations during this period. This company focuses mainly on production and sales of motor skylight windows. It started to supply accessories for Shanghai Volkswagen's Passat B5 and POLO series of vehicles in June. While the macro-economic control measures will further affect the Group's automobiles and parts business in the coming months, the impact is likely to be insignificant over the whole year.

Information Technology

Investments in the PRC's integrated circuit industry have developed rapidly in recent years. Despite fluctuations in the growth of the semiconductor sector worldwide, the total production capacity for wafer manufacturing in mainland China still lagged far behind market demand, thus offering tremendous potential for further development. The expanding digital consumer products market and continuous improvement in the features of electronic products are key factors driving market demand. The Group's information technology business posted a net profit of approximately HK$559.44 million in the first half of 2004, approximately 52.2% of its net business profit*.

Semiconductor Manufacturing

SMIC has enjoyed rapid business growth. In March this year, it was successfully listed simultaneously in Hong Kong and the United States. A total of approximately HK$7.8 billion was raised from the new shares issued under the Global Offering. SMIC is now included in the Hang Seng Freefloat Mainland 25. The Group is still the single largest shareholder of SMIC. The company scored continuous growth during the first half of 2004, with sales totalling approximately HK$3,181.82 million, up almost 2.6 folds compared to the same period last year. Its gross profit margin was approximately 29.8%, and its net profit reached HK$480.62 million, according to its published quarterly results. Wafer shipments for the first half-year were approximately 95.2% higher than the corresponding period last year; their average blended selling price was US$1,022, approximately 79.9% more than in the same period last year. Commercial production commenced at Fab 7, located in Tianjin. SMIC and Toppan Printing Co., Ltd. of Japan agreed to form a joint-venture company to manufacture and sell on-chip colour filters and micro lenses for image sensors. In addition, SMIC signed an investment agreement to establish an assembly and testing plant in Chengdu.

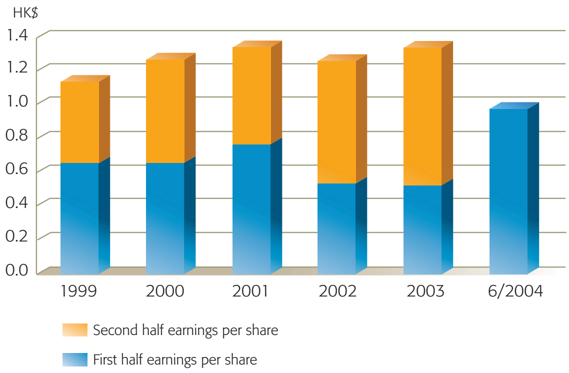
Information Infrastructure

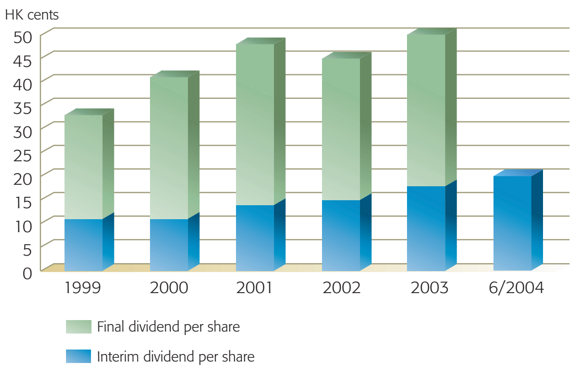
During the period under review, Shanghai's information infrastructure projects progressed smoothly and on schedule. The cumulative number of "Cableplus" subscribers reached nearly 200,000, and active measures were taken to offer a wider range of value-added services. Sales of information pipes and fibre-optics also grew steadily. A total of 1,100 kilometres of information pipelines had been built by the end of June, providing network access to 142 more buildings. The integrated logistics information system of the Shanghai port showed remarkable results, with the successful completion of a logistics information network at Pudong Airport. The "Customs Software and Data Interface for Foreign Trade Enterprises" project was reviewed and approved at municipal level. Construction of the logistics information platform for Waigaoqiao Free Trade Zone in Shanghai formally commenced, and an integrated electronic payment system has now been fully implemented by the Shanghai Customs.

