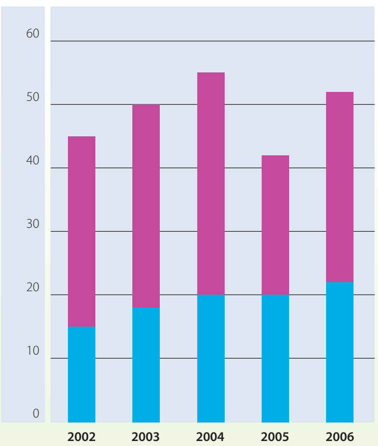
Financial Review

Key Figures

	2006	2005	Increase
Financial highlights			
Turnover (HK$'000)	**6,851,023**	6,025,285	13.7%
Profit attributable to shareholders (HK$'000)	**1,257,778**	1,027,940	22.4%
Total assets (HK$'000)	**23,658,128**	21,972,155	7.7%
Shareholders' equity (HK$'000)	**17,505,381**	16,375,892	6.9%
Share information			
Earnings per share – basic	**HK$1.30**	HK$1.07	21.5%
Dividend per share	**HK52 cents**	HK42 cents	23.8%
– interim (paid)	**HK22 cents**	HK20 cents	10.0%
– final (proposed)	**HK30 cents**	HK22 cents	36.4%
Number of shares in issue (shares)	**968,504,000**	967,533,000	
Financial ratios			
Gearing ratio (Note (1))	**10.0%**	11.2%	
Interest cover (Note (2))	**21 times**	23 times	
Dividend payout ratio	**40.0%**	39.3%	

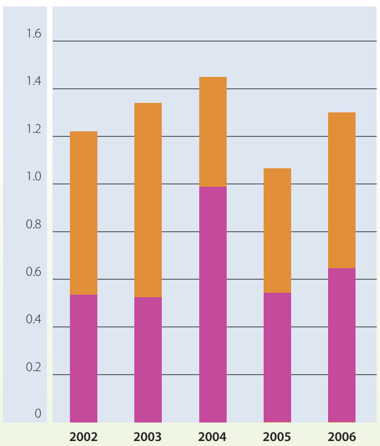
Note (1): interest-bearing loans/(shareholders' equity + minority interests + interest-bearing loans)
Note (2): (profit before taxation, interest expenses, depreciation and amortisation)/interest expenses

HK Cents



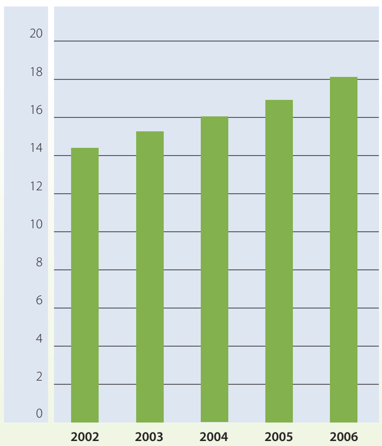
Final dividend per share
Interim dividend per share

HK$



First half earnings per share
Second half earnings per share

HK$



Shareholders' equity per share

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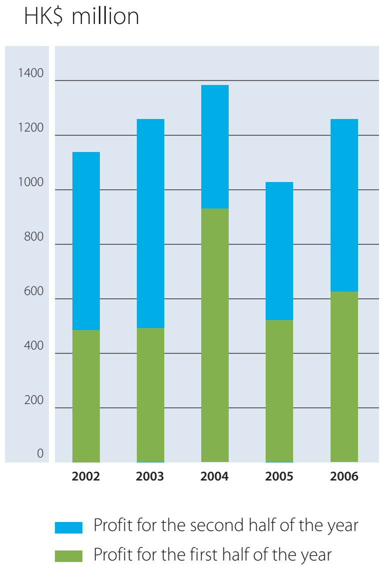
I Analysis of Financial Results

1 Profit Attributable to Shareholders of the Company

The profit attributable to shareholders for the year 2006 was HK$1,257.78 million, an increase of HK$229.84 million or approximately 22.4% over the year 2005.

