INTERIM REPORT 2005

SIIC

上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

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
Mr. Yao Fang
Mr. Tang Jun

Independent Non-Executive Directors
Dr. Lo Ka Shui
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis

Board Committees

Executive Committee
Mr. Cai Lai Xing *(Committee Chairman)*
Mr. Qu Ding
Mr. Lu Ming Fang
Mr. Lu Shen
Mr. Qian Shi Zheng
Mr. Yao Fang

Audit Committee
Dr. Lo Ka Shui *(Committee Chairman)*
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis

Remuneration Committee
Dr. Lo Ka Shui *(Committee Chairman)*
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis
Mr. Qu Ding
Mr. Cheng Qi Yong

Company Secretary

Ms. Wong Mei Ling, Marina

Authorised Representatives

Mr. Lu Ming Fang
Ms. Wong Mei Ling, Marina

Registered Office

26th Floor, Harcourt House,
39 Gloucester Road,
Wanchai, Hong Kong
Telephone : (852) 2529 5652
Facsimile : (852) 2529 5067
Email : enquiry@sihl.com.hk

Auditors

Deloitte Touche Tohmatsu

Legal Advisors

Woo, Kwan, Lee & Lo
Grandall Legal Group
Morrison & Foerster

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

ADR Depository Bank

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

Information for Shareholders

Shareholder Enquiries

Company Contact Details

Company Secretarial Department

Address : 26th Floor, Harcourt House,
39 Gloucester Road,
Wanchai, Hong Kong
Telephone: (852) 2876 2317
Facsimile : (852) 2520 0128

Share Registrar

Secretaries Limited

Address : 28th Floor,
BEA Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong
Telephone: (852) 2980 1766
Facsimile : (852) 2861 1465

Company Stock Code

Stock Exchange : 363
Bloomberg : 363 HK
Reuters : 0363.HK
ADR : SGHIY

Company's Website

www.sihl.com.hk

Results

- 2004 Final Results announced on 21st April 2005
- 2005 Interim Results announced on 25th August 2005

2005 Interim Report

Posted to Shareholders on 12th September 2005

Dividend

- 2004 Final Dividend of HK35 cents per share was paid to Shareholders on 6th June 2005
- 2005 Interim Dividend of HK20 cents per share will be paid to Shareholders on 30th September 2005

Closure of Register of Members

The Register of Members of the Company will be closed from 21st September 2005 (Wednesday) to 23rd September 2005 (Friday), both dates inclusive, during which period no transfer of shares will be effected. Dividend warrants will be despatched to Shareholders on 30th September 2005 (Friday). 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 by 4:00 p.m. on 20th September 2005 (Tuesday).

Chairman's Statement

I am pleased to announce that the unaudited consolidated profits of the Group for the six months ended 30th June 2005 amounted to HK$521 million. Compared to the profit figure of HK$927 million from the same period last year, the profit represented a decrease of 43.8%. The decline was mainly due to an exceptional gain of over HK$600 million brought to the Group from the listing of SMIC last year. However, the Group's two core businesses of infrastructure facilities and medicine recorded an increase in net profit of 57.7% and 13.8% respectively. The Directors have declared an interim dividend of HK20 cents per share. The dividend payout ratio is 36.9%.

Following the completion of legal procedures pertaining to the acquisition of SI United in December 2004, the Group entered into asset swap transactions with Shanghai Pharmaceutical Group and SI United respectively during the period. The Group has also taken an active part in acquiring business and increasing the equity stake of its existing quality businesses. Projects undertaken ranged from water services to medicine and printing, involving an aggregate investment of RMB800 million.

- ***Entering into agreement with Shanghai Pharmaceutical Group; acquiring and divesting of joint venture projects***

2005 will be a crucial year for the Company as considerable efforts have been made to implement the Group's business restructuring. In April 2005, the Group entered into an agreement with Shanghai Pharmaceutical Group for the acquisition of a further 40% share interest in Shanghai Medical Instruments at a consideration of RMB75.8 million and the disposal of its 48% share interest in Sunve Pharmaceutical at a consideration of RMB155.8 million. This has set the stage for the restructuring of the Group's pharmaceutical business. Upon completion of the transactions, the Group would cease to have any equity interest in Sunve Pharmaceutical while raising its share interest in Shanghai Medical Instruments to 99%. Establishing a reputation for its products and maintaining a considerable market share, Shanghai Medical Instruments is poised to become the development platform for the Group's medical equipment business.

Chairman's Statement

- ***Asset swap with SI United signified the commencement of the Group's business restructuring program***

In June 2005, the Company entered into an asset swap framework agreement with SI United, a subsidiary listed on the A-share market of the Shanghai Stock Exchange. Under the agreement, the Company would dispose of certain pharmaceutical assets including a 61% share interest in Xiamen TCM, a 55% share interest in Liaoning Herbapex, a 51% share interest in Huqingyutang Pharmaceutical and a 29% share interest in Huqingyutang Drugstore for a total consideration of approximately RMB445 million. In return, the Company will acquire certain commercial retail chain assets of SI United including a 21.17% share interest of Lianhua Supermarket and a 22.21% share interest of Century Lianhua at a total consideration of RMB433 million. Lianhua Supermarket is an H-share company listed on the Main Board of the Stock Exchange. The transaction has been approved by SI United's independent shareholders and the Company's Shareholders, which together hold more than 50% in nominal value of the shares conferring voting rights at a general meeting of the Company. The asset swap signified the commencement of the Group's pharmaceutical business restructuring program. SI United will become a listed company specialising in pharmaceutical business through the swapping of its commercial retail chain assets for pharmaceutical assets. This will further enhance the market position, brand building activity and long-term profitability of SI United and will in turn benefit the overall performance of the Group.

- ***Increasing equity interests in a number of existing quality projects and consolidating resources to enhance overall efficiency***

During the period, the Group increased its equity interests in a number of existing quality projects, and consolidated its resources in order to improve overall efficiency. These projects include Huqingyutang Pharmaceutical, Xiamen TCM, Hebei Yongxin Paper, Huzhou Tianwai Paper, Chengdu Jiuxing Printing and Chengdu Wing Fat Printing, with total investments amounting to RMB380 million.

Chairman's Statement

Prospects

In recent years, the Group has made considerable efforts to consolidate its business structure, focusing on the areas of infrastructure and medicine businesses, and promoting vertical and in-depth development to achieve synergy in operation. Emphasising healthy cash flow, profitability and growth, and promoting innovative ideas, the Group has reorganised its businesses to ensure that its resources are best deployed. Looking forward, the Group will strive to achieve major breakthroughs in upcoming merger and acquisition activities in order to strengthen its core businesses. "Maintaining a strong focus, building on a solid foundation, moving forward in a progressive manner and developing innovative ideas" are the key strategic objectives of the Group. We will strive to create the best value for Shareholders.

Lastly, on behalf of the Board of Directors, I wish to extend my gratitude to the Company's Shareholders for their unfailing support. I also wish to express my appreciation to the management and staff for their dedication and hard work during the period.

Cai Lai Xing
Chairman

Hong Kong, 25th August 2005

Management Discussion and Analysis

Stepping into 2005, the operating environment in China has continued to change and competition intensified as a result of the Government's macro economic measures and the reform of policies and systems. Increases in operating costs have brought considerable pressure to local enterprises. SMIC and Huizhong Automotive, engaged in semiconductors, and automobiles and parts businesses respectively, suffered losses during the period. Nevertheless, the Group's two core businesses of infrastructure facilities and medicine recorded an increase in net profit of 57.7% and 13.8% respectively.

Infrastructure Facilities

For the first six months of 2005, the Group's infrastructure facilities business showed steady growth, bringing a net profit of HK$102 million to the Group, an increase of 57.7% from the same period last year. This accounted for 18.5% of the Group's net profit before net corporate expenses. During the period, GWC further secured three projects, thereby increasing daily water supply and sewage treatment capacity by approximately 630,000 tonnes. The extension work of Shanghai-Nanjing Expressway (Shanghai Section) and the construction of the Jinhua Section of Yongjin Expressway were in progress. The Shanghai Pudong Container Terminal Project achieved record half-year results since its establishment in 2002.

Water Services

Water pricing reforms based on market supply and demand and the opening up of the water services market have created huge investment potential in the Mainland's water services market and attracted strong interest from domestic and foreign investors. Despite increased competitions during the period, GWC successfully secured three water services projects with investment amounts totalling RMB425 million. The joint venture projects at Xiangtan, Hunan Province and at Bengbu, Anhui Province invested last year have been put into operation, while the BOT (built-operate-transfer) project at Huzhou, Zhejiang Province started construction. Presently, the water services projects held by GWC will generate a combined capacity of exceeding 3.4 million tonnes of water supply and sewage treatment.

Management Discussion and Analysis

- ***Shaanxi Xianyang Water Supply Project***

During the period under review, GWC acquired a 50% interest in the Shaanxi Xianyang water supply project, with a term of operation of 30 years and a daily water supply capacity of 180,000 tonnes. Transfer of equity interests is expected to be completed in the second half of 2005.