Key Figures

	Half-year ended 30 June (unaudited)		
	2004	2003	Increase
Financial highlights			
Turnover (HK$'000)	**1,692,465**	1,463,289	15.7%
Profit attributable to shareholders (HK$'000)	**930,057**	491,488	89.2%
Total assets (HK$'000)	**18,399,312**	16,683,391	10.3%
Shareholders' equity (HK$'000)	**15,223,400**	13,799,395	10.3%
Share information			
Earnings per share			
– basic (HK cents)	**98.1**	52.5	86.9%
Dividend per share			
– interim (HK cents)	**20.0**	18.0	11.1%
Number of shares in issue (shares)	**949,938,000**	936,358,000	N/A
Share price at 30 June (HK$)	**14.35**	11.00	N/A
Market capitalisation at 30 June (HK$ billion)	**13.632**	10.300	N/A
Financial ratios			
Gearing ratio (note)	**10.0%**	10.2%	N/A
Interest cover	**163 times**	39 times	N/A
Dividend payout ratio	**20.4%**	34.3%	N/A

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


HK$
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
1999
2000
2001
2002
2003
6/2004
Second half earnings per share
First half earnings per share


HK cents
50
45
40
35
30
25
20
15
10
5
0
1999
2000
2001
2002
2003
6/2004
Final dividend per share
Interim dividend per share

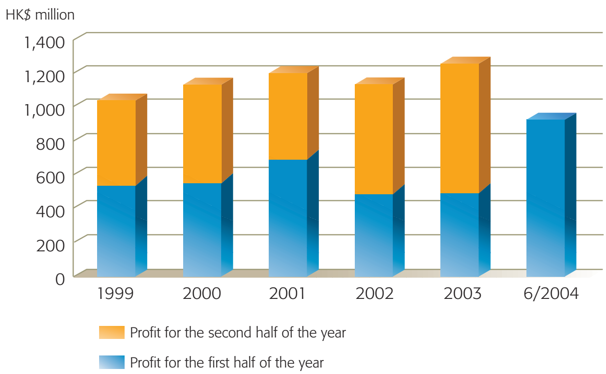

HK$
18
16
14
12
10
8
6
4
2
0
1999
2000
2001
2002
2003
6/2004
Shareholders' equity per share

I. Analysis of Financial Results

1. Profit for the first half of 2004

The Group's profit for the first half of 2004 was HK$930.06 million, an increase of approximately 89.2% over the profit of HK$491.49 million for the corresponding period of 2003.

The substantial growth recorded in the Group's results for the first half of 2004 was mainly due to exceptional items of approximately HK$508.72 million generated from the information technology business and the satisfactory growth achieved in the operating results of Semiconductor Manufacturing International Corporation ("SMIC") and the consumer products business.



The net profit for the first half of 2004, after the deduction of exceptional items of information technology business and adjustment for the after-tax compensation in the sum of RMB300 million obtained in the same period last year in relation to the cancellation of the guaranteed fixed return elevated highway projects, was 102.0% higher than the same period last year.

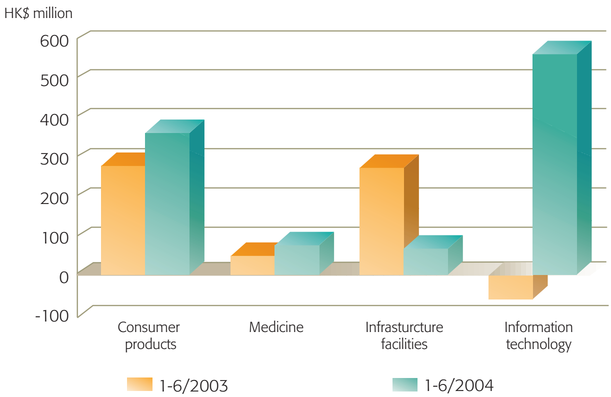
2. Profit Contribution from Each Business

A comparison of the profit contributed by each business in the Group during the first half of 2004 and the same period last year is as follows:

	Six months ended 30 June		
	2004 HK$'000	2003 HK$'000	Increase (Decrease)
Consumer products	360,688	276,414	30.5%
Medicine	86,743	46,495	86.6%
Infrastructure facilities	64,590	288,422	(77.6%)
Information technology	559,438	(74,768)	N/A

All the Group's businesses progressed well during the period ended 30 June 2004, contributing satisfactory growth in its overall profit as compared to the same period last year. The consumer products business again achieved considerable profit growth and continued to give impetus to the growth of the Group's overall results. The medicine business's profit contribution to the Group increased further following the completion of the privatisation of SIIC Medical Science and Technology (Group) Limited in September 2003. SMIC recorded a turnaround in its profitability, and was successfully listed simultaneously in Hong Kong and the United

States, thus creating a breakthrough in the information technology business. After adjustments relating to the cancellation of guaranteed fixed return elevated highway projects completed during the previous year, it may still take some time for the effects of these adjustments to be reflected in the infrastructure facilities business.

