

# 上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

*(Incorporated in Hong Kong under the Companies Ordinance)*

**(Stock Code: 0363)**

## 2004 INTERIM RESULTS ANNOUNCEMENT

### HIGHLIGHTS

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

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## **INTERIM DIVIDEND**

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

## **CLOSE OF REGISTER OF MEMBERS**

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

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

## **BUSINESS REVIEW, DISCUSSION AND ANALYSIS**

I am pleased to announce that the Group's unaudited consolidated profit for the six months ended 30 June 2004 was approximately HK\$930.06 million, representing an increase of approximately 89.2% compared to the same period last year. It also set a record high for half-year profits since the Group's establishment and listing. The growth in profit was mainly due to a remarkable increase in the profits of the Group's business during this period, particularly for its consumer products business in which sales increased significantly with satisfactory earnings performance. Semiconductor Manufacturing International Corporation ("SMIC") recorded continued growth in its results, and in March, it was successfully listed simultaneously in Hong Kong and the United States. Earnings per share were around HK98.1 cents, an increase of approximately 86.9% compared to the same period last year. The profit for the period, after deducting the exceptional items totalling approximately HK\$509 million relating to the information technology business, was approximately 102% higher than in the corresponding period last year, excluding from last year's profit an after-tax compensation of HK\$280 million received from disposal of fixed-return investment projects. The Board of Directors has resolved to recommend the payment of an interim dividend of HK20 cents per share on 6 October 2004, to shareholders whose names appear on the register of members of the Company on 30 September 2004.

## INFRASTRUCTURE FACILITIES

Over the past year, the Group restructured and strengthened its infrastructure business portfolio, which currently consists mainly of toll roads, water services and port facilities. All these projects possess great potential for further development, and they are expected gradually to build long-term, steady and substantial sources of income and cash flow for the Group. Net profit from its infrastructure facilities businesses during the first half of 2004 was approximately HK\$64.59 million, around 6.0% of the Group's net business profit\*.

### **Toll Roads**

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

### **Water Services**

The opening up of the water services market in China has created good opportunities for investors. The Group seized these opportunities and entered the water utility sector last year. Its joint-venture company has achieved a remarkable presence in the market during the few short months since it commenced formal operations last November. A professional investment team has been established, and it is participating in water services investment projects in a number of cities. The company has also won tenders for three projects.

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Negotiations are currently underway for a sewage treatment plant with a daily capacity of 300,000 cubic metres in the north of Nanjing City. In May, the joint-venture company entered into an agreement with the People's Government of Bengbu City, Anhui Province, to acquire, for a consideration of RMB155.55 million, a 60% stake in Bengbu Water Supply Company Limited, which has a water production capacity of 400,000 tonnes per day.

## **Port Facilities**

In recent years, the Shanghai port has seen rapid growth in container throughput, becoming mainland China's largest container port terminal, and the third largest in the world. This has created favourable conditions for the Group's Shanghai Pudong Waigaoqiao Container Terminal Phase One Project. During the period under review, the terminal's throughput totalled 1.10 million TEUs, an increase of approximately 10.1% over the same period last year, while its net profit grew by approximately 11.9% to HK\$160.86 million.

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

## **MEDICINE**

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

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The Group took active measures to restructure its medicine business. Following its acquisition of a stake of approximately 56.63% in Shanghai Industrial United Holdings Co., Ltd, an A-share listed company in mainland China, the State-owned Assets Supervision and Administration Commission of the State Council approved the transfer of state-owned shares to the Group. In March, the Group also acquired a 55% stake in Liaoning Herbapex Pharmaceutical (Group) Company Limited for RMB85 million. The company's principal product – “Rupixiao Tablets”, which are used to treat fibrocystic disease – is now ranked among the Group's top five pharmaceutical products.

