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

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 363)**

# ANNOUNCEMENT OF 2008 ANNUAL RESULTS

## HIGHLIGHTS

| | **2008** | 2007 (restated) | Change |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *%* |
| Turnover | **12,732,652** | 8,432,300 | **+51.0%** |
| Gross Profit | **4,648,426** | 3,257,169 | **+42.7%** |
| Profit before taxation | **3,391,587** | 2,576,239 | **+31.6%** |
| Profit attributable to shareholders | **2,101,546** | 1,963,023 | **+7.1%** |
| Proposed final dividend per share *Note* | **HK36 cents** | HK43 cents | **-16.3%** |
| Earnings per share – Basic | **HK$1.96** | HK$1.94 | **+1.0%** |
| – Diluted | **HK$1.95** | HK$1.93 | **+1.0%** |

*Note: Together with the interim dividend of HK45 cents per share (2007: HK37 cents per share), the total dividend for the year amounts to HK81 cents per share (2007: HK80 cents per share).*

## BUSINESS REVIEW

The Board of Directors of Shanghai Industrial Holdings Limited (the "Company") is pleased to announce that for the year ended 31st December 2008, the Company and its subsidiaries ("the Group") achieved satisfactory results with stable earnings growth. Turnover increased 51.0% to HK$12,733 million and profit attributable to shareholders rose 7.1% to HK$2,102 million.

## INFRASTRUCTURE FACILITIES

In 2008, profit contribution from the Group's infrastructure facilities segment reached HK$829 million, accounting for approximately 37.2% of the Group's Net Business Profit* and representing an increase of 223.7%. During the year, active steps were taken to acquire infrastructure projects and to expand the scale of the investment in the segment. The acquisition of the Hu-Hang Expressway was completed in early December 2008, further strengthening the Group's stable income base.

### Toll Roads

#### *Shanghai-Nanjing Expressway (Shanghai Section)*

The alteration and widening of the Shanghai-Nanjing Expressway (Shanghai Section) from a four-lane to an eight-lane carriageway was completed by the end of 2008 and the section commenced operation on 1st January 2009. With a total length of approximately 26 km, the Shanghai-Nanjing Expressway (Shanghai Section) now consists of an eight-lane dual carriageway. Traffic flow from the expressway is expected to increase rapidly in 2009, driving growth in toll revenue.

Affected by the severe snow storm at the beginning of 2008 and the full-scale construction of the alteration and widening projects during the year, annual traffic flow declined to 19.56 million vehicles, of which passenger vehicles and goods vehicles accounted for approximately 82.43% and 17.57% respectively. Total revenue for the year was approximately HK$527 million, including a toll revenue of approximately HK$313 million and government subsidies for alteration and widening projects of about HK$214 million. Benefiting from the increase of the RMB exchange rate, Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd. ("Hu-Ning Expressway") recorded a profit of approximately HK$408 million for 2008, up 12.7% over last year.

#### *Hu-Hang Expressway (Shanghai Section)*

The Hu-Hang Expressway (Shanghai Section) is an integral part of the key national highways system which is connected to the Shanghai-Hangzhou-Ningbo Expressway in the Zhejiang province to form the Shanghai-Hangzhou-Ningbo Expressway with a total length of 247.6 km. The Hu-Hang Expressway (Shanghai Section) runs for a total length of 47.67 km with nine toll plazas starting from the east between Xinzhuang in the Minhang District in southwest Shanghai and ending at the west at Fengjing in the Jinshan District in Shanghai. The expressway transcends three districts – Minhang, Songjiang and Jinshan, of which the Xinzhuang-Songjiang Section and the Songjiang-Fengjing Section each covers a length of 20.1 km and 27.6 km respectively.

In 2008, Shanghai Luqiao Development Co. Ltd. ("Luqiao Development") recorded a toll revenue of HK$657 million with a traffic flow of 29.65 million vehicles, of which passenger vehicles and goods vehicles accounted for approximately 77% and 23% respectively. Net profit for the year was HK$206 million. The acquisition of the operating concession of Hu-Hang Expressway (Shanghai Section) was completed in early December 2008. In order to cope with the anticipated increase in traffic flow, Luqiao Development commenced the alteration and widening works for the expressway in January 2009 within the Minhang-Songjiang district. Of the total investment cost of approximately RMB2,167 million required for the works, the Group is responsible for an aggregate amount of RMB1,200 million. A compensation of no less than RMB251.6 million for the reduction of traffic flow caused by the alteration and widening project will be received from the government in 2009. The project is expected to be completed by March 2010. By then, the passage capacity of the Xinsong section will be greatly enhanced. This will in turn increase traffic flow and toll revenue.