The increase in profit attributable to shareholders was mainly due to the compensation for the deficiency in toll revenue from Hu-Ning Expressway, the gain on disposal of an equity stake in Pudong Container and improvement in operating results of some invested entities, which not only off-set the losses resulting from the implementation of share reform plans of SI Pharmaceutical and Bright Dairy, but also generated satisfactory growth in the profit attributable to shareholders.



2 Profit Contribution from Each Business

The profit contributed by each business in the Group for the year 2006 and the comparative figures last year was summarized as follows:

	2006 HK$'000	2005 HK$'000	Change %
Infrastructure facilities	**614,694**	185,769	230.9
Medicine	**(52,350)***	235,625	N/A
Consumer products	**566,763#**	467,764	21.2
Information technology	**(10,417)**	45,336	N/A

* *Including loss of HK$214.96 million on share reform of SI Pharmaceutical*

\# *Including loss of HK$27.74 million on share reform of Bright Dairy*

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2 Profit Contribution from Each Business (Cont'd)

The infrastructure facilities business recorded an increase in profit of approximately 230.9% for the year, which was mainly attributable to an approximately HK$171.76 million compensation for the deficiency in toll revenue due to the widening and alteration construction of the A11 Expressway received by Hu-Ning Expressway and a gain of approximately HK$243.67 million from the disposal of 10% equity stake in Pudong Container by the Group.

The decrease in profit contribution of the medicine business was mainly due to the inclusion of a disposal gain of Sunve Pharmaceutical of approximately HK$35.25 million in prior year comparative, and the financial performances of some entities for the year were adversely affected by a series of changes in policies towards the pharmaceutical industry in the PRC.

The Group had implemented SI Pharmaceutical's share reform plan, under which all holders of freely transferable shares of SI Pharmaceutical were given three non-freely transferable shares for every ten freely transferable shares held by each such holder. This share reform plan obtained all relevant approvals in June 2006, and the Group recorded a dilution loss of approximately HK$214.96 million.

The consumer products business was hit by a loss of approximately HK$27.74 million resulting from the implementation of Bright Dairy's share reform plan, under which all holders of freely transferable shares of Bright Dairy were given RMB8.46 in cash and 1.2 non-freely transferable shares for every ten freely transferable shares held by each shareholder. In addition, as part of the share reform plan, the Group transferred 44,099,410 non-tradable shares to Danone Asia Pte Ltd.

Excluding the loss of Bright Dairy's share reform plan, the consumer product business recorded an increase in profit contribution of approximately 27.1%. Among various entities under consumer product, the key profit driver for the year was Huizhong Automotive, whose financial results improved as a result of its endeavors in cost reduction and the general improvement in the PRC automobile market conditions. As for major profit contributors, Nanyang Tobacco and Wing Fat Printing, maintained steady growth momentum.

Due to an ongoing inventory correction of some of its customers that have pushed out wafer orders, SMIC recorded an operating loss this year. However the loss has been significantly reduced in comparison with last year.

Full details of the operating performances and progress of individual businesses for the year are contained in the section headed "Business Review, Discussion and Analysis".

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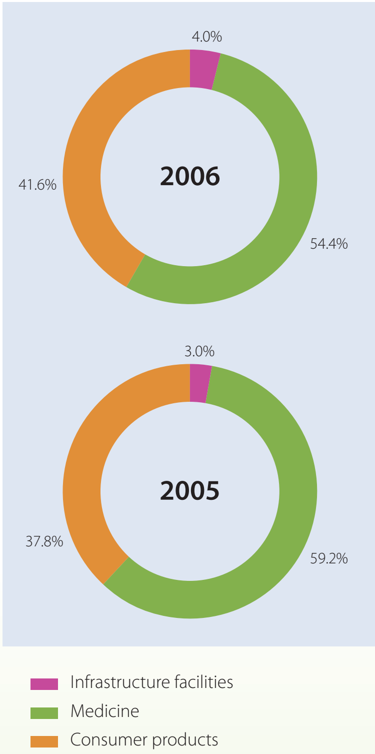
3 Turnover

The Group's turnover by principal activities for the year 2006 and prior year comparatives was summarised as follows:

	2006 HK$'000	2005 HK$'000	Increase %
Infrastructure facilities	**276,419**	181,578	52.2
Medicine	**3,729,130**	3,567,264	4.5
Consumer products	**2,845,474**	2,276,443	25.0
	6,851,023	6,025,285	13.7

The turnover of the Group in 2006 increased by approximately 13.7% over 2005, which was mainly driven by the newly consolidated subsidiaries from the medicine and consumer product businesses, as well as the considerable increase of toll revenue of infrastructure facilities.