## **Chinese Medicine and Health Food**

The Group maintained steady growth in its Chinese medicine and health food businesses. Sales revenue during the first half-year amounted to HK\$600 million. Among its various proprietary Chinese medicines, cardiovascular drugs achieved the highest sales total, amounting to more than HK\$200 million. Sales of its flagship product, “Shen Mai Injections”, increased by approximately 13.5% compared to the same period last year; while sales of “Xinhuang Tablets”, an antibiotic and anti-inflammatory analgesic drug, increased by nearly 17% compared to the same period last year. As for the Group's health food products, sales of “Qingchunbao Beauty Capsules” totalled HK\$49.40 million in the first six months of this year, up approximately 50.6% on the same period last year. Sales of “Qingchunbao Yong Zhen Tablets” totalled HK\$19 million between its launch last September and the end of June. The sales prospects for this product are promising. Sales of “Qingchunbao Anti-ageing Tablets” totalled HK\$169 million, a decline of approximately 19.8% compared to the same period of the previous year, due to changes in its sales channels.

## **Biomedicine**

Of all the Group's medicine businesses, biomedicine possesses the greatest potential for future development. Research and development of genetic engineering making use of adenovirus drugs to combat tumours have been ongoing for five years, and they are making satisfactory progress. Phase III clinical trials for this product have been completed. It is expected to be certified as a State Class One New Drug by the State Food and Drug Administration, and production will commence within this year. Phase I clinical trials for the H103 project to cure the spread of tumours commenced; whereas mechanism research for the H102 project to cure liver cancer was completed and various pre-clinical experiments are now underway. The “SunGran” gene medicine, which has already been launched, recorded sales of approximately HK\$4.20 million during the first half year, representing an increase of approximately 22.8% compared to the same period last year. This product helps to increase the number of white blood cells in cancer patients after chemotherapy and radiotherapy.

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## Medical Equipment

MicroPort Medical (Shanghai) Co. Ltd. (“MicroPort”), a company engaged in producing interventional therapy equipment such as heart catheters and stents, recorded an increase of approximately 1.2 folds in sales, compared to the same period last year. Applications for trial production of neuro stents and aorta stent grafts for use in operation were made during the period under review; and these products are expected to receive certification by the third quarter of this year. The first generation of the “Firebird” brand of drug stent products was granted certification for trial production. MicroPort thus became the first manufacturer in China to obtain a registration certificate for drug stent products. In May, Otsuka of Japan became the major shareholder of MicroPort and such move will enhance market expansion for related products. During the period under review, Guangdong Biolight Medical Technology Co. Ltd. commenced the formal operation of its new Zhuhai manufacturing plant. Sales of the monitoring apparatus product series totalled approximately HK\$9.95 million during the first half year.

## Chemical Pharmaceuticals

Shanghai Sunve Pharmaceutical Co., Ltd. (“Sunve Pharmaceutical”) achieved a sales revenue of HK\$173.25 million during the first half of 2004. Sales of its key finished pharmaceutical products, “Sunvecon” Capsules and “Wei Shaxin” Tablets, were both satisfactory, and approximately 38.9% higher than that in the same period last year. Among Sunve Pharmaceutical’s seven major raw pharmaceutical product categories, its sulfa product series achieved the best sales performance, with sales revenue of more than HK\$27.90 million for the first half-year. Moreover, Sunve Pharmaceutical’s multi-function mini-production line was completed during this period and commenced formal operations in April. This production line is intended to obtain GMP accreditation, and to produce small volumes of high value-added products to meet market needs.

## CONSUMER PRODUCTS

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

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## **Tobacco and Printing**

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

Overall business performance of the Group's printing business continued to improve during the period under review, with turnover increasing significantly to approximately HK\$234.71 million, around 37.8% more than that for the same period last year. The gross profit margin was approximately 37.4%, up by around 29.9% on the same period last year. Net profit rose to approximately HK\$63.28 million, a significant increase of around 57.6% compared to the same period last year. The business operations of its joint-venture companies in mainland China also grew steadily. Construction work on a new factory in Dongguan was completed at the end of 2003, and some of its newly acquired production facilities were installed and gradually went to operation during the first half of 2004. The printing business is expected to maintain its growth momentum in the second half of the year.

