



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 2006 Interim Results

HIGHLIGHTS

- **Profit attributable to shareholders increased 20.1% to HK\$625 million.**
- **Turnover increased 25.3% to HK\$3,402 million.**
- **The disposal of a 10% interests in Pudong Container resulted in an after-tax exceptional gain of about HK\$244 million.**
- **The Share Reform Plans for SI United and Bright Dairy resulted in exceptional losses of about HK\$247 million in total to the Group.**
- **The financial position of the Group remains sound, with bank and cash balances over HK\$6,600 million.**
- **An interim dividend of HK22 cents per share was declared, an increase of 10%.**

The Board of Directors of Shanghai Industrial Holdings Limited (the “Company”) is pleased to announce that for the six months ended 30th June 2006, the unaudited consolidated turnover increased 25.3% to HK\$3,402 million. Profit attributable to shareholders rose 20.1% to HK\$625 million while the Group’s net asset value increased 5.5% to HK\$16,787 million.

The increase in profit for the period was mainly attributable to a marked increase in profit contribution by the infrastructure facilities segment. This year’s interim profit took account of the HK\$247 million exceptional losses in total brought by the Share Reform Plans of Shanghai Industrial United Holdings Co. Ltd. (“SI United”) and Bright Dairy and Food Co. Ltd. (“Bright Dairy”) and an after-tax exceptional gain of about HK\$244 million from the disposal of a 10% interest in Shanghai Pudong International Container Terminals Ltd. (“Pudong Container”).

Driven by a 224.2% profit growth of Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd. (“Hu-Ning Expressway”), profit contributed by the infrastructure facilities segment of the Group before exceptional items rose 101% to HK\$205 million during the period.

Primarily caused by market fluctuations in the pharmaceutical industry and the disposal of interest in Shanghai Sunve Pharmaceutical Co. Ltd. last year, the medicine segment’s profit contribution before exceptional items decreased 26.5% to HK\$70.02 million. The operating results of health products and OTC drugs however grew significantly.

Owing to the poor performance of Shanghai Huizhong Automotive Manufacturing Co. Ltd. (“Huizhong Automotive”) and declining results from Bright Dairy, the consumer products segment, after deducting exceptional items and other non-recurring factor, posted a flat earnings growth with profit contribution amounting to HK\$251 million.

The information technology segment had a profit contribution of about HK\$35.08 million. Excluding the exceptional gain from the disposal of an interest in China Netcom Group Corporation (Hong Kong) Ltd. last year, the segment in essence reversed its operating loss during the period.

Net business profit before exceptional items contributed by each business segment during the period were as follows:

	Net business profit before exceptional items (HK\$'000)	Proportion
Infrastructure Facilities	204,842	36.5%
Medicine	70,023	12.5%
Consumer Products	250,983	44.7%
Information Technology	35,080	6.3%

Note: Exceptional items refer to exceptional losses of about HK\$247 million brought by the Share Reform Plans of SI United and Bright Dairy and an after-tax exceptional gain of about HK\$244 million derived from the disposal of a 10% interests in Pudong Container.

BUSINESS REVIEW

Infrastructure Facilities

Toll Roads

Following the completion of the Shanghai-Nanjing Expressway (Jiangsu Section) widening program, toll revenue from the Shanghai-Nanjing Expressway (Shanghai Section) increased significantly over the same period last year, with daily traffic flow reached 57,000. In June this year, agreements relating to the expansion and widening of the Shanghai-Nanjing Expressway (Shanghai Section) were signed by Hu-Ning Expressway. During the construction period, Hu-Ning Expressway will be subsidised for the deficiency in toll revenue collected. The combined toll revenue and compensation will amount to HK\$452 million each year and will be paid by Shanghai Public Road Construction Company (上海公路建設總公司) to Hu-Ning Expressway in equal monthly installments.

