上海實業控股有限公司
SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 363)

ANNOUNCEMENT OF 2005 INTERIM RESULTS

RESULTS

The Board of Directors of Shanghai Industrial Holdings Limited ("the Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2005 and the unaudited consolidated balance sheet of the Group as at 30 June 2005 together with the comparative figures in 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2005

		Unaudited Six months ended 30 June	
		2005	2004
	Notes	***HK$'000***	*HK$'000* (restated)
Turnover	3	**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	4	**713,567**	1,109,052
Taxation	5	**(87,505)**	(122,858)
Profit for the period		**626,062**	986,194

	Notes		
Attributable to			
– Equity holders of the parent		**520,732**	927,037
– Minority interests		**105,330**	59,157
		626,062	986,194
Dividends	6	**336,347**	303,465
Earnings per share	7		
– Basic		**HK54.2 cents**	HK97.8 cents
– Diluted		**HK54.0 cents**	HK96.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 June 2005

	30 June 2005 *HK$'000* **(unaudited)**	31 December 2004 *HK$'000* (audited and restated)
Non-Current Assets		
Investment properties	**45,672**	45,672
Property, plant and equipment	**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	**1,559,965**	1,487,294
Investments in securities	–	1,084,036
Investments held for trading	**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	**1,603,922**	1,226,846
Taxation payable	**103,449**	96,816
Short-term bank and other borrowings	**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
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	**870,994**	859,390
Deferred tax liabilities	**100,272**	91,937
	971,266	951,327
	18,403,152	18,042,554

Notes:

(1) INDEPENDENT REVIEW

The interim results for the half-year ended 30 June 2005 are unaudited, but have been reviewed 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 ("HKICPA"), by Deloitte Touche Tohmatsu, whose unmodified review report is included in the interim report to be sent to shareholders.

(2) 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 by the HKICPA up to 30 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 31 December 2004 except for those changes in relation to the adoption of the new HKFRSs.

The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the 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 adoption of the new HKFRSs requires changes in certain accounting policies and have an effect on how the results for the current or prior accounting periods are prepared and presented. Additional information is set out in note (9).

(3) SEGMENT INFORMATION BY BUSINESS

For the six months ended 30 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**

For the six months ended 30 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

(4) PROFIT BEFORE TAXATION

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
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

(5) TAXATION

	Unaudited Six months ended 30 June 2005 HK$'000	2004 HK$'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 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%.

(6) DIVIDENDS

	Unaudited Six months ended 30 June 2005 HK$'000	2004 HK$'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, totaling approximately HK$191,602,000) will be paid to shareholders of the Company whose names appear on the Register of Members on 20 September 2005.

(7) 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 30 June 2005 is based on the following data:

	Unaudited Six months ended 30 June 2005 HK$'000	2004 HK$'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

	Unaudited Six months ended 30 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

(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$29,670,000 (2004: HK$12,676,000) out of profit for the period to the PRC statutory reserves. Also, approximately HK$nil (2004: HK$736,000) was transferred out of the PRC statutory reserves to the accumulated profits on disposal of interest in a subsidiary.

(9) CHANGES IN ACCOUNTING POLICIES

(A) Details on Changes in Accounting Policies

Except for the changes in accounting policies arising from the adoption of HKFRSs with effect from 1 January 2005 as described below, 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 2004.

HKFRS 2 "Share-based Payment"

In the current period, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact on the Group is in relation to the expensing of the fair value of directors' and employees' share options determined at the date of grant of the share options over the vesting period. Previously, the Group did not recognize the financial effect of these share options until they were exercised.

The Group has applied HKFRS 2 on 1 January 2005. The Group has applied HKFRS 2 retrospectively to share options granted after 7 November 2002 and had not yet vested on 1 January 2005 in accordance with the relevant transitional provisions.

HKFRS 3 "Business Combinations"

In the current period, the Group has applied HKFRS 3, *Business Combinations*, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarized below:

Goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalized and amortised over its estimated useful life.

The Group adopted HKFRS 3 *Business Combinations* with effect from 1 January 2005, goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. As a result of this change in accounting policy, no amortization 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 to be treated as monetary assets and liabilities of the foreign operations and translated 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 prior to 1 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 30 June 2005. As there was no significant difference between the exchange rates at the acquisition dates and the closing rate at 30 June 2005, such translation has had no material effect on the balance of the translation reserve at 30 June 2005.

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 is recognised immediately in profit or loss in the period in which the acquisition takes place. Previously, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 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 derecognized all negative goodwill on 1 January 2005, with a corresponding increase to accumulated profits.

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

HKAS 32 Financial Instruments: Disclosure and Presentation

HKAS 39 Financial Instruments: Recognition and Measurement

The adoption of HKAS 32 and HKAS 39 financial instruments will be carried at either amortised cost or fair value, depending on their classification. Movements in fair value will be either charged to profit and loss or taken to equity.