## **Dairy Products**

Despite a slight slowdown in the growth of the dairy products market in mainland China, as well as intense price competition within the sector, the Group's dairy business continued to maintain double-digit growth during the first half of 2004, in terms of both sales revenue and net profit. During that period, Bright Dairy and Food Co., Ltd. ("Bright Dairy") achieved sales of HK\$3,054.29 million, an increase of approximately 13.7% over the same period last year. Net profit attributable to the Group was approximately HK\$42.73 million, up by around 15.5% compared to the corresponding period of last year. Jiaming Dairy, a joint-venture project with the local government of Jiamusi, Heilongjiang, commenced formal operations during the same period. Thus, Bright Dairy now owns two production bases for thermostatic products in Heilongjiang Province, an area with an abundant milk supply. In June, Bright Dairy signed a strategic alliance agreement with

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International Paper Company, a US-based Fortune 500 company, to promote pasteurised milk in China. During the period under review, the company developed 21 new products in seven categories, including two specialised milk products: “Bright Shutang Milk” and “Bright Sleeping Milk”. These two specialised milk products have been well received in the market since they were introduced in April.

## **Automobiles and Parts**

The state’s implementation of macro-economic control measures exerted an impact on the automobile and parts industry in mainland China and intensified competition in all parts of the sector during the first half of 2004. The growth in economies of scale in the industry and also manufacturing and sales have slowed down since May. Automobile manufacturers in mainland China, led by Shanghai Volkswagen and Shanghai General Motors, have cut prices in an effort to boost sales and reduce inventory. This has exerted some pressure on the Group’s member companies in Shanghai to cut its prices for automobiles and parts, resulting in a downturn in its profit margins. Overall, the results of the Group’s automobile companies, including Shanghai Huizhong Automotive Manufacturing Co., Ltd. and Shanghai SIIC Transportation Electric Co., Ltd. were lower than expected between January and June. However, they still achieved a total sales revenue of approximately RMB3,446.11 million, about 15.1% more than that for the same period last year, and they contributed earnings of around HK\$91.44 million to the Group’s automobiles and parts business sector, about 14.2% more than that in the same period last year. While the macro-economic control measures will further impact the Group’s automobiles and parts business in the coming months, their effect is likely to be rather insignificant in terms of the year as a whole.

## **INFORMATION TECHNOLOGY**

### **Semiconductor Manufacturing**

Investments in PRC’s integrated circuit industry have developed rapidly in recent years. Despite fluctuations in the growth of the semiconductor sector worldwide, the total production capacity for wafer manufacturing in mainland China still lagged far behind market demand, thus offering tremendous potential for further development. SMIC has enjoyed rapid business growth. In March, it was successfully listed simultaneously in Hong Kong and the United States. A total of approximately HK\$7.8 billion was raised from the new shares issued under the Global Offering. SMIC is now included in the Hong Kong Hang Seng Freefloat Mainland Index 25. At present, the Group is still the single largest shareholder in SMIC. The Group’s information technology business posted a net profit of approximately HK\$559.44 million in the first half of 2004, approximately 52.2% of its total net business profit\*. SMIC scored continuous growth during the first half of 2004, with sales totalling approximately HK\$3,181.82 million, up almost 2.6 folds



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compared to the same period last year. Its gross profit margin was approximately 29.8%, and its net profit reached HK\$480.62 million based on its published quarterly results. Wafer shipments for the first half year up were approximately 95.2% higher than the corresponding period last year; their average blended selling price was US\$1,022, approximately 79.9% more than in the same period last year. Commercial production commenced at Fab 7, located in Tianjin.

## Information Infrastructure

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

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

## PROSPECTS

During the first half of 2004, the overall PRC economy was shown to be good. The macro-control measures made effective progression and laid a solid foundation to maintain a steady and healthy development of the economy of Mainland China. China possesses huge potentials for market development, thus creating favourable conditions and good development prospects for the Group's investments operations in Mainland China, especially those in Shanghai and the Yangtze Delta Region. The Group's strong financial position safeguards and supports business expansions while the tremendous opportunities offered in our core businesses will drive the Group's business operations to achieve solid advancement and growth as a whole.

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The Group is confident of its future development prospects and will further pursue solid development of its core businesses, **consolidate** the existing business performance, **improve** overall operating management capabilities, achieve **breakthroughs** in the level of profits growth, and seek to explore broader room for **further developments**, with the objective of creating greater value for Shareholders.