Water Services

During the period, the turnover for General Water of China Co. Ltd. (“GWC”) increased 75.5% to HK\$163 million compared with the same period last year. During the period, GWC invested in a sewage treatment project in central Wenzhou, creating a daily processing capability of 200,000 tonnes. GWC’s current investment portfolio covers eight cities with a combined processing capability of about 4.1 million tonnes.

Medicine

Traditional Chinese Medicine

During the period, sales of certain prescription drugs of the Group decreased from last year. This was primarily due to the negative media coverage on certain types of pharmaceutical products, as well as effects arising from the change in rules and regulations in the pharmaceutical industry. Notwithstanding these adverse effects, sales of health products and OTC drugs managed to resume growth. Sales of our health food series, namely “Qingchunbao” and “Huqingyutang” increased by 40.3% and 38.6% respectively compared with the same period last year. Sales for “Qingchunbao” Anti-ageing Tablets recorded a marked increase of 67.6% to HK\$155 million.

Biomedicine

As to bio-medicine, the Group continued to pursue the application of “Ulinastatin” products to critical illnesses. Emphasis was also placed on academic researches in such areas as anesthesiology and burns, both of which have achieved satisfactory results. During the period, sales of the products increased by 15.0% compared with the first half of last year.

New Drugs

The launching of the three State Category I new drugs of the Group went smoothly. Approval for production for the “H101” project was obtained during the period. The commercial name of the drug is “Oncorine”. Inspection of the GMP Plant was completed and approval was obtained. “Kai Li Kang” is now available for sale in the PRC. Construction of the GMP plant and trial runs for the “TNF” project was completed.

Consumer Products

Tobacco

The turnover of Nanyang Brothers Tobacco Co. Ltd. during the period increased 8.6% to HK\$784 million. Net profit reached HK\$161 million. Recurring income for the period represents an increase of 10.7%.

Dairy

During the period, the turnover for Bright Dairy remained the same as last year, amounting to HK\$3,334 million. Net profit was HK\$87.04 million, a decrease of 39.0% over last year. The decline was mainly attributable to an increase in marketing and promotion expenses on yogurt products made by the company, which resulted in a significant increase in operating expenses.

Printing

During the period, the turnover for The Wing Fat Printing Co. Ltd. (“Wing Fat Printing”) increased 147.0% to HK\$698 million. Net profit reached HK\$67.33 million, an increase of 4.8% compared with the same period last year. The substantial increase in turnover was mainly attributable to Wing Fat Printing’s increased stakes in companies including Chengdu Wing Fat Printing Co. Ltd. and Hebei Yongxin Paper Co. Ltd. in the second half of last year, resulting in extended consolidation of subsidiaries’ financial results.

Automobiles and Parts

As a result of rising costs and declining product prices, Huizhong Automotive had recorded losses since the second quarter of last year. Although turnover improved by 52.6% to HK\$2,426 million, Huizhong Automotive reported a loss of HK\$68.18 million in the first half. The turnover and net profit for Shanghai SIIC Transportation Electric Co. Ltd. increased 35.6% and 217.4% to HK\$225 million and HK\$43.33 million respectively.

Information Technology

Semiconductors

Although Semiconductor Manufacturing International Corporation (“SMIC”) continued to record losses during the period, there have been signs of improvement. Net losses for the period were reduced substantially to only HK\$50.71 million compared to a net loss of HK\$549 million for the same period last year. While some customers have pushed out wafer orders due to an ongoing inventory correction, the sales for the company on the whole improved significantly. During the period, the turnover of SMIC increased by 34.9% to HK\$5,558 million.

Information Technology Services

During the period, the net profit of Shanghai Information Investment Inc. increased by 69.4% compared with the same period last year to HK\$86.37 million. The development of the company’s investment projects has been satisfactory. During the period, Dongfang Cable Network Co. Ltd. acquired 39,000 new broadband users for “Cableplus”, an increase of 18.2% over last year. As at the end of the period, accumulated users for “Cableplus” reached 260,000. Information pipelines of a total of 339 duct kilometres were built by Shanghai Information Pipelines Co. Ltd. for the year, providing new network access to 186 buildings, an increase of 22.4% compared with the first half of last year.

