



Interim Report  
**2007**



**上海實業控股有限公司**

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

STOCK CODE: 363



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## Corporate Information

### Directors

#### Executive Directors

Mr. Cai Lai Xing (*Chairman*)  
Mr. Cai Yu Tian  
(*Vice Chairman & Chief Executive Officer*)  
Mr. Qu Ding  
(*Vice Chairman & Executive Deputy CEO*)  
Mr. Lu Ming Fang  
Mr. Ding Zhong De  
Mr. Qian Shi Zheng (*Deputy CEO*)  
Mr. Yao Fang  
Mr. Tang Jun

#### Independent Non-Executive Directors

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

### Board Committees

#### Executive Committee

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

#### Audit Committee

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

#### Remuneration Committee

Dr. Lo Ka Shui (*Committee Chairman*)  
Prof. Woo Chia-Wei  
Mr. Leung Pak To, Francis  
Mr. Qu Ding  
Mr. Hu Zi Li

### Company Secretary

Ms. Wong Mei Ling, Marina

### Qualified Accountant

Mr. Lee Kim Fung, Edward

### Authorised Representatives

Mr. Cai Yu Tian  
Ms. Wong Mei Ling, Marina

### Registered Office

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

### Auditors

Deloitte Touche Tohmatsu

### Share Registrar

Tricor Secretaries Limited  
26th Floor, Tesbury Centre,  
28 Queen's Road East,  
Wanchai, Hong Kong  
Telephone : (852) 2980 1766  
Facsimile : (852) 2861 1465

### ADR Depository Bank

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

### Company Stock Code

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

### Company Website

www.sihl.com.hk



# Dividend Notice and Financial Calendar

## Dividend Notice

### Interim Dividend

The Board of Directors of Shanghai Industrial Holdings Limited has resolved to pay an interim dividend for the six months ended 30th June 2007 of HK37 cents (2006: HK22 cents) per share, which will be payable on Wednesday, 3rd October 2007 to Shareholders whose names appear on the Register of Members of the Company on Friday, 21st September 2007.

### Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 19th September 2007 to Friday, 21st September 2007, both days inclusive, during which period no transfer of shares will be effected. Notice of Dividend will be dispatched to Shareholders on Wednesday, 3rd October 2007. 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, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 18th September 2007.

## Financial Calendar

|  |  |
|--|--|
| <b>2007 Interim Results</b>                  | Announced on Thursday, 30th August 2007  |
| <b>Closure of Register of Members</b>        | To be closed from Wednesday, 19th September 2007 to Friday, 21st September 2007, both days inclusive |
| <b>Record date for 2007 Interim Dividend</b> | Friday, 21st September 2007  |
| <b>Payment of 2007 Interim Dividend</b>      | Payable on Wednesday, 3rd October 2007   |



## Chairman's Statement

### Major Breakthroughs in Business Transformation Record High Interim Results

I am pleased to announce that the Group's unaudited consolidated profit attributable to shareholders for the six months ended 30th June 2007 reached a record high of HK\$933 million, representing an increase of 49.2% over the corresponding period last year. Turnover increased 15.1% to HK\$3,917 million. Earnings per share increased 49.1% to HK96.3 cents.

During the period, the Group's core businesses outperformed expectation, laying a solid foundation for the Company. With support from all relevant parties, it is gratifying to note that the Group's orderly participation in the strategic restructuring of quality state-owned real estate resources in Shanghai achieved major breakthroughs. Remarkable progress in divesting non-core businesses helped contribute to the success of the Group's business transformation.

Riding on promising market conditions, the Group announced the placement of 96,900,000 new shares of the Company by way of a top-up placing. With a placing price of HK\$31.2 per share, a total of HK\$3 billion was raised from the placement. The proceeds will be applied towards the acquisition of assets and projects for the infrastructure facilities and real estate businesses, including commercial properties projects such as office towers and hotels.

The Company adheres to a dividend policy with healthy payout ratio and has resolved to declare an interim dividend for the six months ended 30th June 2007 of HK37 cents (2006: HK22 cents) per share to Shareholders whose names appear on the Register of Members of the Company on Friday, 21st September 2007. The interim dividend will be paid to Shareholders on Wednesday, 3rd October 2007.

### Existing businesses outperformed laying solid foundation

During the period, the infrastructure facilities business contributed HK\$144 million to the Group's profit. Traffic volume for the two toll roads as well as turnover for the water services continued to increase. The expansion and widening of the Shanghai-Nanjing Expressway (Shanghai Section) has commenced and is progressing in full force. The division's profit contribution however decreased as there was an after-tax exceptional gain of HK\$244 million arising from the disposal of the ports and container projects for the same period of the previous year.

For the period under review, the medicine business achieved a turnaround in profits and contributed a total of HK\$71.85 million to the Group's profit. The movement between the periods principally reflected the exceptional loss of HK\$215 million in 2006 arising from the share reform plan of SI Pharmaceutical. The operating environment of the pharmaceutical industry in the PRC is becoming more favourable than the previous period, and this is expected to lead to a new round of accelerated development after the recession.

Profit growth for Nanyang Tobacco, Wing Fat Printing and Bright Dairy was remarkable. Together with an after-tax exceptional gain of HK\$155 million arising from the divestment of the automobiles and parts business, contribution from the consumer products business increased significantly by 185% to HK\$624 million during the period.



## Chairman's Statement

### Breakthrough in core businesses

On 27th June 2007, the Company announced its capital contribution of approximately RMB2,131 million to Shanghai Urban Development for the acquisition of a 40% equity interest in the company. All approval procedures for the transaction were completed in July this year. With total assets exceeding RMB11 billion, Shanghai Urban Development has a land bank of more than 2 million square meters of gross floor area, including commercial and residential development projects of strategic value located in Shanghai, Kunshan in Jiangsu, Changsha in Hunan and Hefei in Anhui. Among them are “Xujiahui Centre” and “Urban Cradle”. “Xujiahui Centre” is one of the largest comprehensive commercial projects in downtown Shanghai. “Urban Cradle” is the largest residential project in the middle ring road territory of Shanghai. The total investments of these two projects are estimated to reach RMB26 billion.

The investments in Shanghai Urban Development is expected to provide the Company a resourceful foray into the real estate market in Shanghai, enabling it to rapidly establish real estate as one of its core businesses and to maintain a leading position in the market. The expansion and integration of the real estate business will benefit from the solid financial strength of the Company – a low gearing ratio and a strong cash flow position. The Group expects to spend greater efforts in further expanding the scale of its investments with a view to enhance its profitability.

### Remarkable progress achieved in strategic transformation

On 12th June 2007, the Company announced the disposals of its non-controlling stakes in Huizhong Automotive, Wanzhong Automotive and SIIC Transportation Electric at a total consideration of RMB1,605 million, following the divestment of its ports and containers business last year. The disposals provided an exit opportunity for the Company to direct its resources to other core business projects in order to optimize its asset portfolio. The transactions were completed during the period, bringing an after-tax exceptional gain of HK\$155 million to the Group.

During the period, the Company announced the injection of five Chinese medicine business entities, including Hangzhou Qingchunbao, into SI Pharmaceutical for a consideration of RMB1,515 million. This amount will be settled by the issue of 107.22 million new shares by SI Pharmaceutical. Of these, the Company will subscribe a total of 46,770,000 shares at a price of RMB14.13 per share. Following the completion of the restructuring, the Chinese medicine business of the Group will be grouped under a unified platform of SI Pharmaceutical. The asset injection is expected to improve the income stream and cash flow of SI Pharmaceutical from its principal operation and placing it in a stronger position to grasp available opportunities in the thriving PRC capital market. The approval process of the restructuring scheme is currently in progress.



## Chairman's Statement

### Prospects

Our series of strategic moves – penetration in the real estate business, divestment of non-core businesses and restructuring of assets – reflected the Company's overall development strategy and its determination to pursue persistent and steady earnings growth with consumer products as foundation and real estate, infrastructure and medicine as core development sectors.

On the real estate business, while capitalizing on its unique position with Shanghai background and the resources of its controlling shareholder, the Group will leverage on the expertise of its management as well as the extensive experience of Shanghai Urban Development to step up of efforts in the acquisition of quality real estate projects and companies in Shanghai and the surrounding area. The Group will also participate in the strategic restructuring of state-owned real estate assets in Shanghai, increase land bank and premier properties, and enhance the overall profitability to an agreeable level as a core business.

To further expand its toll road business, the Group will actively pursue projects with excellent earnings prospects by expanding toll road operations in Shanghai and other fast-growing provinces. The Group will devote more efforts in its water services projects so as to maximize economies of scale for water supply and sewage treatment projects. Endeavours will be made to improve the vehicle's capital structure and create better return for the shareholders.

As to the medicine business, the Group will quicken its pace to finalize the establishment of SI Pharmaceutical as a unified investment platform, and continue to adopt Chinese medicine and biomedicine as its principal development directions. Efforts will be devoted to consolidate our distribution network in the PRC, encourage new drug research and development, and pursue strategic cooperation with international pharmaceutical companies.

On the consumer products business, the Group will focus its efforts in enhancing operational efficiency and profitability as well as to strengthen sales and distribution channels. The Group will also leverage on its strong brand position to ensure steady cash flow from an enlarged revenue base.

On behalf of the Board of Directors, I wish to thank our Shareholders for their continued patronage and support to the Group, and extend my sincere gratitude to our management team and staff members for their total dedication and contributions in the development of new business opportunities.