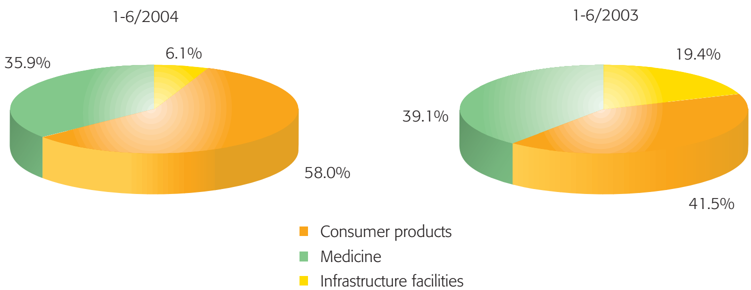


Full details of the operating performances and progress of individual businesses for the first half of 2004 are contained in the section headed "Management Discussion and Analysis".

3. Turnover

The Group's turnover by principal activities during the period ended 30 June 2004 was as follows:

	Six months ended 30 June		
	2004 HK$'000	2003 HK$'000	Increase (Decrease)
Consumer products	**981,935**	607,522	61.6%
Medicine	**607,043**	572,748	6.0%
Infrastructure facilities	**103,487**	283,019	(63.4%)
	1,692,465	1,463,289	15.7%



During the period under review, the infrastructure facilities business did not obtain any compensation similar to the after-tax compensation of RMB300 million included in its turnover during the previous year, which was related to the cancellation of guaranteed fixed return elevated highway projects. As a result, its turnover decreased by 63.4% compared to the same period last year.

Although the turnover of the infrastructure facilities business for the period was subject to a greater adjustment in terms of scale and nature, the Group's turnover still increased by 15.7% during the first half of 2004, compared to the same period last year. This was mainly driven by demand for consumer products, as well as increased turnover due to the completion of the acquisition of Liaoning Herbapex Pharmaceutical (Group) Company Limited by its medicine business.

4. Profit from Ordinary Activities before Taxation

(1) *Gross profit margin*

Gross profit margin for the first half of 2004 was approximately 57.3%, while the gross profit margin for the same period last year after deducting the after-tax compensation in the sum of RMB300 million accounted for in the infrastructure facilities business was approximately 53.5%. The increase in gross profit margin was mainly due to increased consumer products sales that more fully optimised economies of scale in production.

(2) *Investment income*

Investment income increased considerably to approximately HK$89.89 million, compared with approximately HK$51.21 million during the same period last year. This was mainly due to the receipt of dividend income from Shanghai Pudong International Container Terminals Limited and to an increase in interest income from surplus funds.

(3) *Administrative expenses*

Administrative expenses were HK$21.98 million higher than the same period last year, mainly due to an increase in the number of subsidiaries consolidated within the medicine business.

(4) *Other operating expenses*

Other operating expenses for the period were HK$147.41 million higher than in the same period last year, attributed mainly to the Group's prudent operating principle of making provisions against risks and for impairment of certain long-term investments in consumer products and medicine businesses.

(5) *Finance costs*

The Group benefited from a general downward adjustment in market interest rates, and its finance costs decreased by approximately HK$10.53 million, compared to the same period last year.

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

The share of results of jointly controlled entities during the period decreased to approximately HK$90.70 million from approximately HK$91.62 million in the first half of last year. This was mainly due to a decrease in dividend income caused by the disposal of a long-term investment by Shanghai Sunve Pharmaceutical Co., Ltd. during the previous year.

(7) *Share of results of associates*

The share of results of associates during the period under review increased by approximately HK$121.15 million to approximately HK$175.40 million, from approximately HK$54.25 million in the first half of 2003. This increase was mainly due to a significant rise of approximately HK$129 million in the Group's share of SMIC's net profit, brought about by a remarkable improvement in the company's operating results.