PROSPECTS

The operation for the medicine, consumer products and semiconductors industries is expected to come under considerable pressure in the second half of the year as a result of changes in the macro-economic environment in the PRC and the volatility of international capital markets. Under these circumstances, the Group will focus on strengthening its core businesses. In respect of the infrastructure facilities and medicine segments, further efforts will be made to identify investment opportunities for toll road projects and to acquire sizeable medicine projects. Share reform will bring about a new regime to the PRC capital market. The Group will capitalize on opportunities arising from the change and to speed up the formation of a unified platform for the medicine businesses. For the consumer products segment, measures will be taken to expand market share, reduce costs and improve efficiency in order to offset impacts from cyclical fluctuations and, at the same time, maintain sustainable earnings growth.

The Group's financial position remains sound. Leveraging on its background with strong support from Shanghai and its favourable position in Mainland PRC, the Company will focus on the new wave of economic developments in Shanghai. It will capitalize on opportunities arising from the restructuring of state-owned assets in the PRC and capture new investment projects to reach new horizons and to achieve major breakthroughs.

On behalf of the Board

Cai Lai Xing

Chairman

Hong Kong, 23rd August 2006

INTERIM DIVIDEND

The Board of Directors of the Company has resolved to pay an interim dividend for the year ending 31st December 2006 of HK22 cents (2005: HK20 cents) per share, which will be payable on 3rd October 2006 (Tuesday) to Shareholders whose names appear on the Register of Members of the Company on 22nd September 2006 (Friday).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 20th September 2006 (Wednesday) to 22nd September 2006 (Friday), both dates inclusive, during which period no transfer of shares will be effected. Dividend warrants will be dispatched to Shareholders on or about 3rd October 2006 (Tuesday). 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on 19th September 2006 (Tuesday).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	<i>Notes</i>	Unaudited Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
Turnover	4	3,401,805	2,714,218
Cost of sales		(2,093,234)	(1,611,172)
Gross profit		1,308,571	1,103,046
Investment income		493,525	197,468
Other income		131,795	102,503
Distribution costs		(489,362)	(379,318)
Administrative expenses		(376,115)	(339,616)
Other expenses		(18,167)	(28,497)
Finance costs		(56,799)	(34,234)
Share of results of jointly controlled entities		7,723	20,889
Share of results of associates		92,779	58,407

Net (loss) gain on disposal of interests in jointly controlled entities and associates		(4,994)	14,187
Dilution loss on share reform of a subsidiary		(214,955)	–
Allowance for loss on share reform of an associate		(32,139)	–
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		841,862	713,567
Income tax expenses	5	(112,897)	(87,505)
Profit for the period	6	728,965	626,062
Attributable to			
– Equity holders of the Company		625,375	520,732
– Minority interests		103,590	105,330
		728,965	626,062
Dividends	7	212,987	336,347
Earnings per share	8		
–Basic		HK\$64.6 cents	HK\$54.2 cents
–Diluted		HK\$64.2 cents	HK\$54.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Non-Current Assets			
Investment properties		56,232	51,830
Property, plant and equipment		2,386,694	2,404,338
Prepaid lease payments – non-current portion		225,619	225,238
Toll road operating right		1,747,207	1,776,798
Other intangible assets		93,681	95,077
Goodwill		416,357	397,987
Interests in jointly controlled entities		2,338,308	2,390,508