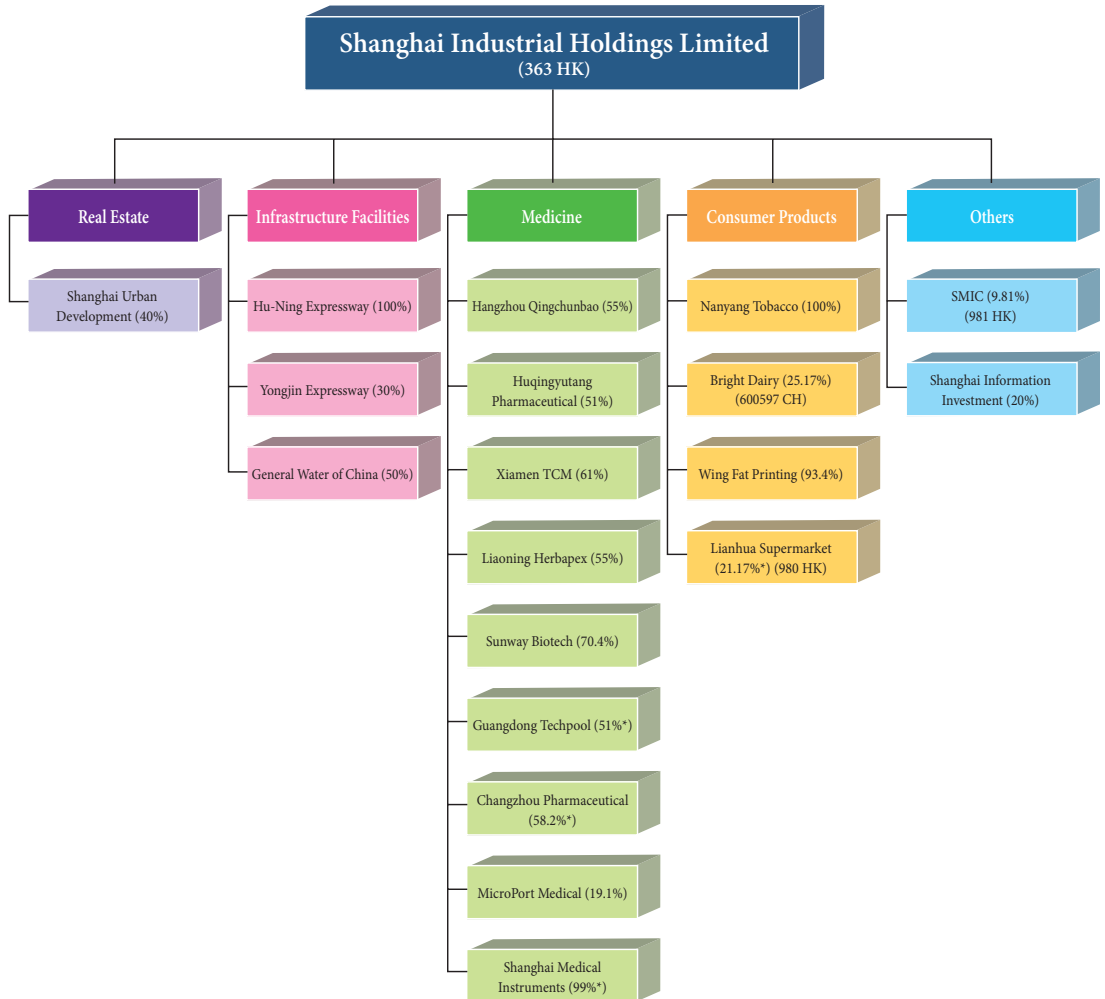
**Cai Lai Xing**

*Chairman*

Hong Kong, 30th August 2007



# Group Business Structure



\*The said interests are held by SI Pharmaceutical.

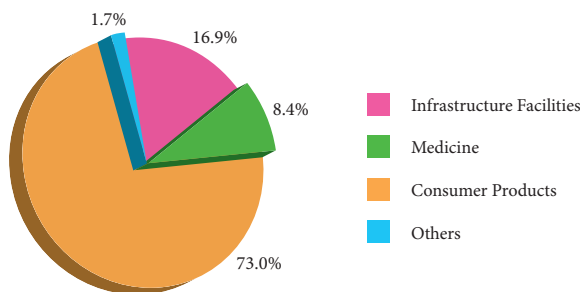




## Business Review, Discussion and Analysis

For the six months ended 30th June 2007, unaudited consolidated profits attributable to shareholders for the Group increased 49.2% to HK\$933 million. Turnover rose 15.1% to HK\$3,917 million. Net profit from infrastructure facilities, medicine and consumer products businesses amounted to HK\$144 million, HK\$71.85 million and HK\$624 million, accounting for 16.9%, 8.4% and 73.0% of the Group's Net Business Profit respectively.

Net Business Profit of the Group contributed by each business segment during the period



### Real Estate

During the period, the Company announced an agreement with Xuhui District State-owned Assets Administrative Committee to acquire a 40% equity interest of Shanghai Urban Development, a state-owned enterprise in Shanghai engaged in real estate business, for a consideration of approximately RMB2,131 million. All approval procedures for the transaction were completed in July this year. The results of Shanghai Urban Development will be reflected in the Group's accounts for the second half of the year. As the sale proceeds of certain units pre-sold will be recorded by Shanghai Urban Development upon delivery in the following year, substantial earnings growth is expected from the company.

Established in 1996, Shanghai Urban Development is specialized in real estate development and property sales as well as leasing and management. It has a land bank of more than 2 million square meters gross floor area, which includes commercial and residential development projects in Shanghai, Kunshan (Jiangsu province), Changsha (Hunan province) and Hefei (Anhui province). Among them are "Xujiahui Centre" and "Urban Cradle". "Xujiahui Centre" is located above the Xujiahui subway station in the main commercial hub of Shanghai, with a planned development site area of approximately 13.2 hectares and a planned total gross floor area of approximately 630,000 square meters. It will be the largest comprehensive commercial project in downtown Shanghai. Planned investment of the project will be in the region of RMB20 billion. "Urban Cradle" is the largest residential project in the middle ring road territory of Shanghai with a planned development site area of 94.3 hectares. It has a total gross floor area of approximately 830,000 square meters. The planned investment amount will reach RMB6 billion. The development of these major strategic projects will bring steady income sources to the Group.



## Business Review, Discussion and Analysis

Shanghai Urban Development is among the Class A real estate development companies endorsed by the Ministry of Construction. The management team is experienced in the development of real estates. The company enjoys good reputation in the real estate industry in Shanghai, winning honours including “Top 100 Real Estate Enterprises in the PRC” and “Top Ten Fastest Growing Real Estate Enterprises” in 2006, “Top 50 Real Estate Developer in Shanghai”, “Shanghai Urban” and its corporate logo were selected as the “Renowned Brand Names in Shanghai”. Successful residential housing projects completed by Shanghai Urban Development in recent years included Kangjian Star (康健星辰), Yishiyijia (宜仕怡家), Seattle (西雅圖) and Fuyuanhui Place (福源匯居).

### Infrastructure Facilities

During the period, profit contribution from the infrastructure facilities segment reached HK\$144 million, accounting for 16.9% of the Group’s Net Business Profit. The profit contribution of the division for the period however dropped as there was an after-tax exceptional gain of HK\$244 million arising from the disposal of ports and containers project for the same period last year. The Group will endeavour to complete the acquisition of additional toll road projects within this year. If such acquisitions materialize, the profit contribution of the infrastructure facilities business to the Group will increase.

The expansion and widening of the Shanghai-Nanjing Expressway (Shanghai Section) has commenced and is progressing in full force. In order to minimize disruptions from the construction, the Company formulated several crises management proposals to manage contingencies that may arise during the construction period. As of June 2007, the daily average traffic flow at the exit of the Shanghai-Nanjing Expressway (Shanghai Section) reached approximately 69,000, representing an increase of 21% over the same period last year. The expansion and widening of the Shanghai-Nanjing Expressway (Shanghai Section) is proceeding on schedule. The section continued to benefit from certain government compensations in its expansion and widening works during the period. Toll revenue and compensation received amounted to HK\$235 million, and the section contributed HK\$165 million to the Group’s profit. During the first half of the year, the construction cost incurred by the project company was HK\$263 million, accumulating to HK\$963 million in aggregate.

Toll revenue from Yongjin Expressway (Jinhua Section) has been increasing gradually. During the period, toll revenue increased by 35.3% to HK\$69.23 million. The daily average traffic flow reached 11,200. With the section becoming more popular among highway users, it is believed that there is considerable room for toll revenue growth.

General Water of China was ranked by H2O-China.com as one of the Top 10 Influential Water Services Companies in the year 2006. This represented the fourth consecutive year that the company has received such accreditation, and reflected its recognition in the market. The consolidated revenue of the six projects in operations managed by General Water of China increased 15.1% to HK\$187 million. In view of the pace of business development, the funding requirement of General Water of China is increasing. General Water of China will attend to the issue by further improving its capital structure. Meanwhile, the company will strive to improve the performance of its water supply and sewage treatment projects to maximize economies of scale, and to complete all construction works on schedule.



## Business Review, Discussion and Analysis

### Medicine

The medicine business achieved a turnaround in profits during the period and contributed HK\$71.85 million profits to the Group, accounting for 8.4% of the Group's Net Business Profit. The movement between the periods principally reflected the exceptional loss of HK\$215 million in 2006 arising from the share reform plan of SI Pharmaceutical. The pharmaceutical industry in the PRC is still facing the pressure of price decreases and cost increases. Nevertheless, the overall operating environment is becoming more favourable than the previous period, and this is expected to lead to a new round of accelerated development after the recession.

During the period, growth in the sales of the Group's Chinese medicine and health food businesses increased steadily, rising 7.68% to HK\$871 million over the same period last year. Sales for the "Dengfeng" series of drugs decreased by 2.94% and reached HK\$257 million. Sales for the "Dinglu" and "Herbapex" series of drugs increased by 23.73% and 27.46% to HK\$74.1 million and HK\$70.31 million respectively. Sales for the "Huqingyutang" series of drugs reached HK\$95.76 million representing an increase of 4.21%. Sales for the "Qingchunbao" series of health food products increased by 11.26% to HK\$228 million.

During the period, sales of biomedicine amounted to HK\$163 million, slightly less than the corresponding period last year. The completion of the acquisition of a 100% interest in Changzhou Techpool during the period optimized the shareholding structure for the Techpool series of companies, thereby strengthening the control of Guangdong Techpool over raw materials supply. The sales of "Techpool Luoan", a principal biomedicine of the Group, increased 14.99% to HK\$69.73 million.

Sales income from chemical drugs of HK\$792 million was reached during the period, representing an increase of 13.82% over the same period last year. Sales of hypertension drugs increased 18.66% to HK\$102 million.

Focusing on the domestic market, sales of medical equipment by Shanghai Medical Instruments reached HK\$267 million, representing a decrease of 7.99% over the same period last year.

#### Sales of Major Products for the first half of 2007

| Product Name                                 | Type/Indication   | Sales<br>RMB'000 | Change  |
|--|---|------------------|---------|
| "Dengfeng" Shen Mai Injection                | Cardiovascular  | 132,454          | 1.62%   |
| "Dengfeng" Dan Shen Injection                | Cardiovascular  | 60,387           | 4.60%   |
| "Huqingyutang" Stomach Rejuvenation Tablets  | Gastritis   | 39,883           | -1.39%  |
| "Herbapex" Rupixiao Tablets                  | Gynaecological  | 51,099           | 20.48%  |
| "Dinglu" Xinhuang Tablets                    | Anti-bacterial,<br>anti-inflammatory,<br>pain relieving | 44,512           | 12.84%  |
| "Qingchunbao" Anti-ageing Tablets            | Immunity strengthening                                  | 170,030          | 4.85%   |
| "Qingchunbao" Yongzhen Tablets               | Health food   | 25,471           | 41.14%  |
| "Qingchunbao" Beauty Capsules                | Health food   | 31,140           | -1.30%  |
| "Huqingyutang" Herba Dendrobium Grain        | Health food   | 22,653           | -35.85% |
| "Techpool Luoan"                             | Urinary trypsin enzyme<br>inhibitor                     | 69,730           | 14.99%  |
| "Changzhou Pharmaceutical" Captopril Tablets | Anti-hypertension                                       | 34,600           | 12.06%  |



## Business Review, Discussion and Analysis

### Consumer Products

During the period, profits from the consumer products business recorded an impressive growth of 185% to HK\$624 million, accounting for 73% of the Net Business Profit of the Group. The increase in profit was mainly attributable to the disposal of the Group's interests in Huizhong Automotive, Wanzhong Automotive and SIIC Transportation Electric during the period, which contributed an after-tax exceptional gain of HK\$155 million. In addition, the Group also shared the results of the automobiles and parts business bringing about HK\$150 million profit contribution during the period.