The completion of expansion and widening works of Hu-Ning Expressway (Jiangsu section) had induced more traffic flow on Hu-Ning Expressway (Shanghai section), resulting in a significant year-on-year increase in toll revenue. In addition, the sales tax on toll revenue was reduced to 3% with effect from 1st June 2005. A full year's impact on this positive factor was accounted for in 2006.

The turnover growth in consumer products business was attributable to the organic growth in turnover of all subsidiaries and contribution of Hebei Yongxin Paper which constituted a consolidating subsidiary since September 2005 that only four months of its turnover was accounted for in the prior year.

The increase in the stake in Huqingyutang Pharmaceutical to 51% by the Group was completed in July 2005, which gave an additional turnover to the medicine business this year since only six months of its turnover was accounted for in the prior year. This has helped offset the adverse impacts on the turnover of the medicine business brought by the changes of policies to the pharmaceutical industry in the PRC and media reports on quality issue of medicine products.

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4 Profit before Taxation

(1) Gross profit margin

Gross profit margin for the year was 37.1%, representing a decrease of approximately 1.2 percentage point compared to 38.3% last year. The decrease was attributable to the consolidation of the results of Hebei Yongxin Paper since September 2005, which was engaged in paper production business with relatively lower gross profit margin.

(2) Investment income

The increase in investment income was mainly due to a gain of approximately HK$268.07 million booked this year from the disposal of 10% equity interest in Pudong Container, while investment income for 2005 was mainly derived from the disposal gain on investment in China Netcom (HK) amounting to approximately HK$91.74 million.

(3) Other income

Other income was mainly derived from a compensation received by Hu-Ning Expressway for the deficiency in its toll revenue of approximately HK$171.76 million, representing a significant increase as last year comparative mainly comprised the write back of provisions for the consumer products business and the re-investment tax refund etc.

(4) Share of results of jointly controlled entities

Even though the market sentiment in the PRC automobile industry showed some signs of improvement, automobile and component makers continued to experience tough times amid increasing raw material costs and oil price. Huizhong Automotive, being the major jointly controlled entity of the Group, managed to turn its results around to make profits again by implementing cost reduction and other measures, resulting in an improvement in the share of results of jointly controlled entities.

(5) Share of results of associates

Due to an ongoing inventory correction that some of its customers have pushed out wafer orders, SMIC still recorded a loss this year but in a smaller magnitude; hence the share of results of associates increase this year.

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

The Group recorded a net gain on disposal of three medicine entities last year, including Sunve Pharmaceutical and two invested entities of SI Pharmaceutical. In the absence of similar disposal this year, the net gain on disposal of interests decreased significantly.

5 Dividends

The Group adopts a stable growth dividend payout policy. The Board of Directors of the Group has proposed to declare a final dividend of HK30 cents per share, together with an interim dividend of HK22 cents per share, the total dividend amounts to HK52 cents per share for the year. The payout ratio was approximately 40.0%, an increase of 0.7 percentage point as compared with the payout ratio of approximately 39.3% in 2005.