- ***Shaanxi Xianyang "Yinshi Guo Wei" Water Supply Project***

The Shaanxi Xianyang "Yinshi Guo Wei" water supply project has a term of operation of 30 years and a daily water supply capacity of 300,000 tonnes. The Xianyang "Yinshi Guo Wei" water supply project franchise contract has been signed. The project is wholly-owned by GWC.

- ***Shenzhen Longhua Sewage Treatment Plant BOT Project***

The BOT project of Shenzhen Longhua Sewage Treatment Plant in the Baoan District has a daily sewage treatment capacity of 150,000 tonnes with a term of operation of 22 years. A franchise agreement has been signed with the local government. Pre-construction preparation work is expected to commence in the second half of 2005. The project is wholly-owned by GWC.

Management Discussion and Analysis

Distribution Map of the Existing Water Services Projects of GWC

Management Discussion and Analysis

Toll Roads

Affected by the extension work of the Jiangsu Section, the operating results of the Shanghai-Nanjing Expressway (Shanghai Section) declined during the period. Daily average toll revenue amounted to RMB507,900, a decrease of 2% from the second half of the previous year. During the period, revenue from principal operations amounted to RMB92.18 million and net profit was RMB56.12 million. The extension work of the Shanghai-Nanjing Expressway (Shanghai Section) progressed steadily as planned. The pilot piling design work, testing proposal, formulation of regulatory details and other preliminary works of pilot piling have been completed. Pilot piling was successfully carried out in mid June, marking the commencement of the extension works of the Shanghai-Nanjing Expressway (Shanghai Section). The extension project is scheduled to be completed by the end of next year, after which the vehicle traffic volume and toll revenue are expected to rise accordingly. Yongjin Expressway (Jinhua Section) is scheduled to open for traffic in the fourth quarter of this year and is anticipated to bring in steady revenue to the Group.

Port Facilities

The performance of Pudong International was good with higher-than-expected results. Despite the impact of the commencement of operation of Shanghai Pudong Container Terminal Phase 5 early this year and the cancellation of two routes of the company since January 2005, the company managed to increase container volume and utilise scientific methods for loading and unloading. As a result, not only were operating results unaffected, the company achieved the best ever half-year performance since its establishment in 2002. For the six months ended 30th June 2005, the company's throughput totalled 1,233,500 TEUs while turnover and profit were RMB423 million and RMB228 million, representing an increase of 11.97%, 20.09% and 33.48% respectively over the corresponding period last year.

Medicine

During the period under review, the medicine business contributed HK$95.31 million to the Group's net profit, an increase of 13.8% from the same period last year and accounted for 17.3% of the Group's net profit before net corporate expenses. The overall turnover of the medicine business increased 182.2% from the same period last year to HK$1,713 million. Operating income increased 151.5% to HK$206 million. The operating result of SI United, in which the Group has a 56.63% shareholding, has been consolidated into the Group's accounts since 2005.

Management Discussion and Analysis

Distribution Map of the Group's Major Medicine Businesses

* *The said interests are held by SI United.*

Management Discussion and Analysis

Chinese Medicine and Health Food

The Group's Chinese prescription drugs, in particular injection products, grew rapidly. "Dengfeng" Shen Mai Injection had a record turnover of RMB172 million, an increase of 14.9% from the same period last year. The sales of "Dengfeng" Dan Shen Injection and "Dengfeng" Herba Houttuyniae Injection have seen rapid growth at the rates of 17.8% and 58.4% from the same period last year respectively. The "Quantitative Analysis of TCM Compounds and its Application in Manufacturing of Shen Mai Injection", a research project jointly conducted by the Group and Zhejiang University, won Second Prize in the State Scientific and Technology Progress Award, contributing to securing the leading position of "Dengfeng" Shen Mai Injection among similar products in China.

During the period under review, the Group actively participated in the market development of "Dinglu" Xinhuang Tablets. The addition of more than 70 hospitals as new sales channels has helped build a solid foundation for the product's sales growth. The Group acquired Liaoning Herbapex, a company which specialises in Chinese medicine manufacture and sale, last year. The company recorded a rise of income and net profit at 11.1% and 6.3% respectively over the corresponding period last year. Its main product "Cang Song" Rupixiao Tablets achieved a turnover of RMB51.93 million. The results of Huqingyutang Pharmaceutical recorded substantial growth compared to the corresponding period last year. For the period ended 30th June 2005, turnover and profit before taxation amounted to RMB122 million and RMB22.86 million, representing 39% and 11% growth respectively compared to the corresponding period last year. The company's principal product "Huqingyutang" Stomach Rejuvenation Tablets increased 2.6% in turnover compared to the same period last year. Turnover of "Huqingyutang" Qiangli Pipalu increased 88.6% from the corresponding period last year.

The sales of OTC medicine "Qingchunbao" Anti-aging Tablets still remained at a stage of adjustment. During the period under review, sales income amounted to RMB96.42 million, representing a decrease of 46.2% over the corresponding period last year. With regard to health food, "Qingchuanbao" Beauty Capsules also recorded a 27.6% drop of revenue at RMB37.94 million. "Qingchunbao" Yong Zhen Tablets and "Huquingyutang" Herba Dendrobium Grain, which were launched within the past two years, have seen very positive growth in sales. During the period, turnover of these two products reached RMB14.55 million and RMB27.64 million respectively.

Management Discussion and Analysis

In the area of research and development, the Group initiated "Coronary Heart Calm Tablet" research during the period and obtained clinical trial permission for the new drug. The new drug is now undergoing clinical trial. "Scutellarin" and "Scutellarin Injection", two Category I new Chinese medicine research projects, have already completed pre-clinical trials. The SFDA has begun assessment of the drugs. Currently, a patent is being applied for "Scutellarin Injection (10ml)". The drug has been classified by the State Administration of Traditional Chinese Medicine as the "New Drugs Research and Development Special Study of the State Administration of Chinese Medicine". The "Compact Bone Capsules" project has entered Phase III clinical trials in several PRC hospitals and the "Kidney Tonifying Grains" has also been undergoing Phase III clinical trials. The "Modern Chinese Medicine for Cystic Hyperplasic of the Breast – Rupixiao Soft Capsules", a research project jointly conducted with Shanghai Second Military Medical University, has reached the interim testing stage and application for clinical trials has been made to the SFDA.

Sales of Major Chinese Medicine and Health Food in the first half of 2005

Name of Product	Category	Sales *RMB'000*	% change
"Qingchunbao" Anti-Aging Tablets	Immunity-strengthening	96,420	-46.2%
"Qingchunbao" Beauty Capsules	Health Food	37,935	-27.6%
"Dengfeng" Shen Mai Injection	Cardiovascular	171,625	14.9%
"Dengfeng" Dan Shen Injection	Cardiovascular	61,992	17.8%
"Dengfeng" Herba Houttuyniae Injection	Anti-microbial infection	32,403	58.4%
"Dinglu" Xinhuang Tablets	Anti-bacterial, anti-inflammatory	35,219	-4.4%
"Huqingyutang" Stomach Rejuvenation Tablets	Gastro-intestinal	38,877	2.6%
"Cang Song" Rupixiao Tablets	Gynaecological	51,927	7.6%

Biomedicine

With respect to biomedicine business, the turnover for "Techpool" Luo An (Ulinastatin) amounted to RMB52.75 million during the period under review, representing 28.4% increase over the previous period. In March this year, Guangdong Techpool completed registration for the supply of low molecular-weight Heparin Sodium in the Japanese market with Japan's Ministry of Health and Welfare. At the same time, the Company carried out registration work for finished pharmaceutical products in a number of countries including Egypt, Iran and Syria. The product of Sunway Biotech, G-CSF, has been formally on sale in certain overseas markets including India.

Management Discussion and Analysis

During the period, three State Category I new drug projects of the Group made good progress. “H101”, a new drug for treating head and neck tumours (nasopharyngeal cancer), has completed Phase III clinical trials. Assessment for the project has made considerable progress and it is expected that new drug certification would be granted this year. After production trials are completed at the workshop equipped with a production capacity of 150,000 pieces, application will be made for GMP certification. Preparation for the commercialisation of “TNF” (Tumour Necrosis Factor), a complementary drug for clinical treatment of cancer, is ready and construction of the production workshop has been carried out as planned. The workshop is scheduled to be set up in October and GMP certification is expected to be received in the first half of 2006. Human Urinary Kallikrein “Kai Li Kang”, designed for treatment of hypertension and occlusion cerebral and surrounding blood vessels, has been made available all information required for new drug registration. Having passed the assessment test of the SFDA, the drug has entered the stage of technological evaluation. New drug certification is expected within this year.