Nanyang Tobacco achieved remarkable results in the first half of 2007. Various measures were taken by Nanyang Tobacco to optimize its market mix, upgrade technology, refine management system and build up corporate identity. During the period, the company recorded a robust growth in both sales and profits of 18.9% and 25.2% to HK\$933 million and HK\$201 million respectively. Whilst Nanyang Tobacco continued to strive for structural changes, more efforts were devoted to upgrading its technologies, as well as redeveloping and upgrading the production lines. These initiatives facilitated the modernization of equipment. During the period, the company also started training activities for the certification of ISO9001:2000 quality assurance system.

The business of Wing Fat Printing continued to grow. In addition to the printing of quality packaging materials, the business mix of Wing Fat Printing has extended to production of container boards and paper trading. The business scale of Wing Fat Printing has grown to a size sufficient to command a separate listing status. In August this year, the Group submitted an advance booking form with the Stock Exchange for the spin off of Wing Fat Printing on the Main Board of the Stock Exchange scheduled to complete by the end of this year. The successful listing of Wing Fat Printing will enable the company to access both equity and debt capital markets and to accelerate its future business development.

Enhancement of product competitiveness remained the priority of Bright Dairy. Through the integration of organization structure, tightening control of production and enhancement of market capability, improvement in both turnover and net profits of Bright Dairy during the period was seen. During the first half of 2007, turnover of the company increased 10.7% to HK\$3,847 million. Net profit increased 7.89% to HK\$101 million. Sales from dairy products increased 10.7% to HK\$3,000 million. Income from dairy products in Shanghai area increased 11.03% to HK\$947 million, whilst income from other areas increased 10.49% to HK\$2,053 million. Bright Dairy launched several new products in the first half of 2007, including "Bright Dairy e+ Probiotics Cane Sugar-free Low Fat Xylitol Yogurt", "AB100 Fruit Cubes Yogurt", "Low Fat Milk" and "Delight (暢優)" series of products. Positive signs in the macroeconomic environment, increase in disposable income of urban residents, mild inflation and increase in savings, these coupled with the policy directions of the central government, provide the dairy products industry catering for health food with ample room for sustainable development.



## Business Review, Discussion and Analysis

Turnover for the supermarket chains business operated by Lianhua Supermarket grew 7.54% to HK\$8,981 million. Profit attributable to shareholders reached HK\$140 million, representing an increase of 1.37% over the same period in the previous year. As at 30 June 2007, Lianhua Supermarket had a total of 3,649 directly operated and franchised outlets (not including outlets operated by associated companies). The company continued to maintain its market leading position in the PRC. Ever since the company commenced the transformation of supermarkets in 2005, its modern business models have successfully attracted a group of middle to high-end consumers. A total of 42 supermarkets were transformed by the company during the period under review. Accumulatively, the company had transformed 137 supermarkets in total. The average daily sales and the average daily volume of customers of transformed outlets rose by approximately 19.16% and 12.42% respectively, as compared to the corresponding period of last year. During the period under review, Lianhua Supermarket continued to develop and promote the online supply chain management platform project (B2B project) among the suppliers. Currently, over 50% of its suppliers have registered with such management platform. The system enhanced the company's products satisfaction rate effectively. The turnover of inventory of its outlets and suppliers were both improved.

### Others

During the period, the sales of SMIC increased 7.1% to HK\$5,952 million. Net profit was HK\$52.31 million, a turnaround as compared from the loss in the same period of the previous year. Looking at the recent market trends, mobile phone applications continued to grow in demand as well as in variety. Strong foundry demand was also noted for power management ICs and consumer applications such as personal multimedia players and MP3 and MPEG4 applications. It is expected by SMIC that total revenue will increase 2% to 5% for the third quarter of 2007 while revenue contribution from the 90-nanometer node will continue to increase. The company is currently developing an 8Gb NAND flash product and the 2Gb NAND flash product is expected to reach the market in the second half of this year. This milestone demonstrates SMIC's technological and manufacturing capabilities and strategically positions SMIC as one of the foundry service providers in the NAND flash market.

## Key Figures

|  | 2007                       | 2006       | Change |
|--|----------------------------|------------|--------|
|  | Unaudited                  |            |        |
| Results  | Six months ended 30th June |            |        |
| Turnover (HK\$'000)                            | 3,916,952                  | 3,401,805  | 15.1%  |
| Profit attributable to shareholders (HK\$'000) | 932,910                    | 625,375    | 49.2%  |
| Earnings per share – basic (HK cents)          | 96.3                       | 64.6       | 49.1%  |
| Dividend per share – Interim (HK cents)        | 37                         | 22         | 68.2%  |
| Dividend payout ratio                          | 38.4%                      | 34.1%      |        |
| Interest cover (note(1))                       | 22.2 times                 | 19.1 times |        |

|                                    | Unaudited   | Audited       |      |
|------------------------------------|-------------|---------------|------|
| Financial Position                 | 30th June   | 31st December |      |
| Total assets (HK\$'000)            | 24,668,636  | 23,658,128    | 4.3% |
| Shareholders' equity (HK\$'000)    | 18,172,630  | 17,505,381    | 3.8% |
| Net assets per share (HK\$)        | 18.74       | 18.07         | 3.7% |
| Gearing ratio (note(2))            | 9.5%        | 10.0%         |      |
| Number of shares in issue (shares) | 969,531,000 | 968,504,000   |      |

Note (1): (profit before taxation, interest expenses, depreciation and amortization)/interest expenses

Note (2): interest-bearing loans/(shareholders' equity + minority interests + interest-bearing loans)

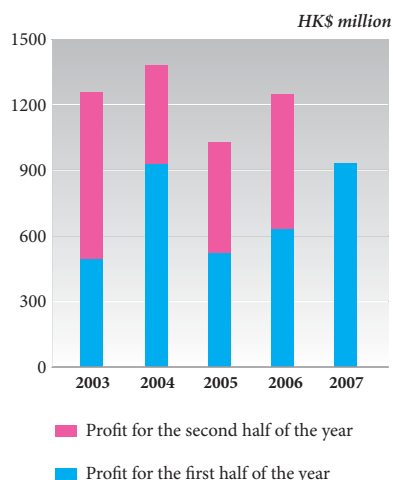


# Financial Review

## I Analysis of Financial Results

### 1 Profit Attributable to Shareholders of the Company

Benefited from the stable growth of various major businesses and the gain from the disposal of non-core automobiles and parts businesses, the Group recorded a profit attributable to shareholders of HK\$932.91 million for the first half of 2007, an increase of HK\$307.54 million or approximately 49.2% as compared to the same period in 2006.



### 2 Profit Contribution from Each Business

The profit contribution of each business to the Group during the period and the comparative figures of the corresponding period last year is summarized as follows:

|                           | Unaudited<br>Six months ended 30th June |                  | Change  |
|---------------------------|---|------------------|---------|
|                           | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |         |
| Infrastructure facilities | 144,214                                 | 448,515          | (67.8%) |
| Medicine                  | 71,851                                  | 70,023           | 2.6%    |
| Consumer products         | 623,634                                 | 250,983          | 148.5%  |
| Information technology    | 14,552                                  | 35,080           | (58.5%) |
| Loss on share reform      | -                                       | (247,094)        |         |

During the period, the profit from infrastructure facilities business declined by 67.8%, which was mainly attributable to the inclusion with a profit of approximately HK\$243.67 million in the profit contribution for the same period last year from the disposal of 10% stake in Pudong Container and the dividend income of HK\$38.42 million received therefrom.

Medicine business was still affected by pressure on product pricing, surge in cost of raw material and the adjustment on export tax refund policy. Operating profit for the period amounted to HK\$71.85 million, representing a moderate increase from the same period last year after exclusion of an one-off loss on share reform.



## Financial Review

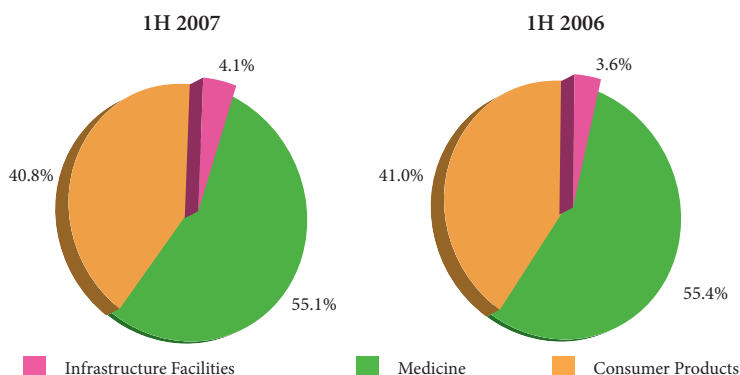
The disposal of three non-core automobiles and parts entities by the Group was completed in the first half of the year, which recorded a disposal gain of HK\$154.60 million. In addition, the increase of operating profit from each major entity in consumer product business, drove up the profit contribution of consumer product business. Of which, the profit of Nanyang Tobacco increased by 25.2% due to the increase in the volume of duty free and export sales.

During the period, benefited from the growth in orders from the Chinese local design companies and the receipt of management fees from the managed projects in Wuhan and Chengdu, SMIC posted a profit of approximately US\$6.71 million for the first half of the year, amid the difficult pricing pressure in the dynamic random access memory (“DRAM”) market. The first half results of information technology business for 2006 included not only the results of SMIC but also the gain on fair value changes of two strategic investments namely Shinhint Acoustic Link Holdings Ltd and Actions Semiconductor Co., Ltd., whereas no profit of similar nature were booked this period.

Details of the operating performances and progress of each business segment for the first half of 2007 are set out in the section headed “Business Review, Discussion and Analysis”.

### 3 Turnover

|                           | Unaudited                  |                  | Change       |
|---------------------------|----------------------------|------------------|--------------|
|                           | Six months ended 30th June |                  |              |
|                           | 2007<br>HK\$'000           | 2006<br>HK\$'000 |              |
| Infrastructure facilities | 162,653                    | 122,064          | 33.3%        |
| Medicine                  | 2,157,476                  | 1,885,791        | 14.4%        |
| Consumer products         | 1,596,823                  | 1,393,950        | 14.6%        |
|                           | <b>3,916,952</b>           | <b>3,401,805</b> | <b>15.1%</b> |







## Financial Review

The turnover of the Group for the period increased by 15.1% over the comparative period last year, whereas the turnover for each business recorded lucrative increase. Of which, the turnover of infrastructure facilities business posted an increase of approximately 33.3%. This was attributable to the average daily traffic volume of Hu-Ning Expressway (Shanghai Section) reached 69,000 units, representing a 21% growth over the comparative period last year and the increase in average toll revenue per vehicle.