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

The net gain, derived from the completion of SMIC's issue of Series D preference shares at a premium and its public share offering and listings during the first half of 2004, as well as the introduction of new investors into Shanghai Sunway Biotech Co., Ltd. and MicroPort Medical (Shanghai) Co. Ltd., was substantially greater than the exceptional gain realised mainly from the disposal of the Group's interest in Shanghai Orient Shopping Centre Ltd. during the same period last year.

(9) Impairment loss recognised in respect of goodwill relating to a jointly controlled entity

During the period, the Group recognised a goodwill impairment loss of a jointly controlled entity engaged in the information technology business.

5. Dividends

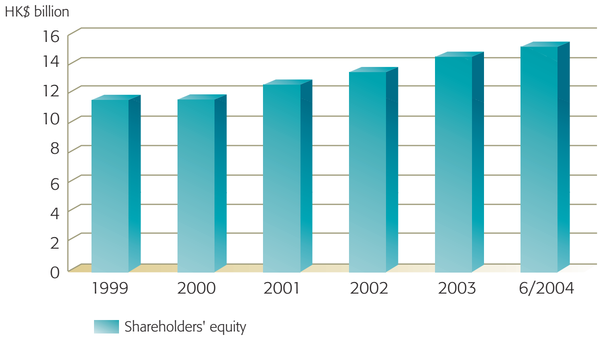
According to the Group's dividend policy, shareholders will be paid steadily increasing dividends that are linked to its performance. By virtue of the outstanding interim results for 2004, the Board has resolved to pay an interim dividend of HK20 cents per share, representing an increase of 11.1% compared to the 2003 interim dividend of HK18 cents per share. The dividend payout ratio was approximately 20.4%.

II. Financial Position of the Group

1. Capital and shareholders' equity

As at 30 June 2004, the Group had a total of 949,938,000 shares in issue. The number of shares in issue increased by 4,190,000 shares during the period under review, as compared to the 945,748,000 shares in issue at the end of 2003. Based on the closing price of HK$14.35 per share on 30 June 2004, the Group had a market capitalisation of approximately HK$13,631.61 million.

Increases in both operating profits and the number of shares in issue during the first half-year contributed to an increase in shareholders' equity as at 30 June 2004, compared to the end of 2003.



2. Indebtedness

As at 30 June 2004, the Group had total loans of HK$1,740.54 million, comprised primarily of loans of HK$140.54 million for subsidiaries, and a five-year term syndication loan of HK$1.6 billion. This syndication loan will become due in April 2007. The long-term portion of HK$800 million and the revolving portion of HK$800 million contained in the syndication loan have been dealt with under long-term and short-term bank and other borrowings in the financial statements, respectively.

3. Bank deposits and short-term investments

As at 30 June 2004, the Group's bank deposits and short-term investments amounted to approximately HK$5,051.83 million and HK$1,822.25 million, respectively. Of the bank deposits held, the proportions of US dollars, HK dollars and Renminbi were 74%, 8% and 18%, respectively. The Group's short-term investments mainly consisted of investments in funds, equity linked notes, bonds and listed securities in Hong Kong.

III. Policies on Financial Risk Management

1. Cash flow and liquidity

The Group adopts a prudent approach towards financial management and closely monitors its cash management and allocation of resources. In order to implement effective control over cash management, the Group's financing and cash management responsibilities are both centrally managed at Head Office. At present, the Group remains in a net cash position in respect of its debt-equity structure with strong liquidity and a sound interest cover. However, the Group will pursue opportunities for capital structure optimisation through constant review of market conditions, while taking its corporate development needs into account.

2. Exchange rate risk

The Group mainly operates in mainland China and Hong Kong and it faces exchange rate risks mainly arising from fluctuations in the exchange rates of US dollars, HK dollars and Renminbi. The Group closely monitors any exchange rate fluctuations in these currencies as well as market trends. During the first half of 2004, the Group did not enter into any derivative contracts aimed at minimising exchange rate risk.

3. **Interest rate risk**

The Group's major financing loan is a syndication loan of HK$1.6 billion. To exercise prudent management against interest rate risks, the Group entered into a structured interest rate hedging arrangement against the long-term portion of this syndication loan. The Group will continue to review market trends, its business operations needs and its financial position, in order to identify the most effective tools for interest rate risk management.