Medical Equipment

During the period under review, the Group entered into an agreement with the Shanghai Pharmaceutical Group through which its equity interest in Shanghai Medical Instruments will be increased to 99%. Shanghai Medical Instruments is mainly engaged in such businesses as operating theatre equipment and oral instruments. During the period, Shanghai Medical Instruments recorded a turnover of nearly RMB300 million. In the area of marketing, Shanghai Medical Instruments focused its efforts on various major products. The company participated in three regional exhibitions and one national exhibition during the period. These activities have helped enhance product distribution channels and promote company image. Having established a reputation and a strong presence in the Mainland, Shanghai Medical Instruments will serve as the platform for the Group’s expansion into the medical equipment business.

MicroPort Medical achieved encouraging results during the first half of the year, with records-breaking turnover and net profit of RMB118 million and RMB34.79 million respectively, representing a growth of 2.57 times and 4.91 times respectively over the corresponding period of the previous year. Its products, PTCA balloon catheters and coronary stents, were granted first prize in the 2004 Shanghai Science & Technology Progress Award. The sales of these products grew rapidly.

Management Discussion and Analysis

Consumer Products and Information Technology

During the period under review, the overall results of consumer products and information technology business maintained steady growth and contributed net profit of HK$355 million to the Group. Excluding the exceptional profit from the listing of SMIC last year, net profit represented a growth of 19% over the corresponding period of the previous year and accounted for 64.2% of the Group's net profit before net corporate expenses.

Tobacco

During the period, Nanyang Tobacco recorded a turnover of HK$723 million, representing a decline of 16.5% from the corresponding period of the previous year. The decrease was due to changes in sales policy effective this year requiring the exclusion of trade discounts from sales. Nanyang Tobacco's profit amounted to HK$210 million during the period, representing an increase of 31.8% over the corresponding period of the previous year. At present, nearly 90% of Nanyang Tobacco's sales are derived from self-made cigarettes, of which nearly 70% is accounted for by "Double Happiness" in both soft and hard packets. In view of changes in market distribution and market share, Nanyang Tobacco has focused on developing new markets for expansion. Newly developed markets now include Australia, Middle East, Malaysia and Indonesia.

Dairy

During the first half of 2005, Bright Dairy recorded a turnover of RMB3,467 million, representing an increase of 6.8% over the corresponding period of the previous year. A net profit of RMB151 million, representing an increase of 2.9% over the corresponding period was recorded. With increased competitions in the dairy market, Bright Dairy has taken a market-driven approach, upgrading its product mix and raising brand awareness. During the period, the "Bright" trademark of Bright Dairy was once again recognised as a "leading trademark" in Shanghai. The Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce has given a triple A ranking to Bright Dairy in terms of trustworthiness. In respect of new products, the company has been trying to develop multi-functional and multi-characteristic new products such as "Jianneng low-sugar milk" and "Jianneng low-fat milk" through defining specific market segments as well as operating on a regional basis. In the area of market development, Bright Dairy has established a new production base in Chengdu for refrigerated dairy products in southwestern China. Media reports about product quality management of Bright Dairy in June adversely affected sales in some regions. The company has however taken effective crisis management measures to rectify the situation with the public and investors and to restore consumer confidence.

Management Discussion and Analysis

Automobiles and Parts

The generally sluggish domestic automobile industry in the Mainland with continued downward adjustments of automobile prices has resulted in a significant decline in operating income for auto-related companies. At the same time, the under-utilised production capacity has put pressure on the enterprises' fixed costs. During the period, Huizhong Automotive and Transportation Electric, both engaged in automobile and parts businesses, together reported sales of RMB1,861 million, a decrease of 46% from the corresponding period of the previous year. Huizhong Automotive reported losses. Transportation Electric however achieved a profit of RMB14.47 million through implementing effective measures in reducing costs and maximise efficiency.

Printing

Wing Fat Printing achieved satisfactory results during the period. The company recorded a turnover of HK$283 million and a net profit of HK$64.26 million, representing a growth of 20.4% and 1.5% respectively over the corresponding period of the previous year. After a period of trial operation, the new Dongguan factory fully commenced production this year. During the period, Wing Fat Printing has also made considerable efforts to consolidate internal resources and invested a total of nearly RMB156 million to raise its shareholding in a number of associated enterprises, including Hebei Yongxin Paper, Chengdu Jiuxing Printing and Chengdu Wing Fat Printing, which became subsidiaries of Wing Fat Printing. These enterprises represent new sources of growth for the Group's printing business.

Information Technology

The semiconductor industry experienced a downturn in its product cycle since the end of 2004, in particularly the foundry sector. As a result, SMIC recorded a loss of US$70.44 million during the period. Nevertheless, the company maintained a 29.5% increase in sales, amounting to US$528 million. In the second quarter of 2005, the company reported an increase in capacity to 139,025 8-inch equivalent wafers per month and a utilisation rate of 87%. Based on the demand forecasts provided by its customers, SMIC believes that the second half of 2005 will be a period of financial growth and improvement. At present, SMIC has formed a partnership with Saifun Semiconductors, Ltd. to license Saifun's NORM® technology for the production of flash memory-based products. The new flash-memory strategy of SMIC will enable the company to meet the increasing demand for flash-based products in the consumer electronics and telecommunication sectors.

Management Discussion and Analysis

SII actively promoted the construction of key urban information technology projects and achieved satisfactory results. During the period under review, the number of "Cableplus" subscribers exceeded 200,000, while the number of digital television subscribers jumped to 45,996. A total of 157 additional kilometres of information pipelines were built, providing new network access to 152 buildings. "Easypay" reached 3 million user hits with approximately RMB260 million in transactions. Shanghai Certification Centre, a hi-tech company under SII is mainly engaged in network trust services and third party certification services. During the period under review, it was granted electronic certification service user code licence by the Code Monitoring State Authority and became a member of the first group of certification institutions granted such licences in the Mainland.

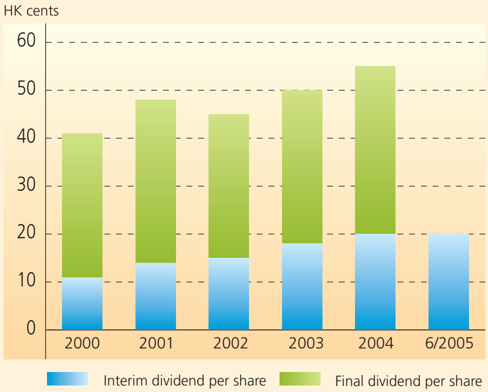
Financial Review

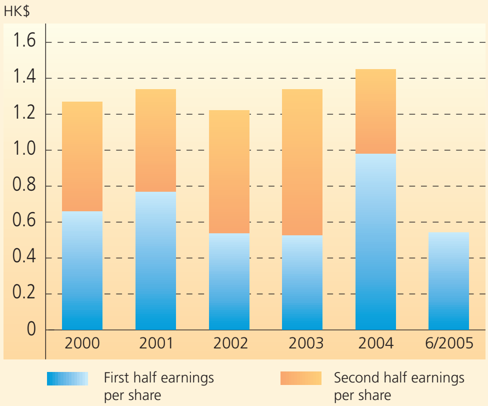
Key Figures

	Unaudited Six months ended 30th June 2005	2004 (restated)	Increase (Decrease)
Financial highlights			
Turnover (HK$'000)	**2,714,218**	1,692,465	60.4%
Profit attributable to shareholders (HK$'000)	**520,732**	927,037	(43.8%)
Total assets (HK$'000)	**21,382,916**	18,396,292	16.2%
Shareholders' equity (HK$'000)	**15,911,245**	15,220,380	4.5%
Share information			
Earnings per share – basic (HK cents)	**54.2**	97.8	(44.6%)
Dividend per share – interim (HK cents)	**20.0**	20.0	0%
Number of shares in issue (shares)	**967,113,000**	949,938,000	N/A
Share price at 30th June (HK$)	**15.15**	14.35	N/A
Market capitalisation at 30th June (HK$ billion)	**14.652**	13.632	N/A
Financial ratios			
Gearing ratio (Note)	**11.0%**	10.0%	N/A
Interest cover	**25 times**	158 times	N/A
Dividend payout ratio	**36.9%**	20.4%	N/A

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

Financial Review





Financial Review

Financial Review

I. Basis of Preparation

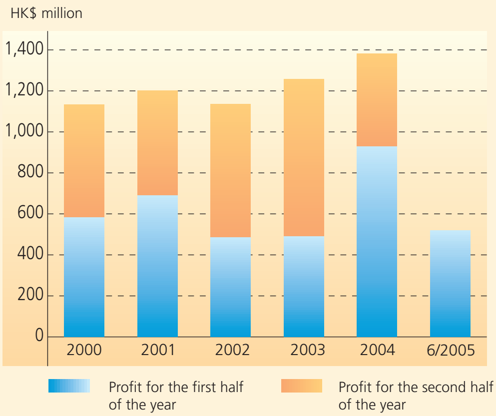
The Group has adopted all new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations (collectively referred to as "new HKFRSs") issued and effective as of 30th June 2005 pertinent to its operations. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2004 except for those changes in relation to the adoption of the new HKFRSs.