Previously, the interest rate swap entered by the Group was not recognised but only disclosed as an off-balance sheet item, however in accordance to HKAS 39, the Group has valued all derivatives that are within the scope of HKAS 39 at fair value from 1 January 2005 onwards, the Group has applied hedge accounting to account for the interest rate hedging contract entered into by the Group, and its fair value has been accounted for in the balance sheet.

HKAS 17 Leases

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has adopted HKAS 17. 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. This change in accounting policy has been applied retrospectively. Alternatively, 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.

HKAS 40 Investment Properties

In the current period, the Group has applied HKAS 40, and 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. In previous periods, 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 statements to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated profits.

(B) *Summary of the Effects of the Changes in Accounting Policies*

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

(i) On results

	Unaudited Six months ended 30 June 2005 *HK$'000*	2004 *HK$'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)

(ii) On consolidated income statement line items

	Unaudited Six months ended 30 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 consolidated 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
Interest in jointly controlled entities	2,142,809	(3,020)	2,139,789	–	2,139,789
Lease premium for land	–	187,944	187,944	–	187,944
Derivative financial instruments	–	–	–	(3,328)	(3,328)
Negative goodwill	(2,203)	–	(2,203)	2,203	–
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)	–
Goodwill reserve	(837,505)	–	(837,505)	837,505	–
Hedging reserve	–	–	–	(3,328)	(3,328)
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 1 January 2004.

BUSINESS REVIEW

The unaudited consolidated profits for the Group for the six months ended 30 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 profit of over HK$600 million brought to the Group from the listing of Semiconductor Manufacturing International Corporation ("SMIC") last year. However, the Group's two core businesses – 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, with a dividend payout ratio of 36.9%.

Following the completion of legal procedures pertaining to the acquisition of Shanghai Industrial United Holdings Co. Ltd. ("SI United") in December 2004, the Group entered into asset swap transactions with Shanghai Pharmaceutical (Group) Co. Ltd. ("Shanghai Medical Group") and SI United 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 Medical Group; acquiring and divesting of joint venture projects***

  2005 was a crucial year for the Company as considerable efforts were made to restructure the Group's businesses. In April 2005, the Group entered into an agreement with Shanghai Medical Group for the acquisition of a further 40% share interest in Shanghai Medical Instruments Co. Ltd. ("Shanghai Medical Instruments") at a consideration of RMB75.8 million and the disposal of its 48% share interest in Shanghai Sunve Pharmaceutical Co. Ltd. ("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.

- ***Asset swap with SI United signified the beginning 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 Traditional Chinese Medicine Co. Ltd. ("Xiamen TCM"), a 55% share interest in Liaoning Herbapex Pharmaceutical (Group) Co. Ltd. ("Liaoning Herbapex"), a 51% share interest in Hangzhou Huqingyutang Pharmaceutical Co. Ltd. ("Huqingyutang Pharmaceutical") and a 29% share interest in Hangzhou Huqingyutang Drugstore Co. Ltd. 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 Holdings Co. Ltd. ("Lianhua Supermarket") and a 22.21% share interest of Shanghai Century Lianhua Supermarket Development Co. Ltd. at a total consideration of RMB433 million. Lianhua Supermarket is an H Share company listed on the Main Board of the Stock Exchange of Hong Kong. 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 beginning 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 interest in existing quality businesses and consolidating resources to enhance overall efficiency***

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

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 Shanghai Huizhong Automotive Manufacturing Co. Ltd. ("Huizhong Automotive") which specialise in semiconductor, and automobiles and parts businesses respectively suffered losses during the period. Despite this, the Group's two core business – 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, General Water of China Co. Ltd. ("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

Despite increased competitions during the period, GWC successfully secured three water projects with investment amounts totalling RMB425 million, namely Shaanxi Xianyang Water Supply Project, Shaanxi Xianyang "Yinshi Guo Wei" Water Supply Project and Shenzhen Longhua Sewage Treatment Plant BOT Project. At the end of last year, the joint venture projects at Xiangtan, Hunan Province and at Bengbu, Anhui Province were put into operation, while the BOT (built-operate-transfer) project at Huzhou City, Zhejiang Province started construction. Presently, the water services projects held by GWC has an aggregate water supply and sewage treatment capacity of 3.4 million tonnes.

Toll Roads

Affected by the extension work of the Jiangsu Section, the operating results of the Shanghai-Nanjing Expressway (Shanghai Section) recorded a decline 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. Pilot piling was successfully carried out in mid June, marking the actual commencement of the extension works of the Shanghai-Nanjing Expressway (Shanghai Section). The whole project is expected to be completed by the end of next year. 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 Shanghai Pudong International Container Terminals Ltd. 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 by utilising 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 30 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.