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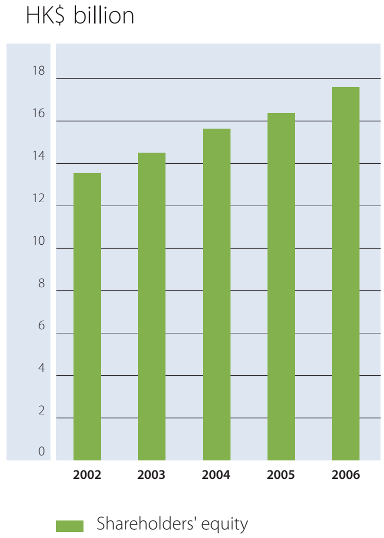
II Financial Position of the Group



1 Capital and Shareholders' Equity

The Group had a total of 968,504,000 shares in issue as at 31st December 2006, which was increased by 971,000 shares as compared with the 967,533,000 shares in issue at the end of 2005. The increase is mainly attributable to the exercise of share options by employees

The Group maintains a stable financial condition. The shareholders' equity, increased by approximately HK$1,129.49 million to HK$17,505.38 million as at 31st December 2006, which was attributable to the net profits and the increase in number of shares in issue for the year after deducting the dividend actually paid during the year.

2 Indebtedness

(1) Borrowings

The Group took advantage of the liquidity in the banking and financial markets, and obtained a five-year term and revolving syndication loan facilities of HK$3 billion during the year through a wholly-owned subsidiary, SIHL Finance Limited. This arrangement not only provides re-financing for part of the existing loans with a lower interest rate, it also retains stand-by facilities at an attractive interest rate level for the Group.

As at 31st December 2006, the total borrowings of the Group amounted to approximately HK$2,186.85 million (2005: HK$2,293.75 million), of which 83.3% (2005: 82.9%) was an unsecured credit facility.

(2) Pledge of assets

As at 31st December 2006, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

(a) plant and machinery with a carrying value of approximately HK$22,857,000 (2005: HK$32,034,000);
(b) leasehold land and buildings with a carrying value of approximately HK$195,494,000 (2005: HK$230,099,000);
(c) motor vehicles with a carrying value of approximately HK$82,000 (2005: HK$165,000); and
(d) bank deposit of approximately HK$560,000 (2005: nil).

In addition, at 31st December 2006, certain of the Group's plant and machinery with a carrying value of HK$180,322,000 (2005: HK$158,548,000) were pledged to an independent third party which provided a guarantee to a bank in respect of a bank loan granted to the Group.

At 31st December 2006, the Group had bank deposits of approximately HK$28.0 million (2005: HK$28.0 million) pledged to banks in respect of banking facilities granted to an associate.

(3) Contingent liabilities

As at 31st December 2006, the Group has given guarantees to banks in respect of banking facilities utilized by Xian Wing Fat, Jinan Quanyong Printing and a third party of HK$64.80 million (2005: HK$19.63 million) in total.

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3 Bank Deposits and Short-term Investments

As at 31st December 2006, bank balances and short-term investments held by the Group amounted to HK$6,805.56 million (2005: HK$6,068.40 million) and HK$1,660.11 million (2005: HK$1,070.04 million) respectively. The proportions of US dollars, Renminbi and HK dollars were 59%, 29% and 12% (2005: 47%, 39% and 14%) 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 a net cash position. While having sufficient working capital and a healthy interest cover, there are sufficient financial resources and fund raising capabilities, the Group is monitoring market situation and seek opportunities to optimize capital structure should needs arise.

III Management Policies for Financial Risk

1 Exchange Rate Risk

The Group mainly operates in China and the Hong Kong Special Administrative Region and the exposure in exchange rate risks mainly 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 the HK dollar and Renminbi are both under managed floating systems, the Group, after reviewing its exposure for the time being, did not enter into any derivative contracts aimed at minimising exchange rate risks during the year.

2 Interest Rate Risk

To complement the repayment of the original syndication loan of HK$1,600 million, the Group terminated its related interest rate hedging arrangement during the year. To exercise prudent management against interest rate risk, 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 interest rate hedging means for the HK$3 billion syndication loan raised in the fourth quarter of the year

3 Credit Risk

The Group's principal financial assets are bank balances and cash, equity and debt investments, trade and other receivables. The Group's trade and other receivables presented in the balance sheet are net of allowances for doubtful receivables. 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 cash flows.

With respect to the credit risk of the Group's treasury operations, the Group's bank balances and cash, securities and debt investments must be placed and entered into with financial institutions of good reputation. There are strict requirements and restrictions as to the outstanding amount and credit ratings on equity and debt investments to be held, so as to minimise the Group's credit risk exposure.