II. Analysis of Financial Results

1. Profit for the first half of 2005

For the first half of 2005, profit amounted to HK$520.73 million, a decrease of approximately 43.8% over the restated profit of HK$927.04 million for the corresponding period of 2004. The decline was mainly due to an exceptional profit brought to the Group from the listing of SMIC last year.

During the period, the new earnings source added to the medicine business following completion of the acquisition of SI United and the growth in operating profit of businesses such as infrastructure facilities and Nanyang Tobacco which had offset the effect of the sluggish domestic automobile market and the semiconductor industry on the Group's earnings.



Financial Review

2. Profit Contribution from Each Business

The profit contributed by each business in the Group during the first half of 2005 and the same period last year is summarised as follows:

	Unaudited Six months ended 30th June		
	2005	2004	Increase (Decrease)
	HK$'000	HK$'000 (restated)	%
Infrastructure facilities	**101,843**	64,590	57.7
Medicine	**95,306**	83,723	13.8
Consumer products	**315,253**	360,688	(12.6)
Information technology	**39,365**	559,438	(93.0)

For the period ended 30th June 2005, the Group recorded a loss in its automobile and parts business due to the impact of marco economic measures implemented in China and price competition. However, tobacco and printing, which also belonged to the consumer products business, achieved continuous growth in profit contribution, offsetting in part the negative impact of the automobile and parts business. Nevertheless, the profit contribution from the overall consumer products business showed a decline.

The semiconductor industry experienced a downturn and SMIC recorded a loss in its operating results for the first half of the year, as compared to a profit previously. Furthermore, no significant exceptional profit was recorded such as the gain from the spin-off of SMIC in the corresponding period last year. Although the rise in share value of China Netcom (HK), an information technology company, kept the overall information technology business in profit, profit from this business fell significantly as compared to the corresponding period last year.

In respect to infrastructure facilities business, Pudong International, which operates the Waigaoqiao terminal phase one, provided good profit contribution. While GWC was expanding its water supply and water processing capacity, it also started to provide profit contribution to the Group. As a result, infrastructure facilities business recorded a 57.7% growth. Yongjin Expressway, the acquisition of which was completed this year, remained in a developing stage and thus no profit was yet to contribute for the period. It is believed that following the completion of its construction works late this year, the company will become another growth for the Group's infrastructure facilities business.

Financial Review

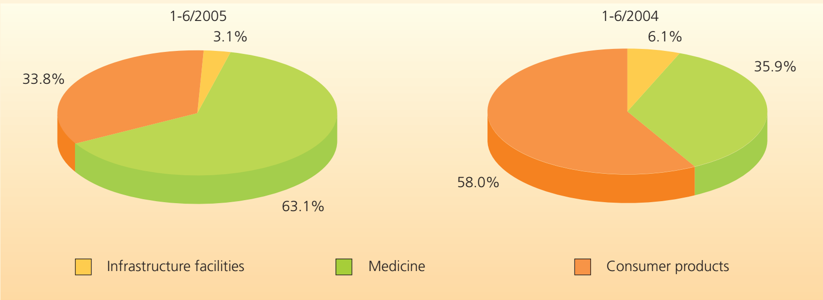
The medicine and infrastructure facilities businesses, which the Group strove to develop, demonstrated stable growth during the period. The acquisition of SI United was completed at the end of last year. Its operating results were consolidated into the Group during the period, bringing new source of profit to the medicine business. Other medicine businesses also performed well and achieved the expected operating results.

Full details of the operating performances and progress of individual businesses for the first half of 2005 are contained in the section headed "Management Discussion and Analysis".

3. Turnover

The Group's turnover by principal activities for the period ended 30th June 2005 and prior period comparative was summarised as follows:

	Unaudited Six months ended 30th June		
	2005 **HK$'000**	2004 HK$'000 (restated)	Increase (Decrease) %
Infrastructure facilities	**82,877**	103,487	(19.9)
Medicine	**1,713,341**	607,043	182.2
Consumer products	**918,000**	981,935	(6.5)
	2,714,218	1,692,465	60.4



Financial Review

For the period ended 30th June 2005, the turnover of the Group was increased by 60.4%, it is mainly attributable to the attractive sales growth from the medicine business, which was partly offset by the adjustment in the turnover of the infrastructure facilities and consumer products businesses.

The completion of the acquisition of SI United brought forth very promising growth to the Group's medicine business in turnover for the period. Turnover of SI United comprised a series of products including chemical compound OTC drugs, biomedicine, medical equipment and medicine retailing, greatly enriching the range of the Group's product mix.

The change in turnover of infrastructure facilities business primarily reflected the drop in toll fee income as a result of the beginning of the expansion works undergone at other sections of Hu-Ning Expressway. The pressure brought forth to Hu-Ning Expressway by lower earning was reduced by cost streamlining measures.

Lower turnover of consumer products was attributable to the change of sale terms by Nanyang Tobacco. Under the new terms, sales discounts were deducted directly from turnover instead of being expensed as distribution costs in the previous year. The growth in turnover of printing business remained stable.

4. Profit before Taxation

(1) Gross profit margin

Gross profit margin for the period was 40.6%, representing a decrease of 16.7% as compared to 57.3% for the corresponding period last year. The decrease was attributable to the consolidation of SI United's profit and loss during the period. Since a portion of SI United's sales belonged to low-margin medicine retailing business, the overall gross margin was lowered despite the increase in turnover of the medicine business at the same time.

(2) Investment income

During the period, investment income increased from HK$89.89 million for the corresponding period last year to approximately HK$197.47 million, driven by the appreciation in value of China Netcom (HK) shares held by the Group and the increase of dividend payment arising from the continuous good performance of Pudong International.

Financial Review

(3) Other operating income

Other operating income during the period increased approximately HK$95.50 million, primarily due to the write back of the risk provision for consumer products business last year and the increase of re-investment tax refund.

(4) Administrative expenses

Administrative expenses during the period increased approximately HK$159.99 million from the corresponding period last year, primarily due to the completion of the acquisition of SI United at the end of last year and increase in the number of subsidiaries consolidated within the consumer products business, which increased the administrative expenses for consolidation.

(5) Other operating expenses

The significant decrease of approximately HK$122.97 million in other operating expenses was mainly due to the fact that risk provision and investment impairment were made for long-term investments of certain consumer products and medicine business in the corresponding period last year.

(6) Finance costs

Finance costs increased HK$26.50 million, partly driven by the finance costs involved in the consolidation of SI United during the period and also by the higher borrowing expenses caused by rising interest rate.

(7) Share of results of jointly controlled entities

Affected by the macro economic measures implemented in China and price competition, Huizhong Automotive recorded an operating loss for the period, consequently reducing the share of results of jointly controlled entities by approximately HK$54.45 million.

(8) Share of results of associates

During the period, the operating results of SMIC was affected by the cyclical downturn of the semiconductor industry and the company reported a loss during the period as compared to a profit recorded in the corresponding period last year. The Group's share of results of associates consequently decreased by approximately HK$91.63 million.

Financial Review

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

The net gain on disposal of interests during the period was brought forth by the disposal of two logistics companies and decreased substantially by approximately HK$674.41 million from the corresponding period last year, when there was a net gain on disposal of interests from the spin-off of SMIC.

5. Dividends

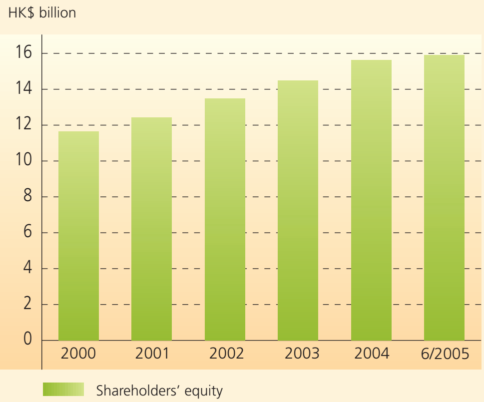
The Board of the Group has resolved to pay an interim dividend of HK20 cents per share, the dividend payout ratio was approximately 36.9%. The dividend payout ratio has increased by 16.5% as compared to the 2004 interim dividend of HK20 cents per share but payout ratio of 20.4%.

III. Financial Position of the Group

1. Capital and shareholders' equity

As at 30th June 2005, the Group had a total of 967,113,000 shares in issue. The number of shares in issue increased by 8,475,000 shares , during the period under review, as compared with the 958,638,000 shares in issue at the end of 2004. Based on the closing price of HK$15.15 per share on 30th June 2005, the Group had a market capitalisation of approximately HK$14,651.76 million.

The increase in the shareholders' equity as at 30th June 2005 was attributable to both operating profits and the increase in the number of shares in issue during the period under review.