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 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 30 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 sales of OTC medicine "Qingchunbao" Anti-aging Tablets still remained at a stage of adjustment. During the period under review, 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 recorded a sales revenue of RMB37.94 million, a decrease of 27.6% over the last corresponding period.

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. The product of Shanghai Sunway Biotech Co. Ltd., G-CSF, has been formally on sale in certain overseas markets including India. 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 State Food and Drug Administration, the drug has entered the stage of technological evaluation. New drug certification is expected to be granted 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 amounting to nearly RMB300 million. 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 (Shanghai) Co. Ltd. achieved encouraging results during the first half of the year, with turnover and net profit both reaching historical heights 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.

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, profit after tax 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 Brothers Tobacco Co. Ltd. ("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 commencing this year with sales excluding trade discounts. Nanyang Tobacco's profit amounted to HK$210 million during the period under review, representing an increase of 31.8% over the corresponding period of the previous year.

Dairy

During the first half of 2005, Bright Dairy and Food Co. Ltd. ("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.

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. At the same time, the under-utilised production capacity has put pressure on the enterprises' fixed costs. During the period, Huizhong Automotive and Shanghai SIIC Transportation Electric Co. Ltd. ("Transportation Electric"), both engaged in automobile and parts businesses, recorded substantial decreases in sales with revenue totalling RMB1,861 million, representing 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 that helped to reduce costs and maximise efficiency.

Printing

During the period, The Wing Fat Printing Co. Ltd. ("Wing Fat Printing") managed to achieve satisfactory results. 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. 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, which became subsidiaries of Wing Fat Printing. These enterprises represent new sources of growth for the Group's printing business.

Semiconductor

The semiconductor industry experienced a downturn in its product cycle since the end of 2004, in particular the foundry sector. As a result, SMIC recorded a loss of US$70.44 million during the period. Despite this, the company maintained a 29.5% increase in sales, amounting to US$528 million. 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.

PROSPECT

In recent years, the Group has made considerable efforts to rationalise its business, 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. In respect of mergers and acquisitions, the Group will strive to achieve major breakthroughs in order to strengthen its core businesses. The Group has maintained a healthy financial position with about HK$5.2 billion consolidated cash on hand. "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.

FINANCIAL REVIEW

I. Financial Performance of the Group

1. Turnover

For the period ended 30 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.

2. Profit Contribution from Each Business

	Unaudited Six months ended 30 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 30 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 (Hong Kong), 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. Jinyong 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 business for the Group.

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.

3. *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 shares held by the Group and the increase of dividend payment arising from the continuous good performance of Pudong International.

(3) Other operating income

Other operating income during the period increased approximately HK$95.50 million, primarily due to the write back of the 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 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.

(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%.

II Financial Position of the Group

1. Capital and shareholders' equity

As at 30 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 30 June 2005, the Group had a market capitalization of approximately HK$14,651.76 million.

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

2. Indebtedness

(1) Borrowings

As at 30 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 30 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 30 June 2005, the Group has given guarantees to banks in respect of banking facilities utilized 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 30 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 optimize its capital structure.

III Management Policies for Financial Risk

1. Exchange Rate Risk

The Group mainly operates in China and the Hong Kong Special Administration 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 minimizing exchange rate risks during the period.

On 21 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.

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 interim report for the six months ended 30 June 2005 of the Company.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months period ended 30 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 for Securities Transactions by Directors of Listed Companies ("Model Code"), and have made enquires with the Directors that they have complied with the Model Code during the period under review.

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.

INTERIM DIVIDEND

The Board of Directors of the Company has resolved to pay an interim dividend of HK20 cents (2004: HK20 cents) per share for the six months ended 30 June 2005. The dividend will be paid on 30 September 2005 (Friday) to Shareholders whose names appear on the Register of Members of the Company on 20 September 2005 (Tuesday).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21 September 2005 (Wednesday) to 23 September 2005 (Friday), both dates inclusive, during which period no transfer of shares will be effected. Dividend warrants will be despatched to Shareholders on or about 30 September 2005 (Friday). In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Secretaries Limited of 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on 20 September 2005 (Tuesday).

On behalf of the Board
Cai Lai Xing
Chairman

Hong Kong, 25 August 2005

As at the date of this announcement, the Board of Directors of the Company comprises nine Executive Directors, namely Mr. Cai Lai Xing, Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Lu Da Yong, Mr. Ding Zhong De, Mr. Lu Shen, Mr. Qian Shi Zheng, Mr. Yao Fang and Mr. Tang Jun; three Independent Non-Executive Directors, namely, Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis.

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