**Cai Lai Xing**

*Chairman*

Hong Kong, 30 August 2004

*As at the date of this announcement, the board of directors of the Company is comprised of 12 directors, of which 9 are Executive Directors, namely Messrs. Cai Lai Xing, Qu Ding, Lu Ming Fang, Lu Da Yong, Ding Zhong De, Lu Shen, Qian Shi Zheng, Yao Fang and Tang Jun and 3 are Independent Non-executive Directors, namely Messrs. Lo Ka Shui, Woo Chia-Wei and Leung Pak To, Francis.*

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## **AUDIT COMMITTEE**

The Audit Committee together with the Company's management and external auditors have reviewed the financial statements for the six months ended 30 June 2004 and recommended the Board to adopt the financial statements.

## **CODE OF BEST PRACTICE**

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

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

## **PUBLICATION OF DETAILED INTERIM RESULTS ON THE STOCK EXCHANGE'S AND THE COMPANY'S WEBSITE**

All the information of the interim results of the Group for the six months ended 30 June 2004 required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.sihl.com.hk](http://www.sihl.com.hk)) later in due course.

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The Board of Directors of Shanghai Industrial Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004, together with the comparative figures in 2003, are set out below:

## CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

		<b>Six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	<b>(unaudited)</b>
Turnover	3	<b>1,692,465</b>	1,463,289
Cost of sales		<b>(722,166)</b>	(549,238)
Gross profit		<b>970,299</b>	914,051
Investment income		<b>89,886</b>	51,210
Other operating income		<b>7,001</b>	12,395
Distribution costs		<b>(386,521)</b>	(302,544)
Administrative expenses		<b>(179,631)</b>	(157,656)
Other operating expenses		<b>(151,462)</b>	(4,057)
Profit from operations	4	<b>349,572</b>	513,399
Finance costs		<b>(7,730)</b>	(18,256)
Share of results of jointly controlled entities		<b>90,699</b>	91,616
Share of results of associates		<b>175,399</b>	54,254
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities		<b>688,596</b>	25,200
Allowance for amount due from a jointly controlled entity		<b>(33,376)</b>	(22,930)
Impairment loss recognised in respect of goodwill relating to a jointly controlled entity		<b>(113,386)</b>	—

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Profit from ordinary activities			
before taxation		<b>1,149,774</b>	643,283
Taxation	5	<b>(160,560)</b>	(92,109)
		<u>                    </u>	<u>                    </u>
Profit before minority interests		<b>989,214</b>	551,174
Minority interests		<b>(59,157)</b>	(59,686)
		<u>                    </u>	<u>                    </u>
Net profit for the period		<b>930,057</b>	491,488
		<u>                    </u>	<u>                    </u>
Dividends	6	<b>303,465</b>	280,908
		<u>                    </u>	<u>                    </u>
Earnings per share	7		
– Basic		<b>HK98.1 cents</b>	HK52.5 cents
		<u>                    </u>	<u>                    </u>
– Diluted		<b>HK97.2 cents</b>	HK52.4 cents
		<u>                    </u>	<u>                    </u>

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## CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2004

	30 June 2004 HK\$'000 (unaudited)	31 December 2003 HK\$'000 (audited)
<b>Non-Current Assets</b>		
Investment property	3,690	3,690
Property, plant and equipment	1,268,613	1,198,019
Toll road operating right	1,803,759	1,841,082
Goodwill	252,531	256,736
Interest in jointly controlled entities	2,224,981	2,133,351
Interest in associates	3,725,621	3,210,651
Investments in other projects	51,031	87,709
Investments in securities	515,456	584,971
Loans receivable	5,043	5,043
Deposits paid on acquisition of property, plant and equipment	58,045	29,014
	<b>9,908,770</b>	<b>9,350,266</b>
<b>Current Assets</b>		
Inventories	442,124	303,500
Trade and other receivables	1,174,332	898,144
Investments in securities	1,822,252	1,168,741
Pledged bank deposits	39,157	41,762
Bank balances and cash	5,012,677	5,313,041
	<b>8,490,542</b>	<b>7,725,188</b>
<b>Current Liabilities</b>		
Trade and other payables	765,205	395,594
Taxation payable	187,380	116,240
Short-term bank and other borrowings	909,450	819,945
	<b>1,862,035</b>	<b>1,331,779</b>
<b>Net Current Assets</b>	<b>6,628,507</b>	<b>6,393,409</b>
	<b>16,537,277</b>	<b>15,743,675</b>