Financial Review

2. Indebtedness

(1) Borrowings

As at 30th June 2005, the total borrowings of the Group amounted to HK$2,143.39 million, primarily representing loans of HK$543.39 million of subsidiaries and a HK$1,600 million five-year term syndication loan. The syndication loan comprises a long-term loan amounting to HK$800 million and a revolving loan of HK$800 million, which have been stated in the balance sheet as long-term bank loan and short-term bank loan respectively. Of the total loans, unsecured credit facility accounted for 93.4%.

(2) Pledge of assets

As at 30th June 2005, the following assets were pledged by the Group in order to secure general credit facilities granted to the Group:

(a) plant and machinery with a net book value of approximately HK$75,864,000;
(b) land and buildings with a net book value of approximately HK$40,772,000;
(c) bank deposits of approximately HK$39,480,000; and
(d) motor vehicles with a net book value of approximately HK$376,000.

(3) Contingent liabilities

As at 30th June 2005, the Group has given guarantees to banks in respect of banking facilities utilised by 西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.) etc of HK$27.43 million in total.

3. Bank deposits and short-term investments

As at 30th June 2005, cash and short-term investments held by the Group amounted to HK$5,190.85 million and HK$1,642.75 million respectively. The proportions of US dollars, Renminbi and HK dollars were 45%, 44% and 11% respectively. Short-term investments mainly consisted of investments such as funds, equity-linked notes, bonds and Hong Kong listed shares.

At present, the Group is in net cash position, having sufficient current capital and a healthy interest cover. However, the Group will review the market situation from time to time and consider the development needs of the Company and look for opportunities to optimise its capital structure.

Financial Review

IV. Management Policies for Financial Risk

1. Exchange Rate Risk

The Group mainly operates in China and the Hong Kong Special Administrative Region and the major exchange rate risks arises from fluctuations in the US dollar, HK dollar and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group, as HK dollar and Renminbi are both under managed floating system, after review the current market situation, the Group has not entered into any derivative contracts aimed at minimising exchange rate risks during the period.

On 21st July 2005, the People's Bank of China adjusted the exchange of Renminbi to US dollars from 8.2765 to 8.1100. In view of the magnitude of this adjustment, the appreciation of Renminbi has positive but immaterial impact to the Group.

2. Interest Rate Risk

The major financing loan of the Group is a HK$1,600 million syndication loan. To exercise prudent management against interest rate risks, the Group entered into a structured interest rate hedging agreement against the long-term portion of the syndication loan early in the first half of 2004. The Group will continue to review the market trend, as well as its business operation needs and its financial position in order to identify the most effective tools for interest rate risk management.

Independent Review Report

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 30 to 56.

Directors' responsibilities

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 Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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.

Independent Review 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 30th June 2005.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25th August 2005

Condensed Consolidated Income Statement

For the six months ended 30th June 2005

	NOTES	Six months ended 30th June **2005** **HK$'000** **(unaudited)**	 2004 HK$'000 (unaudited and restated)
Turnover	4	**2,714,218**	1,692,465
Cost of sales		**(1,611,172)**	(722,166)
Gross profit		**1,103,046**	970,299
Investment income		**197,468**	89,886
Other operating income		**102,503**	7,001
Distribution costs		**(379,318)**	(386,521)
Administrative expenses		**(339,616)**	(179,631)
Other operating expenses		**(28,497)**	(151,462)
Finance costs		**(34,234)**	(7,730)
Share of results of jointly controlled entities		**20,889**	75,338
Share of results of associates		**58,407**	150,038
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities		**14,187**	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		**(1,409)**	(113,386)
Discount on acquisition of additional interest in a subsidiary		**141**	–
Profit before taxation	5	**713,567**	1,109,052
Taxation	6	**(87,505)**	(122,858)
Profit for the period		**626,062**	986,194
Attributable to			
– Equity holders of the parent		**520,732**	927,037
– Minority interests		**105,330**	59,157
		626,062	986,194
Dividends	7	**336,347**	303,465
Earnings per share	8		
– Basic		**HK54.2 cents**	HK97.8 cents
– Diluted		**HK54.0 cents**	HK96.9 cents

Condensed Consolidated Balance Sheet

At 30th June 2005

	NOTES	30th June 2005 HK$'000 (unaudited)	31st December 2004 HK$'000 (audited and restated)
Non-Current Assets			
Investment properties	9	45,672	45,672
Property, plant and equipment	9	2,014,343	1,892,434
Lease premium for land – non-current portion		203,795	185,782
Toll road operating right		1,769,146	1,784,651
Intangible assets		46,070	39,206
Goodwill		359,162	346,204
Negative goodwill		–	(2,203)
Interest in jointly controlled entities		2,507,942	2,139,789
Interest in associates		4,304,144	4,367,157
Investments in other projects		–	51,032
Investments in securities		–	245,512
Available-for-sale investments		280,063	–
Derivative financial instruments		10,186	–
Loan receivable		2,406	2,748
Deposits paid on acquisition of property, plant and equipment		49,426	25,821
Deferred tax assets		42,468	33,232
		11,634,823	11,157,037
Current Assets			
Lease premium for land – current portion		4,208	2,162
Inventories		1,156,658	877,785
Trade and other receivables	10	1,559,965	1,487,294
Investments in securities		–	1,084,036
Investments held for trading	11	1,642,750	-
Placement of deposits with financial institutions		193,664	188,962
Pledged bank deposits		39,480	43,121
Bank balances and cash		5,151,368	5,766,464
		9,748,093	9,449,824
Current Liabilities			
Trade and other payables	12	1,603,922	1,226,846
Taxation payable		103,449	96,816
Short-term bank and other borrowings	13	1,272,393	1,240,645
		2,979,764	2,564,307
Net Current Assets		6,768,329	6,885,517
Total Assets Less Current Liabilities		18,403,152	18,042,554

Condensed Consolidated Balance Sheet

At 30th June 2005

	NOTE	**30th June 2005 HK$'000 (unaudited)**	31st December 2004 HK$'000 (audited and restated)
Capital and Reserves			
Share capital		**96,711**	95,864
Reserves		**15,814,534**	15,518,997
Equity attributable to equity holders of the parent		**15,911,245**	15,614,861
Minority interests		**1,520,641**	1,476,366
Total Equity		**17,431,886**	17,091,227
Non-Current Liabilities			
Long-term bank and other borrowings	13	**870,994**	859,390
Deferred tax liabilities		**100,272**	91,937
		971,266	951,327
		18,403,152	18,042,554

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2005

	Attributable to equity holders of the parent												
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Hedging reserve HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	PRC statutory reserves HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January 2004	94,575	9,886,904	–	1,071	514	–	33,820	(927,282)	317,792	5,083,446	14,490,840	380,934	14,871,774
Exchange difference arising from translation of financial statements of PRC operations	–	–	–	–	–	–	79	–	–	–	79	6	85
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	–	–	–	–	–	–	106	–	–	–	106	–	106
Net income recognised directly in equity	–	–	–	–	–	–	185	–	–	–	185	6	191
Profit for the period	–	–	–	–	–	–	–	–	–	927,037	927,037	59,157	986,194
Total recognised income and expense for the period	–	–	–	–	–	–	185	–	–	927,037	927,222	59,163	986,385
Exercise of share options	419	–	–	–	–	–	–	–	–	–	419	–	419
Premium arising on issue of shares	–	46,764	–	–	–	–	–	–	–	–	46,764	–	46,764
Expenses incurred in connection with the issue of shares	–	(36)	–	–	–	–	–	–	–	–	(36)	–	(36)
Realised on disposal of interest in subsidiaries	–	–	–	–	–	–	(316)	–	(736)	736	(316)	–	(316)
Realised on deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	1,140	–	–	1,140	–	1,140
Impairment loss recognised in respect of goodwill relating to a jointly controlled entity	–	–	–	–	–	–	–	57,812	–	–	57,812	–	57,812
Transfers	–	–	–	–	–	–	–	–	12,676	(12,676)	–	–	–
Acquired on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	46,010	46,010
Capital contributions by minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	84,393	84,393
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(64,386)	(64,386)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(93,070)	(93,070)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,526)	(1,526)
Dividends paid (Note 7)	–	–	–	–	–	–	–	–	–	(303,465)	(303,465)	–	(303,465)
At 30th June 2004	94,994	9,933,632	–	1,071	514	–	33,689	(868,330)	329,732	5,695,078	15,220,380	411,518	15,631,898