Interim Dividend

The Board of Directors of the Company has resolved to pay an interim dividend of HK20 cents (2003: HK18 cents) per share for the six months ended 30 June 2004. The dividend will be paid on 6 October 2004 (Wednesday) to shareholders whose names appear on the Register of Members of the Company on 30 September 2004 (Thursday).

Close of Register of Members

The Register of Members of the Company will be closed from 27 September 2004 (Monday) to 30 September 2004 (Thursday), both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Secretaries Limited of 28/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on 24 September 2004 (Friday).

Directors' Interests

As at 30 June 2004, the interests and short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(I) Interests in Shares of the Company

(a) Ordinary shares of HK$0.10 each

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Lai Xing	Beneficial owner	4,000,000	0.42%
Lu Ming Fang	Beneficial owner	2,700,000	0.28%
Lu Da Yong	Beneficial owner	2,700,000	0.28%
		9,400,000	0.98%

All interests stated above represented long positions.

(b) *Share options*

Name of director	Capacity	Number of options held	Number of underlying shares	Percentage of the issue share capital of the Company
Lu Ming Fang	Beneficial owner	1,500,000	1,500,000	0.16%

(II) Interests in Shares of Shanghai Industrial United Holdings Co., Ltd. ("SI United"), an associated corporation of the Company

Publicly tradable shares of RMB1 each

Name of director	Capacity	Number of issued shares held	Percentage of the issued share capital of SI United
Ding Zhong De	Beneficial owner	15,000	0.005%
Lu Shen	Beneficial owner	12,000	0.004%

All interests stated above represented long positions.

Other than as disclosed above, as at 30 June 2004, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

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 1.1.2004	Exercised during the period	Outstanding at 30.6.2004
Category 1: 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	–
Total for directors			3,050,000	(1,550,000)	1,500,000
Category 2: Employees					
	September 2002	11.710	26,120,000	(2,640,000)	23,480,000
Total for all categories			29,170,000	(4,190,000)	24,980,000

* *Mr. Lu Yu Ping resigned as director of the Company on 12 June 2004.*

Options granted under the Company's share option schemes 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.

The weighted average closing prices of the Company's shares immediately before the dates on which the options were exercised was HK$17.54.

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 holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2004, the interests and short positions of every position, 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:

Ordinary shares of HK$0.10 each

Name of shareholder	Capacity	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of the Company
(a) *Long Positions*			
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	Interests held by controlled corporation(s)	550,575,044 *(Notes (i) to (ii))*	57.96%
(b) *Short Positions*			
SIIC	Interests held by controlled corporation(s)	92,145,863 *(Notes (iii))*	9.7%

Notes:

(i) Shanghai Investment Holdings Limited ("SIH"), SIIC Capital (B.V.I.) Limited ("SIIC Capital BVI") and SIIC CM Development Limited ("SIIC CM Development") held 468,066,000, 80,000,000 and 10,000 ordinary shares in 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. Gem Capital Investment (BVI) Limited ("Gem Capital") held 485,000 ordinary shares in the Company. SIIC indirectly owns 100% of Gem Capital.

(ii) SIIC Treasury (B.V.I.) Limited and SIIC CM Development Funds Limited, both of which are indirectly wholly-owned subsidiaries of SIIC, acquired physically settled equity derivatives in respect of 1,340,947 and 673,097 underlying shares in the Company respectively, pursuant to which the issuer of the equity derivatives has the obligation to procure delivery of the said shares to the said respective companies under certain conditions.

(iii) SIIC was taken to have short positions in respect of 92,145,863 underlying shares in the Company whereby STC has issued an aggregate of HK$2,430,900,000 Zero Coupon Guaranteed Exchangeable Bonds due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company at an exchangeable price of HK$26.381 per share.

Save as disclosed 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 2004.

AUDIT COMMITTEE

The Audit Committee together with the Company's management and external auditors have reviewed the interim report for the six months ended 30 June 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors of listed companies on terms no less exacting than the required standard set out in the Model Code, and have made enquiries with the directors that they have complied with the Model Code during the period under review.

CODE OF BEST PRACTICE

The Company has complied throughout the six months ended 30 June 2004 with the Code of Best Practice contained in Appendix 14 of the Rules Governing The Listing of Securities of the Stock Exchange, except that its non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Articles of Association.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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