Interests in associates		3,823,046	3,868,057
Available-for-sale investments		199,926	321,054
Loan receivables – non-current portion		3,688	4,277
Deposits paid on acquisition of property, plant and equipment		380,208	26,326
Deposits paid on acquisition of a subsidiary		–	68,269
Derivative financial instruments		–	6,421
Deferred tax assets		31,022	25,876
		11,701,988	11,662,056
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Current Assets			
Inventories		1,230,055	1,215,725
Trade and other receivables	9	1,644,233	1,539,861
Prepaid lease payments – current portion		7,339	8,129
Loan receivables – current portion		–	62,757
Investments held-for-trading		1,724,660	1,070,042
Pledged bank deposits		28,000	28,000
Bank balances and cash		6,594,992	6,040,400
		11,229,279	9,964,914
Assets classified as held for sale		27,634	345,185
		11,256,913	10,310,099
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Current Liabilities			
Trade and other payables	10	1,652,991	1,297,662
Taxation payable		56,073	65,236
Short-term bank and other borrowings		2,156,892	1,320,175
		3,865,956	2,683,073
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Net Current Assets		7,390,957	7,627,026
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Total Assets Less Current Liabilities		19,092,945	19,289,082
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Capital and Reserves			
Share capital		96,815	96,753
Reserves		16,689,998	16,279,139
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Equity attributable to equity holders of the Company		16,786,813	16,375,892
Minority interests		2,035,008	1,832,137
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Total Equity		18,821,821	18,208,029
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Non-Current Liabilities		
Long-term bank and other borrowings	144,468	973,574
Deferred tax liabilities	126,656	107,479
	271,124	1,081,053
	19,092,945	19,289,082

Notes:

(1) Independent Review

The interim results for the six months ended 30 June 2006 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), by Deloitte Touche Tohmatsu, whose independent review report is included in the interim financial report to be sent to shareholders.

(2) Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA.

(3) Principal Accounting Policies

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively.

The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 Share-based Payment ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴

- ¹ Effective for accounting periods beginning on or after 1 January 2007.
² Effective for accounting periods beginning on or after 1 March 2006.
³ Effective for accounting periods beginning on or after 1 May 2006.
⁴ Effective for accounting periods beginning on or after 1 June 2006.

(4) Segment Information by Business
For the six months ended 30 June 2006 (unaudited)

	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	122,064	1,885,791	1,393,950	–	3,401,805
Segment results	210,044	159,495	281,896	26,758	678,193
Net unallocated corporate income					103,980
Finance costs					(56,799)
Share of results of jointly controlled entities	(3,865)	28,561	(33,536)	16,563	7,723
Share of results of associates	–	6,222	91,585	(5,028)	92,779
Net loss on disposal of interests in jointly controlled entities and associates					(4,994)
Gain on disposal of available-for-sale investments					268,074
Dilution loss on share reform of a subsidiary					(214,955)
Allowance for loss on share reform of an associate					(32,139)
Profit before taxation					841,862
Income tax expenses					(112,897)
Profit for the period					728,965

For the six months ended 30 June 2005 (unaudited)

	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 jointly controlled entities and associates					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
Income tax expenses	(87,505)
Profit for the period	626,062

(5) Income Tax Expenses

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Current period taxation of the Company and its subsidiaries:		
Hong Kong Profits Tax	33,648	36,150
PRC income tax	72,693	48,713
	106,341	84,863
(Over)underprovision of PRC income tax in prior years	(59)	3,543
	106,282	88,406
Deferred taxation	6,615	(901)
	112,897	87,505

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), the Group's PRC subsidiaries are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries are also entitled to reduced tax rates because they are classified as "high technology entities" under relevant rules. The current period's PRC income tax charges are arrived at after taking into account of these various tax incentives, ranging from 7.5% to 33%.

(6) Profit for the Period

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Amortisation of toll road operating right	29,591	15,505
Amortisation of other intangible assets	6,193	—
Depreciation and amortisation of property, plant and equipment	148,158	91,259
Release of prepaid lease payments	3,581	2,104
Dividend income from investments	(40,649)	(34,599)
Loss (gain) on disposal of property, plant and equipment	950	(2,065)
Gain on disposal of available-for-sale investments	(268,074)	—

Interest income	(116,827)	(60,543)
Gain on fair value changes of investments held-for-trading, excluding dividend	(61,920)	(85,807)
Impairment loss on available-for-sale investments	–	9,879
Share of PRC income tax of jointly controlled entities (included in share of results of jointly controlled entities)	8,568	3,023
Share of PRC income tax of associates (included in share of results of associates)	4,426	26,175

(7) Dividends

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
2005 final dividend paid of HK22 cents (2004 final dividend: HK35 cents) per share	212,987	336,347

The directors have determined that an interim dividend of HK22 cents per share (2005 interim dividend: HK20 cents per share) will be paid to shareholders of the Company whose names appear on the Register of Members on 22 September 2006.