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2005

	Attributable to equity holders of the parent												
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Capital redemption reserve HK$'000	Investment property revaluation reserve HK$'000	Hedging reserve HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	PRC statutory reserves HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 31st December 2004 – as originally stated	95,864	10,032,631	–	1,071	514	–	35,655	(837,505)	385,074	5,904,157	15,617,461	1,476,786	17,094,247
Effects of changes in accounting policies	–	–	2,800	–	–	–	–	–	–	(5,400)	(2,600)	(420)	(3,020)
At 31st December 2004 – as restated	95,864	10,032,631	2,800	1,071	514	–	35,655	(837,505)	385,074	5,898,757	15,614,861	1,476,366	17,091,227
Effect of adoption of new accounting policies	–	–	–	–	(514)	(3,328)	–	837,505	–	(834,788)	(1,125)	–	(1,125)
At 1st January 2005 – as restated	95,864	10,032,631	2,800	1,071	–	(3,328)	35,655	–	385,074	5,063,969	15,613,736	1,476,366	17,090,102
Gains on cash flow hedges taken to equity	–	–	–	–	–	13,514	–	–	–	–	13,514	–	13,514
Share of PRC statutory reserves of a jointly controlled entity	–	–	–	–	–	–	–	–	427	–	427	–	427
Share of exchange difference arising from translation of financial statements of PRC operations of a jointly controlled entity	–	–	–	–	–	–	142	–	–	–	142	–	142
Share of exchange difference arising from translation of financial statements of PRC operations of an associate	–	–	–	–	–	–	(204)	–	–	–	(204)	–	(204)
Net income recognised directly in equity	–	–	–	–	–	13,514	(62)	–	427	–	13,879	–	13,879
Profit for the period	–	–	–	–	–	–	–	–	–	520,732	520,732	105,330	626,062
Total recognised income and expense for the period	–	–	–	–	–	13,514	(62)	–	427	520,732	534,611	105,330	639,941
Exercise of share options	847	–	–	–	–	–	–	–	–	–	847	–	847
Premium arising on issue of shares	–	98,395	–	–	–	–	–	–	–	–	98,395	–	98,395
Expenses incurred in connection with the issue of shares	–	(111)	–	–	–	–	–	–	–	–	(111)	–	(111)
Recognition of share-based payments	–	–	721	–	–	–	–	–	–	–	721	–	721
Realised on disposal of interest in a jointly controlled entity	–	–	–	–	–	–	(581)	–	–	–	(581)	–	(581)
Realised on disposal of interest in an associate	–	–	–	–	–	–	(26)	–	–	–	(26)	–	(26)
Transfers	–	–	–	–	–	–	–	–	29,670	(29,670)	–	–	–
Capital contributions by minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	2,239	2,239
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(50,166)	(50,166)
Purchase of additional interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(47,004)	(47,004)
Acquired on acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	34,467	34,467
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(591)	(591)
Dividends paid (Note 7)	–	–	–	–	–	–	–	–	–	(336,347)	(336,347)	–	(336,347)
At 30th June 2005	96,711	10,130,915	3,521	1,071	–	10,186	34,986	–	415,171	5,218,684	15,911,245	1,520,641	17,431,886

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2005

	Six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**647,585**	559,005
Net cash (used in) from investing activities:		
Capital contributions to jointly controlled entities	**(476,965)**	(105,049)
Purchase of property, plant and equipment	**(137,005)**	(95,978)
Other investing cash flows	**(134,306)**	290,494
	(748,276)	89,467
Net cash used in financing activities	**(347,245)**	(138,615)
Net (decrease) increase in cash and cash equivalents	**(447,936)**	509,857
Cash and cash equivalents at 1st January	**5,185,693**	4,038,696
Cash and cash equivalents at 30th June	**4,737,757**	4,548,553
Being:		
Bank balances and cash	**5,151,368**	5,012,677
Less: Bank deposits with more than three months of maturity	**(413,611)**	(464,124)
	4,737,757	4,548,553

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for certain properties and financial instruments, which are measured at fair value or revalued amounts, as appropriate:

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(i) Share-based payment

HKFRS 2 "Share-based Payment" requires an expense to be recognised where an entity buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees'

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

share options of the Group and a jointly controlled entity determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group and the jointly controlled entity did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7th November 2002 and share options that were granted after 7th November 2002 (but prior to 1st January 2005) and had vested before 1st January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November 2002 and which were not yet vested on 1st January 2005. The effect of adoption of this new standard is set out in note 3.

(ii) Business combinations

HKFRS 3 "Business Combinations" is effective for business combinations for which the agreement date is on or after 1st January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January 2001 was held in reserves, and goodwill arising on acquisitions after 1st January 2001 was capitalised and amortised over its estimated useful life.

The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$889.6 million has been transferred to the Group's accumulated profits on 1st January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 are not required to be restated.

In the current period, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill of foreign operations to be treated as monetary assets and liabilities and translated

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions of foreign operations prior to 1st January 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior period adjustment has been made. In the current period, the Group acquired foreign operations and goodwill arose there from has been translated at the closing rate at 30th June 2005. As there was no significant difference between the exchange rates at the acquisition dates and the closing rate at 30th June 2005, such translation has had no material effect on the balance of the translation reserve at 30th June 2005.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January 2001 was held in reserves and negative goodwill arising on acquisitions after 1st January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance was resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January 2005 (of which negative goodwill of approximately HK$52.1 million was previously recorded in reserves and approximately HK$2.2 million was previously presented as a deduction from assets), with a corresponding increase to accumulated profits as at 1st January 2005.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. As no material contingent liabilities of the acquirees were identified in relation to acquisitions that took place in the current period, this change in accounting policy has had no material effect on the goodwill calculation. In addition,

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For the six months ended 30th June 2005

because the revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January 2005, comparative figures for 2004 have not been restated.

(iii) Financial instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects on the Group as a result of implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1st January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value or at cost less impairment loss, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

On 1st January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investments in other projects (equity investments) and investments in securities classified under non-current assets with carrying amounts of approximately HK$51.0 million and HK$245.5 million were reclassified to available-for-sale investments. Included in the HK$296.5 million available-for-sale investments was approximately HK$275.3 million unlisted equity investments of which fair value cannot be measured reliably and was therefore stated at cost less impairment loss at subsequent balance sheet dates. The remaining HK$21.2 million available-for-sale investments represented listed equity securities and was stated at fair value. Investments in securities classified under current assets with carrying amount of approximately HK$1,084.0 million was reclassified to investments held for trading on 1st January 2005.

Financial assets and financial liabilities other than debt and equity securities
From 1st January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

Derivatives and hedging
On or before 31st December 2004, derivatives of the Group were not recorded on the balance sheet.

From 1st January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

(including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair value of such derivatives are recognised in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, namely fair value hedges, cash flow hedges and net investment hedges. For cash flow hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity and recycled into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss.

The Group has applied the relevant transitional provisions in HKAS 39. For hedges that meet the requirements of hedge accounting set out in HKAS 39, the Group has, from 1st January 2005 onwards, applied hedge accounting in accordance with HKAS 39 to account for such hedges, the financial impact of which is set out in note 3.

In prior period, the Group entered into a structured interest rate hedging agreement with a financial institution. The Group designated the interest rate hedging agreement as a hedging instrument to hedge against the exposure as to changes in cash flow of interest payments of the Group's HK$800 million long-term portion syndication loan, which bears interest at floating rates.

(iv) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and is stated at cost or valuation less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to lease premium for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. This change in accounting policy has been applied retrospectively and the financial impact on the Group is set out in note 3.

(v) Investment properties

In previous periods, the Group's investment properties were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise.

The Group has also applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January 2005 onwards. The amount held in investment property revaluation reserve at 1st January 2005 has been transferred to the Group's accumulated profits as at that date and the financial impact on the Group is set out in note 3.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above are as follows:

(i) On results

	Six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
Goodwill no longer amortised	**14,399**	–
Recognition of share options granted to directors and employees as expenses	**(1,388)**	(3,020)
Recognition of discount on acquisition of additional interest in a subsidiary as income at the time the acquisition took place	**141**	–
Increase (decrease) in profit for the period	**13,152**	(3,020)

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

(ii) On income statement line items

	Six months ended 30th June 2005 HK$'000	2004 HK$'000
Decrease in administrative expenses	**10,520**	–
Decrease in share of results of jointly controlled entities	**(3,175)**	(15,361)
Decrease in share of results of associates	**(23,532)**	(25,361)
Decrease in taxation	**29,198**	37,702
Increase in discount on acquisition of additional interest in a subsidiary	**141**	–
	13,152	(3,020)

(iii) On balance sheet items

	As at 31.12.2004 (originally stated) HK$'000	Adjustments HK$'000	As at 31.12.2004 (restated) HK$'000	Adjustments HK$'000	As at 1.1.2005 (restated) HK$'000
Property, plant and equipment	2,080,378	(187,944)	1,892,434	–	1,892,434
Lease premium for land	–	187,944	187,944	–	187,944
Negative goodwill	(2,203)	–	(2,203)	2,203	–
Interest in jointly controlled entities	2,142,809	(3,020)	2,139,789	–	2,139,789
Derivative financial instruments	–	–	–	(3,328)	(3,328)
Net effects on assets and liabilities	4,220,984	(3,020)	4,217,964	(1,125)	4,216,839
Accumulated profits	5,904,157	(5,400)	5,898,757	(834,788)	5,063,969
Share options reserve	–	2,800	2,800	–	2,800
Investment property revaluation reserve	514	–	514	(514)	–
Hedging reserve	–	–	–	(3,328)	(3,328)
Goodwill reserve	(837,505)	–	(837,505)	837,505	–
Total effects on equity	5,067,166	(2,600)	5,064,566	(1,125)	5,063,441
Minority interests	1,476,786	(420)	1,476,366	–	1,476,366
Net effect on equity	6,543,952	(3,020)	6,540,932	(1,125)	6,539,807