Benefited from the growth in volume of duty free and export sales, the turnover of Nanyang Tobacco increased by 18.9%, driving up the turnover of consumer product business by 14.6%.

Although the medicine business continued to be affected by price surge of raw material, the adjustment in export tax refund policy and pricing pressure on pharmaceutical products, there were signs of improvement in the operating environment of the medicine industry during the period, with the growth in turnover of the Group's medicine business by 14.4%.

### 4 Profit before Taxation

#### (1) Gross Profit Margin

The gross profit margin for the period was 37.9%, declined by 0.6 percentage point against gross profit margin of 38.5% in the same period last year. The decline was mainly attributable to the increase in the proportion of medicine retailing turnover for which the gross profit margin was relatively low.

#### (2) Investment Income

The decrease in investment income was mainly attributable to a gain of HK\$268.07 million on the disposal of 10% stake in Pudong Container and its dividend income of HK\$38.42 million was recorded last year.

#### (3) Other Income

Other income was mainly the toll revenue deficiency compensation from Hu-Ning Expressway of approximately HK\$67.58 million. The increase in traffic volume at Hu-Ning Expressway reduced the toll revenue deficiency, and the compensation amount decreased by approximately HK\$29.15 million against the same period last year.

#### (4) Share of Results of Jointly Controlled Entities

With the turnaround in the operating results of Huizhong Automotive, a profit of HK\$126.34 million was contributed to the Group and resulted in significant improvement for the share of results of jointly controlled entities.



## Financial Review

### (5) Share of Results of Associates

The increase of share of results of associates was mainly attributable to the turnaround of SMIC, which was benefited from favourable factors including the growth in orders from the Chinese local design companies and the receipt of management fees from the managed projects in Wuhan and Chengdu amid difficult pricing pressure in the DRAM market.

### (6) Net Gain on Disposal of Interests in Subsidiaries, Jointly Controlled Entities and Associates

The disposal of three entities engaged in automobiles and parts business was completed during the period, which recorded a disposal gain of HK\$154.60 million by the Group.

## 5 Dividends

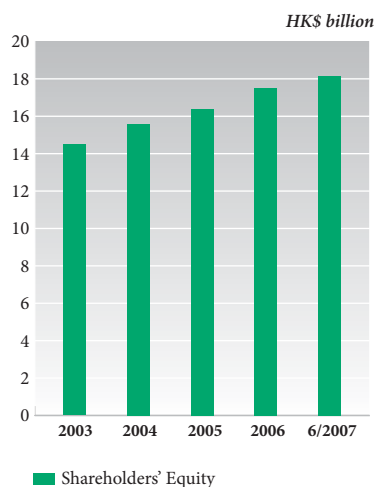
The Board of Directors has declared an interim dividend of HK37 cents per share. The dividend payout ratio is 38.4%. The dividend increased by 68.2% and 4.3 percentage points as compared to the interim dividend of HK22 cents per share and payout ratio of 34.1% respectively for 2006.

## II Financial Position of the Group

### 1 Capital and Shareholders' Equity

As at 30th June 2007, the Group has a total of 969,531,000 shares in issue, which was increased by 1,027,000 shares, as compared with the 968,504,000 shares in issue at the end of 2006 attributable to the exercise of share option by the staff during the period.

The Group's financial position remained strong. Shareholders' equity increased by approximately HK\$667.25 million to approximately HK\$18,172.63 million as at 30th June 2007, which was attributable to both net profits and the increase in number of shares after deducting the dividend actually paid this period.





## Financial Review

### 2 Indebtedness

#### (1) Borrowings

The Group obtained a five-year term and revolving syndication loan facilities of HK\$3 billion last year through SIHL Finance Limited, its wholly-owned subsidiary. This facility was retained as a stand-by facility at an attractive interest rate level for the Group.

As at 30th June 2007, the total borrowings of the Group amounted to approximately HK\$2,143.03 million (31st December 2006: HK\$2,186.85 million), of which 85.0% (31st December 2006: 83.3%) was an unsecured credit facility.

#### (2) Pledge of assets

As at 30th June 2007, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

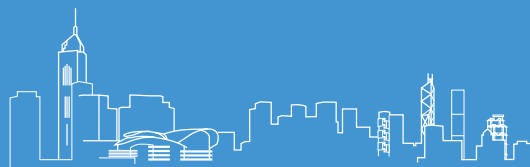
- (a) plant and machinery with a carrying value of approximately HK\$23,833,000 (31st December 2006: HK\$22,857,000);
- (b) leasehold land and buildings with a carrying value of approximately HK\$258,788,000 (31st December 2006: HK\$195,494,000);
- (c) motor vehicles with a carrying value of approximately HK\$124,000 (31st December 2006: HK\$82,000);  
and
- (d) bank deposit of approximately HK\$7,800,000 (31st December 2006: HK\$560,000).

In addition, at 30th June 2007, certain of the Group's plant and machinery with a carrying value of HK\$175,222,000 (31st December 2006: HK\$180,322,000) 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 30th June 2007, the Group had bank deposits of approximately HK\$125 million (31st December 2006: HK\$28.0 million) pledged to banks in respect of banking facilities granted to invested entities.

#### (3) Contingent liabilities

As at 30th June 2007, the Group has given guarantees to banks in respect of banking facilities utilized by a jointly controlled entity, associated companies and a third party of HK\$231.53 million (31st December 2006: HK\$64.80 million) in total.



### 3 Bank Deposits and Short-term Investments

As at 30th June 2007, bank balances and short-term investments held by the Group amounted to HK\$7,364.96 million (31st December 2006: HK\$6,805.56 million) and HK\$1,439.96 million (31st December 2006: HK\$1,660.11 million) respectively. The proportions of US dollars, Renminbi and HK dollars in the bank balances were 55%, 38% and 7% (31st December 2006: 59%, 29% and 12%) respectively. Short-term investments were 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, which has sufficient working capital and a healthy interest cover. However, the Group will review market situation from time to time and seek opportunities to optimize capital structure after taking into account the development of the Company.

## 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 for the purpose of mitigating exchange rate risks during the period.

### 2 Interest Rate Risk

In order to exercise prudent management against interest rate risk, the Group will continue to review the market trend, as well as its business operations needs and its financial position, so as to arrange the interest rate hedging means as appropriate.

### 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 as at the end of the period 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, based on previous experience, is an 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 minimize the credit risk exposed to the Group from its financial investments.



## Financial Review

### IV Post Balance Sheet Events

#### 1 Investment in Shanghai Urban Development for a 40% shareholdings

On 27th June 2007, the Company and Xuhui District State-owned Assets Administrative Committee entered into the Capital Contribution Agreement, pursuant to which the Company has agreed to make a capital contribution of RMB2,130,660,600 to Shanghai Urban Development in return for a 40% equity interest in Shanghai Urban Development. An amount of RMB220,000,000 was paid before 30th June 2007 by the Company to Shanghai United Assets and Securities Exchange as deposit to secure the performance by the Company of its obligations to pay the capital contribution. The balance of about HK\$1,905 million is disclosed as capital commitment. The capital contribution to Shanghai Urban Development was approved by the relevant approval authority on 31st July 2007.

#### 2 Placing of 96,900,000 new shares at a price of HK\$31.2 per share

On 16th July 2007, the Company, SIH and the placing agent entered into a placing agreement. The placing agent placed 96,900,000 existing shares of HK\$0.10 each in the Company held by SIH at a price of HK\$31.2 each. On the same date, SIH also entered into a subscription agreement with the Company to subscribe for 96,900,000 new shares of HK\$0.10 each in the Company at a price of HK\$31.2 each. The placing completed on 18th July 2007.

#### 3 Spin-off of the Wing Fat Printing on the Main Board of the Stock Exchange

On 29th August 2007, the Company announced that the Wing Fat Printing, a subsidiary of the Company, submitted an advance booking form with the Stock Exchange for an application for the listing on the Main Board of the Stock Exchange.



## Report on Review of Interim Financial Information

**TO THE BOARD OF DIRECTORS OF SHANGHAI INDUSTRIAL HOLDINGS LIMITED**  
(*incorporated in Hong Kong with limited liability*)

### Introduction

We have reviewed the interim financial information set out on pages 22 to 40, which comprises the condensed consolidated balance sheet of Shanghai Industrial Holdings Limited as of 30th June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
30th August 2007



## Condensed Consolidated Income Statement

For the six months ended 30th June 2007

|  | NOTES | Six months ended 30th June |                         |
|--|-------|----------------------------|-------------------------|
|  |       | 2007                       | 2006                    |
|  |       | HK\$'000<br>(unaudited)    | HK\$'000<br>(unaudited) |
| Turnover   | 3     | 3,916,952                  | 3,401,805               |
| Cost of sales  |       | (2,431,075)                | (2,093,234)             |
| Gross profit   |       | 1,485,877                  | 1,308,571               |
| Investment income  |       | 211,680                    | 493,525                 |
| Other income   |       | 102,642                    | 131,795                 |
| Distribution costs   |       | (550,402)                  | (489,362)               |
| Administrative expenses  |       | (396,453)                  | (394,282)               |
| Finance costs  |       | (64,105)                   | (56,799)                |
| Share of results of jointly controlled entities  |       | 138,330                    | 7,723                   |
| Share of results of associates   |       | 103,376                    | 92,779                  |
| Net gain (loss) on disposal of interests in subsidiaries, jointly controlled entities and associates |       | 159,482                    | (4,994)                 |
| Dilution loss on share reform of a subsidiary  |       | -                          | (214,955)               |
| Allowance for loss on share reform of an associate   |       | -                          | (32,139)                |
| Discount on acquisition of interest in a subsidiary  |       | 2,563                      | -                       |
| Profit before taxation   |       | 1,192,990                  | 841,862                 |
| Income tax expenses  | 4     | (133,441)                  | (112,897)               |
| Profit for the period  | 5     | 1,059,549                  | 728,965                 |
| Attributable to  |       |                            |                         |
| – Equity holders of the Company  |       | 932,910                    | 625,375                 |
| – Minority interests   |       | 126,639                    | 103,590                 |
|  |       | 1,059,549                  | 728,965                 |
| Dividends  | 6     | 290,718                    | 212,987                 |
| Earnings per share   | 7     |                            |                         |
| – Basic  |       | HK96.3 cents               | HK64.6 cents            |
| – Diluted  |       | HK95.9 cents               | HK64.2 cents            |