(8) Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the six months ended 30 June 2006 is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profits for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)	625,375	520,732
Effect of dilutive potential ordinary shares – adjustment to the share of results of a jointly controlled entity based on potential dilution of its earnings per share	(2,334)	–
Earnings for the purposes of diluted earnings per share	623,041	520,732

	Unaudited	
	Six months ended 30 June	
	2006	2005
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	967,919,845	960,626,149
Effect of dilutive potential ordinary shares in respect of share options	2,004,581	4,109,346
Weighted average number of ordinary shares for the purposes of diluted earnings per share	969,924,426	964,735,495

(9) Trade and Other Receivables

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Trade receivables		
Within one year	999,567	914,024
Over one year	16,198	29,123
	1,015,765	943,147
Other receivables	628,468	596,714
	1,644,233	1,539,861

(10) Trade and Other Payables

	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Trade payables		
Within one year	610,184	554,178
Over one year	11,147	24,297
	621,331	578,475
Other payables	1,031,660	719,187
	1,652,991	1,297,662

(11) 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\$45,691,000 (2005: HK\$29,670,000) out of profit for the period to the PRC statutory reserves. Also, approximately HK\$28,243,000 (2005: HK\$nil) was transferred out of the PRC statutory reserves to the accumulated profits on dilution of interest in a subsidiary and disposal of interest in an associate.

FINANCIAL REVIEW

I. Analysis of Financial Results

1. Turnover

For the six-month period ended 30th June 2006, as driven by the turnover of the infrastructure facilities and consumer products businesses segment, overall turnover increased by approximately 25.3% to approximately HK\$3,402 million.

Benefited from the completion of the widening and alteration construction of the Shanghai-Nanjing Expressway (Jiangsu Section), during the period, the toll revenue from Shanghai-Nanjing Expressway (Shanghai Section) of the infrastructure facilities business segment increased significantly from the corresponding period last year. The results for the first half of the year also reflected the effect of the reduction in sales tax on toll revenue to 3% with effect from 1st June 2005, which was accounted for the full period this year.

The increase in the stake in Hebei Yongxin to a controlling stake by Wing Fat Printing was completed in September last year. The turnover of Hebei Yongxin was consolidated with the Group during the period, which gave an additional turnover of approximately HK\$313.40 million to the turnover of consumer products business segment. Growth in the sales of Nanyang Tobacco, which is also grouped under consumer product business segment, remained stable.

The increase in the stake in Huqingyutong Pharmaceutical to 51% by the Group was completed in July last year, which gave an additional turnover of approximately HK\$132.87 million to the medicine business segment during the period, and partially offset the adverse impacts brought by the introduction of policies to the medicine industry in the PRC and the reports about quality issue of medicine products.

2. Profit before Taxation

(1) Gross profit margin

Gross profit margin for the period was approximately 38.5%, a mild decrease of approximately 2.1% as compared with approximately 40.6% for the corresponding period last year. The decrease was mainly attributable to the consolidation of the paper manufacturing business operated by Wing Fat Printing's subsidiary during the period, with which the gross profit margin was relatively low.

(2) Investment income

During the period, investment income increased from HK\$197.47 million for the corresponding period last year to approximately HK\$493.53 million, as a result of the gain of HK\$268.07 million upon the disposal of 10% stake in Pudong Container.

(3) Share of results of jointly controlled entities

Huizhong Automobile continued to suffer operating loss due to surge in cost. GWC's operating profit decreased due to higher borrowing costs caused by rising interest rate in the PRC, resulting in the share of results of jointly controlled entities was reduced by approximately HK\$13.17 million as compared with the same period last year.