The application of the new HKFRSs has had no effect to the Group's equity at 1st January 2004.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

4. SEGMENT INFORMATION BY BUSINESS

For the six months ended 30th June 2005

	Infrastructure facilities HK$'000	Medicine HK$'000	Consumer products HK$'000	Information technology HK$'000	Consolidated HK$'000
TURNOVER					
External sales	82,877	1,713,341	918,000	–	2,714,218
Segment results	84,314	205,875	302,987	77,960	671,136
Net unallocated corporate expenses					(15,550)
Finance costs					(34,234)
Share of results of jointly controlled entities	10,849	25,457	(22,541)	7,124	20,889
Share of results of associates	–	13,895	99,181	(54,669)	58,407
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					14,187
Impairment loss recognised in respect of goodwill relating to a jointly controlled entity					(1,409)
Discount on acquisition of additional interest in a subsidiary					141
Profit before taxation					713,567
Taxation					(87,505)
Profit for the period					626,062

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

For the six months ended 30th June 2004

	Infrastructure facilities HK$'000	Medicine HK$'000	Consumer products HK$'000	Information technology HK$'000	Consolidated HK$'000
TURNOVER					
External sales	103,487	607,043	981,935	–	1,692,465
Segment results	76,957	81,875	302,593	(2,151)	459,274
Net unallocated corporate expenses					(109,702)
Finance costs					(7,730)
Share of results of jointly controlled entities	1,113	3,258	70,761	206	75,338
Share of results of associates	737	4,551	92,083	52,667	150,038
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 before taxation					1,109,052
Taxation					(122,858)
Profit for the period					986,194

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
Amortisation of goodwill	**–**	8,030
Amortisation of toll road operating right	**15,505**	37,323
Amortisation of lease premium for land	**2,104**	1,081
Depreciation and amortisation of property, plant and equipment	**91,259**	55,424
Dividend income from investments	**(34,599)**	(26,447)
(Gain) loss on disposal of property, plant and equipment	**(2,065)**	783
Gain on disposal of investments held for trading	**(29,892)**	–
Gain on disposal of investments in securities	**–**	(23,756)
Interest income	**(60,543)**	(39,072)
Net unrealised gain on fair value changes of investments held for trading	**(55,915)**	–
Net unrealised loss on investments in securities	**–**	28,914
Impairment loss recognised on available-for-sale investment	**9,879**	–
Share of PRC income tax of jointly controlled entities (included in share of results of jointly controlled entities)	**3,023**	12,341
Share of PRC income tax of associates (included in share of results of associates)	**26,175**	25,361

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

6. TAXATION

	Six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
The charge (credit) comprises:		
Current period taxation of the Company and its subsidiaries:		
Hong Kong Profits Tax	**36,150**	45,140
PRC income tax	**48,713**	42,297
	84,863	87,437
Underprovision of Hong Kong Profits Tax in prior years	**–**	37,496
Under(over)provision of PRC income tax in prior years	**3,543**	(1,444)
	88,406	123,489
Deferred taxation	**(901)**	(631)
	87,505	122,858

Hong Kong Profits Tax is calculated at 17.5% (2004: 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 are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries 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 15% to 33%.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

7. DIVIDENDS

	Six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
2004 final dividend paid of HK35 cents (2003 final dividend: HK32 cents) per share	**336,347**	303,465

The directors have determined that an interim dividend of HK20 cents per share (2004 interim dividend: HK20 cents per share, totalling approximately HK$191,602,000) will be paid to shareholders of the Company whose names appear on the Register of Members on 20th September 2005.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent for the six months ended 30th June 2005 is based on the following data:

	Six months ended 30th June	
	2005	2004
	HK$'000	HK$'000
Profit for the period attributable to equity holders of the parent and earnings for the purpose of basic and diluted earnings per share	**520,732**	927,037

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

	Six months ended 30th June	
	2005	2004
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**960,626,149**	947,890,170
Effect of dilutive potential ordinary shares in respect of share options	**4,109,346**	8,564,685
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**964,735,495**	956,454,855

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	Basic HK cents	Diluted HK cents
Reconciliation of 2004 earnings per share:		
Reported figure before adjustments	98.1	97.2
Adjustments arising from the adoption of HKFRS 2	(0.3)	(0.3)
Restated	97.8	96.9

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs for construction in progress of approximately HK$44 million and acquired leasehold land and buildings at a cost of approximately HK$4 million, plant and machinery at a cost of approximately HK$75 million, motor vehicles at a cost of approximately HK$6 million and furniture, fixtures and equipment at a cost of approximately HK$8 million for the purpose of expanding the Group's business. The Group also acquired property, plant and equipment at fair values of approximately HK$85 million upon

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

acquisition of a subsidiary. The Group disposed of certain property, plant and equipment with a carrying value of approximately HK$3 million upon disposal of interest in a subsidiary.

The directors have considered the carrying amounts of the Group's investment properties carried at fair values at 30th June 2005 and have estimated that the carrying amounts did not differ significantly from the fair values at 31st December 2004. Consequently, no revaluation surplus or deficit has been recognised in the current period.

10. 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$796,517,000 (31st December 2004: HK$694,669,000) and their aged analysis is as follows:

	30th June 2005 HK$'000	31st December 2004 HK$'000
Trade receivables:		
Within 30 days	**326,138**	330,531
Within 31 – 60 days	**165,834**	162,563
Within 61 – 90 days	**85,974**	82,419
Within 91 – 180 days	**141,140**	56,385
Within 181 – 360 days	**46,304**	43,321
Over 360 days	**31,127**	19,450
	796,517	694,669

As at 30th June 2005, included in other receivables were amounts due from jointly controlled entities and associates of approximately HK$95 million and HK$14 million (31st December 2004: HK$41 million and HK$34 million) respectively.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

11. MOVEMENTS IN INVESTMENTS HELD FOR TRADING

During the period, the Group acquired investments for approximately HK$1,308 million and investments in the amount of approximately HK$805 million were disposed of.

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$498,589,000 (31st December 2004: HK$505,911,000) and their aged analysis is as follows:

	30th June 2005 HK$'000	31st December 2004 HK$'000
Trade payables:		
Within 30 days	**208,559**	318,942
Within 31 – 60 days	**141,982**	85,854
Within 61 – 90 days	**46,280**	35,779
Within 91 – 180 days	**42,726**	29,036
Within 181 – 360 days	**34,103**	25,093
Over 360 days	**24,939**	11,207
	498,589	505,911

13. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately HK$122 million, of which approximately HK$71 million was arose on acquisition of a subsidiary. The borrowings bear interest at market rates and are in average repayable within 1 year. The Group also repaid approximately HK$79 million during the period. The net proceeds were used to finance the acquisition of property, plant and equipment and for working capital of the Group.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

14. CAPITAL COMMITMENTS

	30th June 2005 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of	
– toll road construction costs	9,045
– investment in a PRC associate	69,311
– acquisition of property, plant and equipment	75,150
– additions in construction in progress	16,904
– available-for-sale investment	312
	170,722
Capital expenditure authorised but not contracted for in respect of	
– toll road construction costs	1,567,906
– investments in PRC associates and jointly controlled entities	174,938
– acquisition of property, plant and equipment	920
– additions in construction in progress	11,178
	1,754,942

15. CONTINGENT LIABILITIES

At 30th June 2005, the guarantees given to banks by the Group in respect of banking facilities utilised by associates and an outsider amounted to approximately HK$27 million. Guarantees given to banks by the Group in respect of banking facilities utilised by a supplier, connected persons and an outsider amounting to approximately HK$76 million were released during the period.

16. ACQUISITION OF A SUBSIDIARY

On 1st February 2005, the Group increased its interest in Chengdu Jiuxing Printing and Packing Co., Ltd. ("Chengdu Jiuxing Printing") from 30% to 51%, at a consideration of approximately HK$21,208,000. Chengdu Jiuxing Printing is a sino-foreign equity joint venture company established in the PRC. The acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of this acquisition was HK$5,280,000.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination HK$'000
Net assets acquired:	
Property, plant and equipment	85,058
Lease premium for land	20,401
Intangible assets	53
Available-for-sale investments	18,525
Inventories	47,468
Trade and other receivables	77,971
Bank and cash balances	15,205
Trade and other payables	(120,346)
Taxation payable	(1,519)
Short-term bank and other borrowings	(71,220)
	71,596
Minority interests	(34,467)
	37,129
Goodwill arising on acquisition	5,280
	42,409
Satisfied by:	
Cash consideration paid	21,208
Interest in an associate	21,201
	42,409
Net cash outflow arising on acquisition:	
Cash consideration paid	(21,208)
Cash and cash equivalents acquired	15,205
	(6,003)

The carrying amounts of net assets acquired approximate to their fair values.