## Condensed Consolidated Balance Sheet

At 30th June 2007

|  | NOTES | 30th June<br>2007<br>HK\$'000<br>(unaudited) | 31st December<br>2006<br>HK\$'000<br>(audited) |
|--|-------|--|--|
| <b>Non-Current Assets</b>  |       |  |  |
| Investment properties  | 8     | 71,010                                       | 80,570   |
| Property, plant and equipment                                    | 8     | 2,861,775                                    | 2,671,797                                      |
| Prepaid lease payments –<br>non-current portion                  |       | 248,506                                      | 251,016  |
| Toll road operating right  |       | 1,742,039                                    | 1,778,596                                      |
| Other intangible assets  |       | 75,564                                       | 89,659   |
| Goodwill   |       | 428,124                                      | 421,825  |
| Interests in jointly controlled entities                         |       | 1,177,423                                    | 2,444,993                                      |
| Interests in associates  |       | 3,678,444                                    | 3,793,890                                      |
| Available-for-sale investments                                   |       | 366,251                                      | 197,109  |
| Loan receivables – non-current portion                           |       | 3,322  | 3,689  |
| Deposit paid on acquisition of<br>a jointly controlled entity    |       | 225,662                                      | –  |
| Deposits paid on acquisition of property,<br>plant and equipment |       | 833,187                                      | 664,945  |
| Deferred tax assets  |       | 23,520                                       | 28,762   |
|  |       | <b>11,734,827</b>                            | <b>12,426,851</b>                              |
| <b>Current Assets</b>  |       |  |  |
| Inventories  |       | 1,324,386                                    | 1,216,612                                      |
| Trade and other receivables                                      | 9     | 2,797,473                                    | 1,513,127                                      |
| Prepaid lease payments – current portion                         |       | 7,035  | 7,035  |
| Financial assets at fair value through<br>profit or loss         | 10    | 1,439,957                                    | 1,660,111                                      |
| Pledged bank deposits  |       | 132,800                                      | 28,560   |
| Short-term bank deposits   |       | 720,562                                      | 674,845  |
| Bank balances and cash   |       | 6,511,596                                    | 6,102,154                                      |
|  |       | <b>12,933,809</b>                            | <b>11,202,444</b>                              |
| Assets classified as held for sale                               |       | –  | 28,833   |
|  |       | <b>12,933,809</b>                            | <b>11,231,277</b>                              |





## Condensed Consolidated Balance Sheet

At 30th June 2007

|   | NOTES | 30th June<br>2007<br>HK\$'000<br>(unaudited) | 31st December<br>2006<br>HK\$'000<br>(audited) |
|---|-------|--|--|
| <b>Current Liabilities</b>                                  |       |  |  |
| Trade and other payables                                    | 11    | 1,885,755                                    | 1,535,920                                      |
| Taxation payable  |       | 135,562                                      | 102,464  |
| Short-term bank and other borrowings                        | 12    | 547,105                                      | 614,741  |
|   |       | <b>2,568,422</b>                             | 2,253,125                                      |
| <b>Net Current Assets</b>                                   |       | <b>10,365,387</b>                            | 8,978,152                                      |
| <b>Total Assets Less Current Liabilities</b>                |       | <b>22,100,214</b>                            | 21,405,003                                     |
| <b>Capital and Reserves</b>                                 |       |  |  |
| Share capital   |       | 96,953                                       | 96,850   |
| Share premium and reserves                                  |       | 18,075,677                                   | 17,408,531                                     |
| <b>Equity attributable to equity holders of the Company</b> |       | <b>18,172,630</b>                            | 17,505,381                                     |
| Minority interests  |       | 2,229,472                                    | 2,225,614                                      |
| <b>Total Equity</b>   |       | <b>20,402,102</b>                            | 19,730,995                                     |
| <b>Non-Current Liabilities</b>                              |       |  |  |
| Long-term bank and other borrowings                         | 12    | 1,586,824                                    | 1,561,962                                      |
| Deferred tax liabilities                                    |       | 111,288                                      | 112,046  |
|   |       | <b>1,698,112</b>                             | 1,674,008                                      |
|   |       | <b>22,100,214</b>                            | 21,405,003                                     |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2007

## Attributable to equity holders of the Company

|  | Share capital<br>HK\$'000 | Share premium<br>HK\$'000 | Share options reserve<br>HK\$'000 | Capital redemption reserve<br>HK\$'000 | Other revaluation reserve<br>HK\$'000<br>(note i) | Hedging reserve<br>HK\$'000 | Revaluation reserve<br>HK\$'000 | Translation reserve<br>HK\$'000 | PRC statutory reserves<br>HK\$'000<br>(note ii) | Accumulated profits<br>HK\$'000 | Total<br>HK\$'000 | Minority interests<br>HK\$'000 | Total equity<br>HK\$'000 |
|--|---------------------------|---------------------------|-----------------------------------|--|---|-----------------------------|---------------------------------|---------------------------------|---|---------------------------------|-------------------|--------------------------------|--------------------------|
| At 1st January 2006 (audited)                                    | 96,753                    | 10,135,781                | 7,827                             | 1,071                                  | 8,144   | 6,421                       | -                               | 173,517                         | 453,100   | 5,493,278                       | 16,375,892        | 1,832,137                      | 18,208,029               |
| Loss on cash flow hedges   | -                         | -                         | -                                 | -                                      | -   | (6,421)                     | -                               | -                               | -   | -                               | (6,421)           | -                              | (6,421)                  |
| Fair value adjustment on available-for-sale investments          | -                         | -                         | -                                 | -                                      | -   | -                           | 6,543                           | -                               | -   | -                               | 6,543             | -                              | 6,543                    |
| Net income recognised directly in equity                         | -                         | -                         | -                                 | -                                      | -   | (6,421)                     | 6,543                           | -                               | -   | -                               | 122               | -                              | 122                      |
| Profit for the period  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | 625,375                         | 625,375           | 103,590                        | 728,965                  |
| Realised on disposal of interest in an associate                 | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | (10,234)                        | -   | -                               | (10,234)          | -                              | (10,234)                 |
| Realised on dilution of interest on share reform of a subsidiary | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | (3,778)                         | -   | -                               | (3,778)           | -                              | (3,778)                  |
| Dilution of interest on share reform of a subsidiary             | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | -                 | 209,257                        | 209,257                  |
| Total recognised income and expense for the period               | -                         | -                         | -                                 | -                                      | -   | (6,421)                     | 6,543                           | (14,012)                        | -   | 625,375                         | 611,485           | 312,847                        | 924,332                  |
| Exercise of share options  | 62                        | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | 62                | -                              | 62                       |
| Premium arising on issue of shares                               | -                         | 7,338                     | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | 7,338             | -                              | 7,338                    |
| Release of share options reserve on exercise of share options    | -                         | 103                       | (103)                             | -                                      | -   | -                           | -                               | -                               | -   | -                               | -                 | -                              | -                        |
| Recognition of equity-settled share-based payment expenses       | -                         | -                         | 5,023                             | -                                      | -   | -                           | -                               | -                               | -   | -                               | 5,023             | 31                             | 5,054                    |
| Transfers  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | 17,448  | (17,448)                        | -                 | -                              | -                        |
| Dividends paid to minority interests                             | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | -                 | (129,591)                      | (129,591)                |
| Acquired on acquisition of subsidiaries                          | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | -                 | 19,584                         | 19,584                   |
| Dividends paid (note 6)  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | (212,987)                       | (212,987)         | -                              | (212,987)                |
| At 30th June 2006 (unaudited)                                    | 96,815                    | 10,143,222                | 12,747                            | 1,071                                  | 8,144   | -                           | 6,543                           | 159,505                         | 470,548   | 5,888,218                       | 16,786,813        | 2,035,008                      | 18,821,821               |



# Condensed Consolidated Statement of Changes in Equity

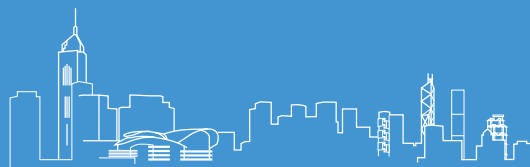
For the six months ended 30th June 2007

Attributable to equity holders of the Company

|  | Share capital<br>HK\$'000 | Share premium<br>HK\$'000 | Share options reserve<br>HK\$'000 | Capital redemption reserve<br>HK\$'000 | Other revaluation reserve<br>HK\$'000<br>(note i) | Hedging reserve<br>HK\$'000 | Revaluation reserve<br>HK\$'000 | Translation reserve<br>HK\$'000 | PRC statutory reserves<br>HK\$'000<br>(note ii) | Accumulated profits<br>HK\$'000 | Total<br>HK\$'000 | Minority interests<br>HK\$'000 | Total equity<br>HK\$'000 |
|--|---------------------------|---------------------------|-----------------------------------|--|---|-----------------------------|---------------------------------|---------------------------------|---|---------------------------------|-------------------|--------------------------------|--------------------------|
| At 1st January 2007 (audited)  | 96,850                    | 10,147,375                | 18,481                            | 1,071                                  | 8,144   | -                           | 4,002                           | 451,039                         | 478,914   | 6,299,505                       | 17,505,381        | 2,225,614                      | 19,730,995               |
| Fair value adjustment on available-for-sale investments and net income recognised directly in equity | -                         | -                         | -                                 | -                                      | -   | -                           | 97,194                          | -                               | -   | -                               | 97,194            | -                              | 97,194                   |
| Profit for the period  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | 932,910                         | 932,910           | 126,639                        | 1,059,549                |
| Realised on disposal of interests in jointly controlled entities                                     | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | (78,769)                        | -   | -                               | (78,769)          | -                              | (78,769)                 |
| Realised on disposal of interest in an associate   | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | (9,021)                         | -   | -                               | (9,021)           | -                              | (9,021)                  |
| Realised on disposal of interests in subsidiaries  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | (2,714)                         | -   | -                               | (2,714)           | -                              | (2,714)                  |
| Total recognised income and expense for the period   | -                         | -                         | -                                 | -                                      | -   | -                           | 97,194                          | (90,504)                        | -   | 932,910                         | 939,600           | 126,639                        | 1,066,239                |
| Exercise of share options  | 103                       | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | 103               | -                              | 103                      |
| Premium arising on issue of shares   | -                         | 15,188                    | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | 15,188            | -                              | 15,188                   |
| Release of share options reserve on exercise of share options  | -                         | 1,256                     | (1,256)                           | -                                      | -   | -                           | -                               | -                               | -   | -                               | -                 | -                              | -                        |
| Transaction costs attributable to issue of new shares  | -                         | (15)                      | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | (15)              | -                              | (15)                     |
| Recognition of equity-settled share-based payment expenses   | -                         | -                         | 3,091                             | -                                      | -   | -                           | -                               | -                               | -   | -                               | 3,091             | -                              | 3,091                    |
| Transfers  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | 74,284  | (74,284)                        | -                 | -                              | -                        |
| Dividends paid to minority interests   | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | -                               | -                 | (104,068)                      | (104,068)                |
| Realised on disposal of interests in jointly controlled entities                                     | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | (199,627)                                       | 199,627                         | -                 | -                              | -                        |
| Realised on disposal of interest in an associate   | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | (21,962)  | 21,962                          | -                 | -                              | -                        |
| Disposal of subsidiaries   | -                         | -                         | -                                 | -                                      | (519)   | -                           | -                               | -                               | (1,904)   | 2,423                           | -                 | (18,713)                       | (18,713)                 |
| Dividends paid (note 6)  | -                         | -                         | -                                 | -                                      | -   | -                           | -                               | -                               | -   | (290,718)                       | (290,718)         | -                              | (290,718)                |
| At 30th June 2007 (unaudited)  | 96,953                    | 10,163,804                | 20,316                            | 1,071                                  | 7,625   | -                           | 101,196                         | 360,535                         | 329,705   | 7,091,425                       | 18,172,630        | 2,229,472                      | 20,402,102               |

## Notes:

- (i) Other revaluation reserve represents fair value adjustment on acquisition of subsidiaries relating to interests previously held by the Group as associates.
- (ii) The People's Republic of China, other than Hong Kong (the "PRC") statutory reserves are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries, jointly controlled entities and associates.



## Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2007

|   | Six months ended 30th June      |                                 |
|---|---------------------------------|---------------------------------|
|   | 2007<br>HK\$'000<br>(unaudited) | 2006<br>HK\$'000<br>(unaudited) |
| Net cash from operating activities  | 633,762                         | 453,056                         |
| Net cash from investing activities:   |                                 |                                 |
| Proceeds from disposal of jointly controlled entities                         | 885,000                         | -                               |
| Disposal of subsidiaries (net of cash and cash equivalents disposed of)       | 89,738                          | -                               |
| Purchase of property, plant and equipment                                     | (296,059)                       | (143,004)                       |
| Deposit paid on acquisition of a jointly controlled entity                    | (225,662)                       | -                               |
| Increase in deposits paid on acquisition of property, plant and equipment     | (168,242)                       | (353,882)                       |
| Proceeds from disposal of available-for-sale investments                      | -                               | 450,492                         |
| Proceeds from disposal of an associate  | -                               | 317,395                         |
| Other investing cash flows  | (22,912)                        | 11,928                          |
|   | 261,863                         | 282,929                         |
| Net cash used in financing activities:  |                                 |                                 |
| Dividends paid  | (290,718)                       | (212,987)                       |
| Repayment of bank and other borrowings  | (123,174)                       | (160,345)                       |
| Dividends paid to minority interests  | (104,068)                       | (129,591)                       |
| Borrowings raised   | 79,350                          | 167,956                         |
| Other financing cash flows  | (47,573)                        | (7,209)                         |
|   | (486,183)                       | (342,176)                       |
| Net increase in cash and cash equivalents                                     | 409,442                         | 393,809                         |
| Cash and cash equivalents at 1st January                                      | 6,102,154                       | 5,764,596                       |
| Cash and cash equivalents at 30th June, represented by bank balances and cash | 6,511,596                       | 6,158,405                       |



# Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

## 1. 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 Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values.

The accounting policies adopted 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 31st December 2006 except as described below.

In the current interim period, the Group has applied, for the first time, new and revised standards and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January 2007.

The adoption of these new HKFRSs had no material effect on the results or the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of new and revised standards or interpretations will have no material impact on the results or the financial position of the Group except for HK(IFRIC)-Int 12 “Service Concession Arrangements” in which the Group has commenced considering the potential impact but not yet in a position to determine whether it would have a significant impact on the results or the financial position of the Group.

|                   |   |
|-------------------|---|
| HKAS 23 (Revised) | Borrowing Costs <sup>1</sup>                                |
| HKFRS 8           | Operating Segments <sup>1</sup>                             |
| HK(IFRIC)-Int 11  | HKFRS 2: Group and Treasury Share Transactions <sup>2</sup> |
| HK(IFRIC)-Int 12  | Service Concession Arrangements <sup>3</sup>                |

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1st January 2008

# Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

## 3. SEGMENT INFORMATION BY BUSINESS

For management purposes, the Group is currently organised into four operating businesses – infrastructure facilities, medicine, consumer products and information technology. These businesses are the basis on which the Group reports its primary segment information.

Principal businesses are as follows:

|                           |   |   |
|---------------------------|---|---|
| Infrastructure facilities | – | investment in toll road projects and water-related business   |
| Medicine                  | – | manufacture and sale of medicine and health food; medical equipment   |
| Consumer products         | – | manufacture and sale of cigarettes, packaging materials, printed products, paper making, dairy products, commercial vehicles, automobile components and spare parts |
| Information technology    | – | development of communication infrastructure and information technology business   |

### For the six months ended 30th June 2007

|   | Infrastructure facilities<br>HK\$'000 | Medicine<br>HK\$'000 | Consumer products<br>HK\$'000 | Information technology<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|---------------------------------------|----------------------|-------------------------------|------------------------------------|--------------------------|
| TURNOVER  |                                       |                      |                               |                                    |                          |
| External sales  | 162,653                               | 2,157,476            | 1,596,823                     | –                                  | 3,916,952                |
| Segment results   | 165,122                               | 215,120              | 361,051                       | –                                  | 741,293                  |
| Net unallocated corporate income  |                                       |                      |                               |                                    | 112,051                  |
| Finance costs   |                                       |                      |                               |                                    | (64,105)                 |
| Share of results of jointly controlled entities   | (17,933)                              | 22,182               | 127,051                       | 7,030                              | 138,330                  |
| Share of results of associates  | –                                     | 3,176                | 95,452                        | 4,748                              | 103,376                  |
| Net gain on disposal of interests in subsidiaries, jointly controlled entities and associates |                                       |                      |                               |                                    | 159,482                  |
| Discount on acquisition of interest in a subsidiary   |                                       |                      |                               |                                    | 2,563                    |
| Profit before taxation  |                                       |                      |                               |                                    | 1,192,990                |
| Income tax expenses   |                                       |                      |                               |                                    | (133,441)                |
| Profit for the period   |                                       |                      |                               |                                    | 1,059,549                |



## Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

### 3. SEGMENT INFORMATION BY BUSINESS (continued)

For the six months ended 30th June 2006

|   | Infrastructure<br>facilities<br>HK\$'000 | Medicine<br>HK\$'000 | Consumer<br>products<br>HK\$'000 | Information<br>technology<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|--|----------------------|----------------------------------|---------------------------------------|--------------------------|
| <b>TURNOVER</b>   |  |                      |                                  |                                       |                          |
| 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                  |

# Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

## 4. INCOME TAX EXPENSES

|                                     | Six months ended 30th June |          |
|-------------------------------------|----------------------------|----------|
|                                     | 2007                       | 2006     |
|                                     | HK\$'000                   | HK\$'000 |
| The charge (credit) comprises:      |                            |          |
| Current tax                         |                            |          |
| – Hong Kong                         | 50,557                     | 33,648   |
| – Other regions in the PRC          | 83,652                     | 72,693   |
|                                     | 134,209                    | 106,341  |
| Under(over)provision in prior years |                            |          |
| – Hong Kong                         | (1,493)                    | –        |
| – Other regions in the PRC          | 3,829                      | (59)     |
|                                     | 2,336                      | (59)     |
| Deferred taxation                   | (3,104)                    | 6,615    |
|                                     | 133,441                    | 112,897  |

Hong Kong Profits Tax is calculated at 17.5% (2006: 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 the relevant rules. The current period's PRC income tax charges are arrived at after taking into account these various tax incentives, ranging from 7.5% to 33%.

Pursuant to the PRC Enterprise Income Tax Law (the "New Law") passed by the Tenth National People's Congress on 16th March 2007, the new PRC income tax rates for domestic and foreign enterprises are unified at 25% effective from 1st January 2008. The New Law also provides for tax incentives for "high technology entities". As detailed measures concerning the tax incentives have not been issued by the State Council, the management of the Group is not yet in a position to assess the impact, if any. The Group will continue to evaluate the impact when more detailed regulations are announced.





## Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

### 5. PROFIT FOR THE PERIOD

|  | Six months ended 30th June |           |
|--|----------------------------|-----------|
|  | 2007                       | 2006      |
|  | HK\$'000                   | HK\$'000  |
| Profit for the period has been arrived at after charging (crediting):  |                            |           |
| Amortisation of toll road operating right  | 36,557                     | 29,591    |
| Amortisation of other intangible assets  | 3,949                      | 6,193     |
| Depreciation of property, plant and equipment  | 119,704                    | 148,158   |
| Release of prepaid lease payments  | 3,306                      | 3,581     |
| Dividend income from investments   | (1,884)                    | (40,649)  |
| (Gain) loss on disposal of property, plant and equipment   | (3,909)                    | 950       |
| Gain on disposal of available-for-sale investments   | -                          | (268,074) |
| Interest income  | (157,807)                  | (116,827) |
| Net increase in fair value of financial assets at fair value through profit or loss                                  | (16,699)                   | (61,920)  |
| Share of PRC income tax of jointly controlled entities (included in share of results of jointly controlled entities) | 4,843                      | 8,568     |
| Share of PRC income tax of associates (included in share of results of associates)                                   | 10,917                     | 4,426     |

### 6. DIVIDENDS

|  | Six months ended 30th June |          |
|--|----------------------------|----------|
|  | 2007                       | 2006     |
|  | HK\$'000                   | HK\$'000 |
| 2006 final dividend paid of HK30 cents (2005 final dividend: HK22 cents) per share | 290,718                    | 212,987  |

The directors have determined that an interim dividend of HK37 cents per share (2006 interim dividend: HK22 cents per share) will be paid to shareholders of the Company whose names appear on the Register of Members on 21st September 2007.

# Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

## 7. 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 30th June 2007 is based on the following data:

|   | Six months ended 30th June |                  |
|---|----------------------------|------------------|
|   | 2007<br>HK\$'000           | 2006<br>HK\$'000 |
| Profits for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)  | 932,910                    | 625,375          |
| Effect of dilutive potential ordinary shares – adjustment to the share of results of a jointly controlled entity and an associate based on potential dilution of its earnings per share | (1,080)                    | (2,334)          |
| Earnings for the purposes of diluted earnings per share   | 931,830                    | 623,041          |

|   | Six months ended 30th June  |                             |
|---|-----------------------------|-----------------------------|
|   | 2007<br>Number of<br>shares | 2006<br>Number of<br>shares |
| Weighted average number of ordinary shares for the purposes of basic earnings per share   | 968,733,138                 | 967,919,845                 |
| Effect of dilutive potential ordinary shares in respect of share options                  | 2,819,462                   | 2,004,581                   |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 971,552,600                 | 969,924,426                 |



## Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

### 8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred costs for construction in progress of approximately HK\$252 million and acquired plant and machinery at a cost of approximately HK\$30 million and other property, furniture and equipment at a cost of approximately HK\$14 million for the purpose of expanding the Group's business.

The directors have considered the carrying amounts of the Group's investment properties carried at fair values at 30th June 2007 and have estimated that the carrying amounts did not differ significantly from the fair values at 31st December 2006. Consequently, no changes in the fair value of investment properties has been recognised in the current period.