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Capital and Reserves		
Share capital	94,994	94,575
Reserves	15,128,406	14,396,265
	<u>15,223,400</u>	<u>14,490,840</u>
Minority Interests	<u>411,518</u>	<u>380,934</u>
Non-Current Liabilities		
Long-term bank and other borrowings	831,089	800,000
Deferred taxation	71,270	71,901
	<u>902,359</u>	<u>871,901</u>
	<u><u>16,537,277</u></u>	<u><u>15,743,675</u></u>

## (1) Independent Review

The interim results for the half-year ended 30 June 2004 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards No. 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants, by Deloitte Touche Tohmatsu, whose unmodified review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group’s Audit Committee.

## (2) Principal Accounting Policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with the Statement of Standard Accounting Practice No. 25 (“SSAP 25”) *Interim Financial Reporting* issued by the Hong Kong Society of Accountants.

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

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2003.

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

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## (3) Segment Information by Business

For the six months ended 30 June 2004

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

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For the six months ended 30 June 2003

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

## (4) Profit from Operations

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

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



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## (5) Taxation

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

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), the Group's PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries and associates are also entitled to reduced tax rates because they are classified as high technology entities under relevant rules. The current period's PRC income tax charges are arrived at after taking into account these various tax incentives, ranging from 10% to 33%.

## (6) Dividends

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

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

## (7) Earnings Per Share

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Net profit for the period and earnings for the purpose of basic earnings per share	930,057	491,488
Effect of dilutive potential ordinary shares		
– adjustment to the share of results of a subsidiary based on potential dilution of its earnings per share	—	(7)
Earnings for the purpose of diluted earnings per share	<u>930,057</u>	<u>491,481</u>

# Shanghai Industrial Holdings Limited

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

## (8) Transfer To and From Reserves

During the period, the Group's subsidiaries, jointly controlled entities and associates in the PRC appropriated, net of minority interests' share, approximately HK\$12,676,000 (2003: HK\$10,522,000) out of profit for the period to the PRC statutory reserves. Also, approximately HK\$736,000 (2003: HK\$4,490,000) was transferred out of the PRC statutory reserves to the accumulated profits on disposal of interest in a subsidiary.

## FINANCIAL REVIEW

### I. Analysis of Financial Results

#### 1. Profit for the first half of 2004

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

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

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

#### 2. Profit Contribution from Each Business

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

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

All the Group's businesses progressed well during the period ended 30 June 2004, contributing satisfactory growth to its overall profits as compared to the same period last year. The consumer products business again achieved considerable profit growth and continued to give impetus to the growth of the Group's overall results. The medicine business's profit contribution to the Group increased further following the completion of the privatisation of SIIC Medical Science and Technology (Group) Ltd in September 2003. SMIC recorded a turnaround in its profitability, and was successfully listed simultaneously in Hong Kong and the United States, thus creating a breakthrough in the information technology business. After adjustments relating to the cancellation of the guaranteed fixed return elevated highway projects completed during the previous year, it may still take some time for the effects of these adjustments to be reflected in the infrastructure facilities business.

### 3. *Turnover*

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

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

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

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

### 4. *Profit from Ordinary Activities before Taxation*

#### (1) Gross profit margin

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

(2) Investment income

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

(3) Other operating expenses

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

(4) Share of results of jointly controlled entities

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

(5) Share of results of associates

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

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

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

## II. Financial Position and Financial Risk Management of the Group

### 1. *Indebtedness and Interest Rate Risk*

As at 30 June 2004, the Group had total loans of HK\$1,740.54 million, comprised primarily of loans of HK\$140.54 million for subsidiaries, and a five-year term syndication loan of HK\$1.6 billion. This syndication loan will become due in April 2007. The long-term portion of HK\$800 million and the revolving portion of HK\$800 million contained in the syndication loan have been dealt with under long-term and short-term bank and other borrowings in the financial statements, respectively. To exercise prudent management against interest rate risks, the Group entered into a structured interest rate hedging arrangement against the long-term portion of this syndication loan.

## **2. *Bank Deposits and Short-term Investments***

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

Please also refer to the published version of this announcement in South China Morning Post dated 31 August 2004.