Notes to the Condensed Financial Statements

For the six months ended 30th June 2005

The goodwill arising on the acquisition of Chengdu Jiuxing Printing attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Chengdu Jiuxing Printing contributed approximately HK$69 million and HK$2.5 million to the Group's turnover and profit for the period, respectively, for the period between the date of acquisition and the balance sheet date.

Had the acquisition been completed on 1st January 2005, the Group's turnover and profit for the period would have been increased by approximately HK$14 million and HK$0.4 million respectively. This proforma information is for illustrative purposes only and is not necessarily indicative of the turnover and results of the Group that would actually have been impacted had the acquisition been completed on 1st January 2005, nor is it intended to be a projection of future results.

Notes to the Condensed Financial Statements

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17. DISPOSAL OF A SUBSIDIARY

During the period, the Group disposed of its interest in Guiyang Jiuxing Printing Co., Ltd. ("Guiyang Jiuxing"). The net assets of Guiyang Jiuxing at the date of disposal were as follows:

	31st May 2005 HK$'000
Net assets disposed:	
Property, plant and equipment	2,589
Inventories	3,683
Trade and other receivables	4,536
Taxation recoverable	130
Bank balances and cash	1,201
Trade and other payables	(10,169)
	1,970
Minority interests	(591)
	1,379
Loss on disposal	(1,379)
Consideration	–
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	1,201

Guiyang Jiuxing did not make any significant contribution to the results and cash flows of the Group during the period prior to the disposal.

Other Information

Directors' Interests

As at 30th June 2005, the interests and short positions of the Directors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the 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 pursuant to the Model Code, were as follows:

(I) Interests in Shares of the Company

Name of Director	Capacity	Number of issued ordinary shares of the Company held	Percentage of the issued share capital of the Company
Cai Lai Xing	Beneficial Owner	4,000,000	0.41%
Qu Ding	Beneficial Owner	1,250,000	0.13%
Lu Ming Fang	Beneficial Owner	4,200,000	0.43%
Lu Da Yong	Beneficial Owner	2,700,000	0.28%

All interests stated above represented long positions.

(II) Interests in Shares of the Associated Corporations of the Company

SI United

Name of Director	Capacity	Number of issued publicly tradable shares of SI United held	Percentage of the total issued share capital of SI United
Lu Ming Fang	Beneficial Owner	15,000	0.005%
Ding Zhong De	Beneficial Owner	15,000	0.005%
Lu Shen	Beneficial Owner	12,000	0.004%

All interests stated above represented long positions.

Save as disclosed above, as at 30th June 2005, none of the Directors and Chief Executive had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Other Information

Share Options

During the period, the movements in the share options to subscribe for the Company's shares were as follows:

	Date of grant	Exercise price per share HK$	Outstanding at 1.1.2005	Exercised during the period	Outstanding at 30.6.2005
Category 1: Directors					
Qu Ding	September 2002	11.71	500,000	500,000	–
Category 2: Employees	September 2002	11.71	15,780,000	7,975,000	7,805,000
Total for all categories			16,280,000	8,475,000	7,805,000

Share options granted under the Company's share option schemes are exercisable within a period of three and a half years commencing from six months after the date of acceptance of the share options.

During the period, the weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$16.34.

Other Information

Interests of Substantial Shareholders and Other Persons

As at 30th June 2005, the interests and short positions of the substantial Shareholders 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 were as follows:

Name of Shareholder	Capacity	Number of issued ordinary shares of the Company beneficially held	Percentage of the issued share capital of the Company
(a) *Long Positions*			
SIIC	Interests held by controlled corporations	548,076,000 *(note (i))*	56.67%
(b) *Short Positions*			
SIIC	Interests held by controlled corporations	88,203,631 *(note (ii))*	9.12%

Notes:

(i) SIH, SIIC Capital and 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 STC respectively whereas STC owns 100% of SIH which in turn owns 100% of SIIC Capital.

(ii) SIIC was taken to have short positions in respect of 88,203,631 underlying shares of the Company under certain listed equity derivatives pursuant to the Zero Coupon Guaranteed Exchangeable Bonds due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company issued by STC.

Other Information

Save as disclosed above, no other persons had 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 30th June 2005.

Employees

There have been no material changes to the information disclosed in the Company's 2004 annual report in respect of the remuneration of employees, remuneration policies and staff development.

Audit Committee

The Audit Committee has reviewed the Company's interim report for the six months ended 30th June 2005.

Corporate Governance

The Company has complied with all the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules throughout the six months period ended 30th June 2005.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' and Senior Management's securities transactions of listed companies on terms no less exacting than the required standard set out in the Model Code, and all Directors have confirmed that they have complied with the Model Code during the period under review.

Other Information

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.

Glossary of Terms

Term used	Brief description
Bright Dairy	Bright Dairy and Food Co. Ltd. (Shanghai Stock Exchange A-share market stock code: 600597)
Century Lianhua	Shanghai Century Lianhua Supermarket Development Co. Ltd.
Changzhou Pharmaceutical	Changzhou Pharmaceutical Co. Ltd.
Chengdu Jiuxing Printing	Chengdu Jiuxing Printing and Packing Co. Ltd.
Chengdu Wing Fat Printing	Chengdu Wing Fat Printing Co. Ltd.
Chifeng Aike	Chifeng Aike Pharmaceutical Technology Co. Ltd.
Chifeng Mengxin	Chifeng Mengxin Pharmaceutical Co. Ltd.
China Netcom (HK)	China Netcom Group Corporation (Hong Kong) Ltd. (Main Board of the Stock Exchange stock code: 906)
Guangdong Techpool	Guangdong Techpool Biochem Pharma Co. Ltd.
GWC	General Water of China Co. Ltd.
Hangzhou Qingchunbao	Hangzhou Chia Tai Qingchunbao Pharmaceutical Co. Ltd.
Hebei Yongxin Paper	Hebei Yongxin Paper Co. Ltd.
Hu-Ning Expressway	Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd.
Huizhong Automotive	Shanghai Huizhong Automotive Manufacturing Co. Ltd.
Huqingyutang Drugstore	Hangzhou Huqingyutang Drugstore Co. Ltd.
Huqingyutang Pharmaceutical	Hangzhou Huqingyutang Pharmaceutical Co. Ltd.

Glossary of Terms

Term used	Brief description
Huzhou Tianwai Paper	Zhejiang Huzhou Tianwai Paper Co. Ltd.
Lianhua Supermarket	Lianhua Supermarket Holdings Co. Ltd. (Main Board of the Stock Exchange stock code: 980)
Liaoning Herbapex	Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
MicroPort Medical	MicroPort Medical (Shanghai) Co. Ltd.
Model Code	Model Code for Securities Transactions by Directors of Listed Companies
Nanyang Tobacco	Nanyang Brothers Tobacco Co. Ltd.
Pudong International	Shanghai Pudong International Container Terminals Ltd.
SFDA	State Food and Drug Administration
SFO	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
Shanghai Jahwa	Shanghai Jahwa United Co. Ltd. (Shanghai Stock Exchange A-share market stock code: 600315)
Shanghai Medical Instruments	Shanghai Medical Instruments Co. Ltd.
Shanghai Pharmaceutical Group	Shanghai Pharmaceutical (Group) Co. Ltd.
SI United	Shanghai Industrial United Holdings Co. Ltd. (Shanghai Stock Exchange A-share market stock code: 600607)
SIH	Shanghai Investment Holdings Ltd.

Glossary of Terms

Term used	Brief description
SII	Shanghai Information Investment Inc.
SIIC	Shanghai Industrial Investment (Holdings) Co. Ltd.
SIIC Capital	SIIC Capital (B.V.I.) Ltd.
SIIC CM Development	SIIC CM Development Ltd.
SMIC	Semiconductor Manufacturing International Corporation (Main Board of the Stock Exchange stock code: 981)
STC	Shanghai Industrial Investment Treasury Co. Ltd.
Stock Exchange	The Stock Exchange of Hong Kong Ltd.
Sunve Pharmaceutical	Shanghai Sunve Pharmaceutical Co. Ltd.
Sunway Biotech	Shanghai Sunway Biotech Co. Ltd.
Transportation Electric	Shanghai SIIC Transportation Electric Co. Ltd.
Wing Fat Printing	The Wing Fat Printing Co. Ltd.
Xiamen TCM	Xiamen Traditional Chinese Medicine Co. Ltd.
Yongjin Expressway	Zhejiang Jinhua Yongjin Expressway Co. Ltd.