### 9. TRADE AND OTHER RECEIVABLES

The Group generally allows credit period ranging from 30 days to 180 days to its trade customers.

At 30th June 2007, included in trade and other receivables are trade receivables of HK\$1,202,095,000 (31st December 2006: HK\$895,234,000) and their aged analysis is as follows:

|                       | 30th June<br>2007<br>HK\$'000 | 31st December<br>2006<br>HK\$'000 |
|-----------------------|-------------------------------|-----------------------------------|
| Trade receivables:    |                               |                                   |
| Within 30 days        | 444,693                       | 377,371                           |
| Within 31 – 60 days   | 287,617                       | 200,436                           |
| Within 61 – 90 days   | 168,562                       | 93,395                            |
| Within 91 – 180 days  | 150,928                       | 104,554                           |
| Within 181 – 360 days | 83,578                        | 99,781                            |
| Over 360 days         | 66,717                        | 19,697                            |
|                       | <b>1,202,095</b>              | <b>895,234</b>                    |

### 10. MOVEMENTS IN FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the period, the Group acquired financial assets at fair value through profit or loss of approximately HK\$2,279 million and disposed financial assets at fair value through profit or loss with carrying amount of approximately HK\$2,499 million.

# Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

## 11. TRADE AND OTHER PAYABLES

At 30th June 2007, included in trade and other payables are trade payables of HK\$691,736,000 (31st December 2006: HK\$681,779,000) and their aged analysis is as follows:

|                       | <b>30th June<br/>2007<br/>HK\$'000</b> | 31st December<br>2006<br>HK\$'000 |
|-----------------------|--|-----------------------------------|
| Trade payables:       |  |                                   |
| Within 30 days        | 378,176                                | 483,708                           |
| Within 31 – 60 days   | 133,132                                | 78,084                            |
| Within 61 – 90 days   | 56,333                                 | 29,017                            |
| Within 91 – 180 days  | 61,336                                 | 42,482                            |
| Within 181 – 360 days | 34,109                                 | 17,499                            |
| Over 360 days         | 28,650                                 | 30,989                            |
|                       | <b>691,736</b>                         | <b>681,779</b>                    |

## 12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately HK\$79 million. The borrowings bear interest at market rates and are in average repayable within 1 to 2 years. The Group also repaid borrowings of approximately HK\$123 million during the period.

## 13. CAPITAL COMMITMENTS

|  | <b>30th June<br/>2007<br/>HK\$'000</b> | 31st December<br>2006<br>HK\$'000 |
|--|--|-----------------------------------|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of |  |                                   |
| – toll road construction costs   | 794,287                                | 1,055,813                         |
| – investments in PRC jointly controlled entities   | 1,946,371                              | 53,072                            |
| – investments in overseas jointly controlled entity  | 15,132                                 | 15,132                            |
| – acquisition of property, plant and equipment, other than construction in progress                                  | 528,922                                | 79,796                            |
| – additions in construction in progress  | 64,047                                 | 71,245                            |
|  | <b>3,348,759</b>                       | <b>1,275,058</b>                  |
| Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment     | <b>263,958</b>                         | –                                 |



## Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

### 14. CONTINGENT LIABILITIES

At 30th June 2007, the guarantees given to banks by the Group in respect of banking facilities utilised by a jointly controlled entity, associates and an outsider amounted to approximately HK\$232 million (31st December 2006: HK\$65 million).

### 15. ACQUISITION OF A SUBSIDIARY

In February 2007, the Group acquired 100% equity interest in 本溪天印藥業有限公司, a company engaged in manufacturing of pharmaceutical products, for a consideration of approximately HK\$10,000,000. The acquisition has been accounted for using the purchase method of accounting. The amount of discount arising as a result of the acquisition was HK\$2,563,000.

The net assets acquired in the transaction, and the discount arising on acquisition, are as follows:

|  | <b>Acquiree's<br/>carrying<br/>amount before<br/>combination and<br/>fair value<br/>HK\$'000</b> |
|--|--|
| Net assets acquired:                     |  |
| Property, plant and equipment            | 16,820   |
| Prepaid lease payments                   | 9,650  |
| Inventories                              | 612  |
| Taxation recoverable                     | 785  |
| Trade and other payables                 | (15,304)   |
|  | <hr/> 12,563   |
| Discount arising on acquisition          | (2,563)  |
|  | <hr/> 10,000   |
| Satisfied by:                            |  |
| Cash consideration paid                  | 10,000   |
| Net cash outflow arising on acquisition: |  |
| Cash consideration paid                  | <hr/> (10,000)   |

The subsidiary acquired during the period did not have any significant contribution to the Group's turnover or results for the period.



## Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

### 16. DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed of its entire interests in Chengdu Xingjuxing Properties Co., Ltd, S.I. Automobile Development Holdings Limited and S.I. Daily Chemicals Holdings Limited. The net assets of the subsidiaries at the date of disposal were as follows:

|  | HK\$'000 |
|--|----------|
| Net assets disposed of:  |          |
| Property, plant and equipment                                    | 940      |
| Interest in an associate   | 138,721  |
| Trade and other receivables                                      | 12,660   |
| Taxation recoverable   | 824      |
| Bank balances and cash   | 1        |
| Assets classified as held for sale                               | 28,833   |
| Trade and other payables   | (5,690)  |
|  | 176,289  |
| Net assets attributable to minority interests                    | (18,713) |
|  | 157,576  |
| Translation reserve realised                                     | (11,735) |
|  | 145,841  |
| Loss on disposal of interests in subsidiaries                    | (4,102)  |
|  | 141,739  |
| Consideration  | 141,739  |
| Satisfied by:  |          |
| Cash consideration received                                      | 89,739   |
| Consideration receivable included in trade and other receivables | 52,000   |
|  | 141,739  |
| Net cash inflow arising on disposal:                             |          |
| Cash consideration received                                      | 89,739   |
| Bank balances and cash disposed of                               | (1)      |
|  | 89,738   |

The subsidiaries disposed of during the period did not have any significant contribution to the Group's turnover or results for the period.



## Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

### 17. RELATED PARTY TRANSACTIONS

- (i) During the period, the Group had the following significant transactions with related parties:

| Related party            | Nature of transactions           | Six months ended 30th June |                  |
|--------------------------|----------------------------------|----------------------------|------------------|
|                          |                                  | 2007<br>HK\$'000           | 2006<br>HK\$'000 |
| Ultimate holding company | Rentals paid on premises         | 3,180                      | 3,180            |
| Fellow subsidiaries      | Rentals paid on premises         | 9,572                      | 8,445            |
| Associate                | Printing service income received | 8,967                      | 1,657            |

- (ii) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

|                      | Six months ended 30th June |                  |
|----------------------|----------------------------|------------------|
|                      | 2007<br>HK\$'000           | 2006<br>HK\$'000 |
| Short-term benefits  | 10,517                     | 14,025           |
| Share-based payments | 1,237                      | 1,589            |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

- (iii) Material transactions and balances with other state-controlled enterprises

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"), the ultimate holding company which is controlled by the PRC government. Apart from the transactions with SIIC and other related parties disclosed in (i) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

# Notes to the Condensed Financial Statements

For the six months ended 30th June 2007

## 17. RELATED PARTY TRANSACTIONS (continued)

### (iii) Material transactions and balances with other state-controlled enterprises (continued)

Material transactions/balances with other state-controlled entities are as follows:

|  | Six months ended 30th June |               |
|--|----------------------------|---------------|
|  | 2007                       | 2006          |
|  | HK\$'000                   | HK\$'000      |
| <b>Transactions</b>                              |                            |               |
| Trade sales                                      | 563,352                    | 419,404       |
| Trade purchases                                  | 187,810                    | 163,802       |
| <b>Balances</b>                                  |                            |               |
|  | 30th June                  | 31st December |
|  | 2007                       | 2006          |
|  | HK\$'000                   | HK\$'000      |
| Amounts due from other state-controlled entities | 322,482                    | 249,450       |
| Amounts due to other state-controlled entities   | 66,360                     | 48,728        |

In view of the nature of the Group's toll road operating business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions were with other state-controlled-entities.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.





## Notes to the Condensed Financial Statements

*For the six months ended 30th June 2007*

### 18. POST BALANCE SHEET EVENTS

The following significant events took place after the balance sheet date:

- (a) On 16th July 2007, a wholly-owned subsidiary of SIIC, Shanghai Investment Holdings Ltd. (“SIH”) and the Company entered into a placing agreement with a placing agent for the placing of 96,900,000 existing shares of HK\$0.10 each in the Company held by SIH at a price of HK\$31.20 each. On the same date, SIH also entered into a subscription agreement with the Company pursuant to which SIH has conditionally agreed to subscribe for 96,900,000 new shares of HK\$0.10 each in the Company at a price of HK\$31.20 each. Details of these transactions are included in a published announcement of the Company on 16th July 2007.
- (b) On 29th August 2007, the Company announced that The Wing Fat Printing Company, Limited (“Wing Fat Printing”), a subsidiary of the Company, had submitted an advance booking form with the Stock Exchange for an application for the listing of the ordinary shares of Wing Fat Printing on the Main Board of the Stock Exchange. Details of this transaction are included in a published announcement of the Company on 29th August 2007.



### Directors' Interests

As at 30th June 2007, the interests of the Directors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

#### (I) Interests in shares and underlying shares of the Company

##### (a) Ordinary shares of the Company

| Name of Director | Capacity         | Nature of interests | Number of issued shares held | Percentage of issued share capital |
|------------------|------------------|---------------------|------------------------------|------------------------------------|
| Cai Lai Xing     | Beneficial owner | Personal            | 4,000,000                    | 0.41%                              |
| Qu Ding          | Beneficial owner | Personal            | 1,250,000                    | 0.13%                              |
| Lu Ming Fang     | Beneficial owner | Personal            | 3,280,000                    | 0.34%                              |
| Ding Zhong De    | Beneficial owner | Personal            | 377,000                      | 0.04%                              |
| Qian Shi Zheng   | Beneficial owner | Personal            | 459,000                      | 0.05%                              |
| Yao Fang         | Beneficial owner | Personal            | 200,000                      | 0.02%                              |

All interests stated above represented long positions.