(4) Share of results of associates

SMIC recorded an operating loss of approximately HK\$549.43 million for the first half last year due to cyclical downturn of the semiconductor industry, while in this period, SMIC still recorded a loss of approximately HK\$50.71 million due to an ongoing inventory correction that some of its customers have pushed out wafer orders. However, the position was improved significantly. The share of results of associates increased by approximately HK\$34.37 million as compared with the same period last year.

3. Dividend

The Board of Directors has resolved to pay an interim dividend of HK22 cents per share. The dividend payout ratio is 34.1%. The dividend is increased by 10% as compared to the interim dividend of HK20 cents per share for 2005.

II. Financial Position of the Group

1. Capital and Shareholders' Equity

As at 30th June 2006, the Group has a total of 968,147,000 shares in issue. Due to the exercise of share option by the staff during the period, the number of shares in issue increased by 614,000 shares, as compared with the 967,533,000 shares in issue at the end of 2005. Based on the closing price of HK\$15.15 per share on 30th June 2006, the Group had a market capitalization of approximately HK\$14,667.43 million.

The Group's financial position remained strong, shareholders' equity increased by approximately HK\$410.92 million to approximately HK\$16,786.81 million which was attributable to both operating profits after deducting the dividend actually paid this period and the increase in number of shares.

2. Indebtedness

(1) Borrowings

As at 30th June 2006, the total borrowings of the Group amounted to approximately HK\$2,301.36 million, which was mainly comprised of loans of approximately HK\$700 million of subsidiaries and a HK\$1,600 million five-year term syndication loan of the Company. The syndication loan is due for repayment in April 2007 and hence it has been stated in the balance sheet as short term borrowings. Unsecured credit facility accounted for 85.3% of the total borrowings.

(2) Pledge of Assets

As at 30th June 2006, 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\$227,497,000;
- (b) land and buildings with a net book value of approximately HK\$186,894,000; and
- (c) motor vehicles with a net book value of approximately HK\$104,000.

(3) Contingent Liabilities

As at 30th June 2006, the Group has given guarantees to banks in respect of banking facilities utilized by Xian Wing Fat and a third party of approximately HK\$43.77 million in total.

3. Bank Deposits and Short-term Investments

As at 30th June 2006, bank balances and short-term investments held by the Group amounted to approximately HK\$6,622.99 million and HK\$1,724.66 million respectively. The proportions of US dollars, Renminbi and HK dollars were 47.8%, 38.4% and 13.8% 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 working capital and a healthy interest cover, there are sufficient financial resources and fund raising capability available to the Group for the funding of capital investments and operations should the needs arise.

III. Management Policies for Financial Risk

The Group's major financial instruments include equity and debt investments, borrowings, trade receivables, trade payables, loan receivables and bank balances and cash. The management applies mainly the following policies to manage and monitor financial risks, to ensure appropriate measures are implemented on a timely and effective manner.

1. The Group's bank balances and cash, securities and debt investments must be placed and entered into with financial institutions of good reputation;
2. There are strict requirements and restrictions as to the outstanding amount and credit ratings on equity and debt investments to be held;
3. An allowance for impairment is made according to the Group's accounting policy or where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows; and
4. Review market trends on interest rates and exchange rates movements, assess the Group's business operation needs and the financial impact on its financial position.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the Company's unaudited consolidated interim results for the six months ended 30th June 2006.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30th June 2006.

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 Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), and all Directors have confirmed that they have complied with the Model Code and the Company's own 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.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") website (www.hkex.com.hk) and the Company's website (www.sihl.com.hk). The 2006 Interim Report will be dispatched to Shareholders in mid September 2006 and will be available at the Stock Exchange's website and the Company's website accordingly.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises eight Executive Directors, namely Mr. Cai Lai Xing, Mr. Cai Yu Tian, Mr. Qu Ding, Mr. Lu Ming Fang, Mr. Ding Zhong De, 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.