## Other Information

### *(b) Share options of the Company*

| Name of Director | Capacity         | Date of grant | Exercise price per share HK\$ | Number of share options held | Percentage of issued share capital |
|------------------|------------------|---------------|-------------------------------|------------------------------|------------------------------------|
| Cai Lai Xing     | Beneficial owner | 2.9.2005      | 14.89                         | 800,000                      | 0.08%                              |
| Cai Yu Tian      | Beneficial owner | 2.5.2006      | 17.10                         | 1,300,000                    | 0.13%                              |
| Qu Ding          | Beneficial owner | 2.9.2005      | 14.89                         | 560,000                      | 0.06%                              |
| Lu Ming Fang     | Beneficial owner | 2.9.2005      | 14.89                         | 480,000                      | 0.05%                              |
| Ding Zhong De    | Beneficial owner | 2.5.2006      | 17.10                         | 1,000,000                    | 0.10%                              |
| Qian Shi Zheng   | Beneficial owner | 2.9.2005      | 14.89                         | 300,000                      | 0.03%                              |
| Tang Jun         | Beneficial owner | 2.9.2005      | 14.89                         | 300,000                      | 0.03%                              |

### **(II) Interests in shares of SI Pharmaceutical**

| Name of Director | Capacity         | Nature of interests | Number of issued shares held | Percentage of issued share capital |
|------------------|------------------|---------------------|------------------------------|------------------------------------|
| Lu Ming Fang     | Beneficial owner | Personal            | 23,400                       | 0.01%                              |
| Ding Zhong De    | Beneficial owner | Personal            | 23,400                       | 0.01%                              |

All interests stated above represented long positions.

Save as disclosed above, none of the Directors nor Chief Executive of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30th June 2007.

### Share Options

#### (I) SIHL Option Scheme

The SIHL Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the scheme. During the period under review, the movements in the share options to subscribe for the Company's shares under the SIHL Option Scheme were as follows:

|                                 | Date of grant<br>(Note (i)) | Exercise price<br>per share<br>HK\$ | Number of shares issuable under<br>the share options |  |                             |
|---------------------------------|-----------------------------|-------------------------------------|--|--|-----------------------------|
|                                 |                             |                                     | Outstanding at<br>1.1.2007                           | Exercised<br>during<br>the period<br>(Note (ii)) | Outstanding at<br>30.6.2007 |
| <b>Category 1: Directors</b>    |                             |                                     |  |  |                             |
| Cai Lai Xing                    | 2.9.2005                    | 14.89                               | 800,000  | –  | 800,000                     |
| Cai Yu Tian                     | 2.5.2006                    | 17.10                               | 1,300,000  | –  | 1,300,000                   |
| Qu Ding                         | 2.9.2005                    | 14.89                               | 560,000  | –  | 560,000                     |
| Lu Ming Fang                    | 2.9.2005                    | 14.89                               | 480,000  | –  | 480,000                     |
| Ding Zhong De                   | 2.5.2006                    | 17.10                               | 1,000,000  | –  | 1,000,000                   |
| Qian Shi Zheng                  | 2.9.2005                    | 14.89                               | 300,000  | –  | 300,000                     |
| Tang Jun                        | 2.9.2005                    | 14.89                               | 300,000  | –  | 300,000                     |
| Total for Directors             |                             |                                     | 4,740,000  | –  | 4,740,000                   |
| <b>Category 2: Employees</b>    |                             |                                     |  |  |                             |
|                                 | 2.9.2005                    | 14.89                               | 4,091,000  | (1,027,000)                                      | 3,064,000                   |
|                                 | 2.5.2006                    | 17.10                               | 1,500,000  | –  | 1,500,000                   |
| Total for employees             |                             |                                     | 5,591,000  | (1,027,000)                                      | 4,564,000                   |
| <b>Category 3: Others</b>       |                             |                                     |  |  |                             |
|                                 | 2.9.2005                    | 14.89                               | 3,000,000  | –  | 3,000,000                   |
|                                 | 2.5.2006                    | 17.10                               | 1,200,000  | –  | 1,200,000                   |
| Total for others                |                             |                                     | 4,200,000  | –  | 4,200,000                   |
| <b>Total for all categories</b> |                             |                                     | <b>14,531,000</b>                                    | <b>(1,027,000)</b>                               | <b>13,504,000</b>           |



## Other Information

### Notes:

- (i) Share options granted in September 2005 under the SIHL Option Scheme are exercisable during the period from 2nd March 2006 to 1st March 2009 in three batches, being:
- 2nd March 2006 to 1st March 2007 (up to 30% of the share options granted are exercisable)
  - 2nd March 2007 to 1st March 2008 (up to 60% of the share options granted are exercisable)
  - 2nd March 2008 to 1st March 2009 (all share options granted are exercisable)
- Share options granted in May 2006 under the SIHL Option Scheme are exercisable during the period from 2nd November 2006 to 1st November 2009 in three batches, being:
- 2nd November 2006 to 1st November 2007 (up to 30% of the share options granted are exercisable)
  - 2nd November 2007 to 1st November 2008 (up to 60% of the share options granted are exercisable)
  - 2nd November 2008 to 1st November 2009 (all share options granted are exercisable)
- (ii) During the period, the weighted average closing price of the Company's shares immediately before the respective dates on which the share options were exercised was HK\$22.49.

### (II) Mergen Biotech Option Scheme

The Mergen Biotech Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the scheme. The following table discloses details of the options granted to Mergen Biotech's employees and qualified participants under the Mergen Biotech Option Scheme during the period:

| Date of grant      | Exercise price<br>per share | Outstanding at 1.1.2007<br>and 30.6.2007 |
|--------------------|-----------------------------|--|
| 31st December 2004 | US\$8.22                    | 63,400 (Note)                            |

Note: 39,000 share options of which were granted to Mr. Hu Fang, director and president of Mergen Biotech.

Pursuant to the offer letter issued by Mergen Biotech on 31st December 2004, 55% of the share options granted are exercisable since 30th June 2005. Subject to the fulfillment of certain performance targets as determined by the board of directors of Mergen Biotech by the grantees, the rest of the 45% share options granted are exercisable in three batches, in particular, every six months interval from 1st January 2005 an additional 15% of the share options granted are exercisable until 30th May 2014.

No options was granted or exercised under the Mergen Biotech Option Scheme during the period.



## Other Information

### Interests of Substantial Shareholders and Other Persons

As at 30th June 2007, the interests and short positions of the substantial Shareholders of the Company and other persons, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

| Name of Shareholder                | Capacity                                  | Number of issued ordinary shares held | Percentage of issued share capital |
|------------------------------------|---|---------------------------------------|------------------------------------|
| <i>(a) Long Positions</i>          |   |                                       |                                    |
| SIIC                               | Interests held by controlled corporations | 548,076,000<br>(Note (i))             | 56.53%                             |
| Templeton Asset Management Limited | Investment manager                        | 57,610,253                            | 5.94%                              |
| <i>(b) Short Positions</i>         |   |                                       |                                    |
| SIIC                               | Interests held by controlled corporations | 87,653,993<br>(Note (ii))             | 9.04%                              |

Notes:

- (i) SIIC through its wholly-owned subsidiaries, namely SIH, SIIC Capital and SIIC CM Development held 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively, and is accordingly deemed to be interested in the respective shares held by the aforesaid companies.
- (ii) SIIC was taken to have short positions in respect of 87,653,993 underlying shares of the Company under certain listed equity derivatives pursuant to the Zero Coupon Guaranteed Exchangeable Bonds issued by STC due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company.

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30th June 2007.



## Other Information

### Employees

There have been no material changes to the information disclosed in the Company's annual report 2006 in respect of the number and remuneration level of employees, remuneration policies and staff training programmes of the Group.

### Review of Report

The Audit Committee has reviewed the Company's interim report for the six months ended 30th June 2007.

### 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 Listing Rules throughout the six months ended 30th June 2007.

### Model Code for Securities Transactions by Directors

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

### Purchase, Sale or Redemption of Listed Securities

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



## Glossary of Terms

| <b>Term used</b>             | <b>Brief description</b>   |
|------------------------------|--|
| Bright Dairy                 | Bright Dairy and Food Co. Ltd. (SSE stock code: 600597)  |
| Changzhou Pharmaceutical     | Changzhou Pharmaceutical Co. Ltd.  |
| Changzhou Techpool           | Changzhou Techpool Pharmaceutical Co. Ltd.   |
| General Water of China       | General Water of China Co. Ltd.  |
| Guangdong Techpool           | Guangdong Techpool Biochem Pharma Co. Ltd.   |
| Hangzhou Qingchunbao         | Chia Tai Qingchunbao Pharmaceutical Co. Ltd.   |
| Hu-Ning Expressway           | Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd.  |
| Huizhong Automotive          | Shanghai Huizhong Automotive Manufacturing Co. Ltd.  |
| Huqingyutang Pharmaceutical  | Hangzhou Huqingyutang Pharmaceutical Co. Ltd.  |
| Lianhua Supermarket          | Lianhua Supermarket Holdings Co. Ltd. (Stock Exchange stock code: 980)   |
| Liaoning Herbapex            | Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.  |
| Listing Rules                | Rules Governing the Listing of Securities on the Stock Exchange  |
| Mergen Biotech               | Mergen Biotech Limited   |
| Mergen Biotech Option Scheme | A share option scheme adopted by Mergen Biotech as approved by the Shareholders at the extraordinary general meeting held on 28th May 2004 |
| MicroPort Medical            | MicroPort Medical (Shanghai) Co. Ltd.  |
| Model Code                   | Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules   |
| Nanyang Tobacco              | Nanyang Brothers Tobacco Co. Ltd.  |
| Net Business Profit          | Net profit excluding net corporate income  |
| Pudong Container             | Shanghai Pudong International Container Terminals Ltd.   |
| SFO                          | Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)  |





## Glossary of Terms

| <b>Term used</b>                | <b>Brief description</b>  |
|---------------------------------|---|
| Shanghai Information Investment | Shanghai Information Investment Inc.  |
| Shanghai Medical Instruments    | Shanghai Medical Instruments Co. Ltd.   |
| Shanghai Urban Development      | Shanghai Urban Development (Holdings) Co. Ltd.  |
| SI Pharmaceutical               | Shanghai Industrial Pharmaceutical Investment Co. Ltd. (SSE stock code: 600607)   |
| SIH                             | Shanghai Investment Holdings Ltd.   |
| SIHL Option Scheme              | A share option scheme adopted by the Company as approved by the Shareholders at the extraordinary general meeting held on 31st May 2002 |
| SIIC                            | Shanghai Industrial Investment (Holdings) Co. Ltd.  |
| SIIC Capital                    | SIIC Capital (B.V.I.) Ltd.  |
| SIIC CM Development             | SIIC CM Development Ltd.  |
| SIIC Transportation Electric    | Shanghai SIIC Transportation Electric Co. Ltd.  |
| SMIC                            | Semiconductor Manufacturing International Corporation (Stock Exchange stock code: 981)  |
| SSE                             | Shanghai Stock Exchange   |
| STC                             | Shanghai Industrial Investment Treasury Co. Ltd.  |
| Stock Exchange                  | The Stock Exchange of Hong Kong Ltd.  |
| Sunway Biotech                  | Shanghai Sunway Biotech Co. Ltd.  |
| Wanzhong Automotive             | Shanghai Wanzhong Automotive Components Co. Ltd.  |
| Wing Fat Printing               | The Wing Fat Printing Co. Ltd.  |
| Xiamen TCM                      | Xiamen Traditional Chinese Medicine Co. Ltd.  |
| Yongjin Expressway              | Zhejiang Jinhua Yongjin Expressway Co. Ltd.   |