***Yongjin Expressway (Jinhua Section)***

Since the completion of construction of the expressway, the growth in the traffic flow of Yongjin Expressway (Jinhua Section) was below expectation. In October 2008, the Group decided to sell its entire 30% stake in Zhejiang Jinhua Yongjin Expressway Co. Ltd. ("Yongjin Expressway') for a consideration of RMB360 million after reviewing the outlook and management condition of the project. The disposal was approved by the relevant authorities and completed in December 2008, and a disposal gain of approximately HK$208 million was recorded in 2008.

**Water Services**

As at 31st December 2008, General Water of China Co. Ltd. ("General Water of China") had total assets of RMB5.2 billion, comprising 14 water projects and 19 water supply facilities, 17 sewage treatment facilities, two reservoirs and a pipe network of 1,841.27 km to serve a population of tens of millions. Since its inception, the company has been ranked by H2O-China.com as one of the Top Ten Influential Water Service Companies for six consecutive years. During 2008, General Water of China recorded a revenue and a net profit from principal business of HK$587 million and HK$53.28 millon, up 23.3% and 1.87 times respectively over last year. Annual accumulated sales of water volume, total volume of sewage treatment and COD discharge were 358 million tonnes, 264 million tonnes and 71,000 tonnes respectively.

In December 2008, the two shareholders of General Water of China each made a capital injection of RMB250 million in the company in order to maintain the company's financial strength, expand the scale of operation, improve operating competitiveness and consolidate its position in the industry. The company will also strive to optimize the capital structure for its water services business. With the commencement of operation of the respective new projects, it is anticipated that the enterprise will gradually achieve greater economy of scale.

## MEDICINE

Profit from the medicine business for the year amounted to HK$264 million, accounting for approximately 11.9% of the Group's Net Business Profit*, up 51.4%. Turnover for the year was HK$5,280 million increased by 22.2% over last year. During the year, SI Pharmaceutical continued to increase the scale of investment in the medicine business and focus on its core business, orderly divesting from non-medicine business. The move is intended to take advantage of favourable opportunities that may arise in the next round of medical assets restructuring. For the year ended 31st December 2008, SI Pharmaceutical recorded a turnover of RMB3,208 million (equivalent to approximately HK$3,644 million), up 12.6% over last year. The company has for the first time been included in the top 100 enterprises in Shanghai, ranking No. 71, and was again included in the top 100 enterprises in the medicine industry in the PRC, ranking No. 39.

### Chinese Medicine and Health Food

In 2008, Chia Tai Qingchunbao Pharmaceutical Co. Ltd. achieved satisfactory sales growth, of which the major brand "Dengfeng" Shen Mai Injection recorded an increase of 33.4%; other products such as "Nimodipine Tablets", "Niaoganning Pellets" and "Shengmai Capsules" all achieved stable increase in sales; sales of health food were relatively slow as a result of the macroeconomic impact.

The annual turnover for Hangzhou Huqingyutang Pharmaceutical Co. Ltd. increased 14.1% mainly due to growth in drug sales. The company's flagship product, "Huqingyutang Stomach Rejuvenation Tablets" accounted for approximately 40% of its total sales, representing an increase in sales of 22.2% over last year.

Xiamen Traditional Chinese Medicine Co. Ltd. recorded an increase in sales of 23.6% with sales of its principal product, "Xinhuang Tablets" growing by 21.2% reaching over a hundred million Hong Kong dollars for the first time; "Haizhu Chuanxiding Tablets", "Babaodan Capsules" and "Shenshu Pellets" grew by 27.2%, 42.2% and 38.0% respectively. Relocation of the new production plant and construction of the production facilities for modern Chinese herbal medicine were generally completed during the year.

In 2008, sales of Liaoning Herbapex Pharmaceutical (Group) Co. Ltd. increased 22.7% over last year. Benefiting from the price-stabilizing policy and intensive market distribution, sales of "Herbapex Rupixiao" recorded good results with an increase of 25.6%. The gradual infusion of medical insurance in villages contributed to a larger market for generic drug products and resulted in an overall increase in sales.

### Biomedicine

Guangdong Techpool Biochem Pharma Co. Ltd. ("Guangdong Techpool") is currently one of the largest producers for human urine protein products in terms of output capacity in PRC. The company's principal products included "Kai Li Kang", a State Category I new drug, "Ulinastatin", an exclusive brand in the domestic market, as well as raw pharmaceuticals for overseas markets. In 2008, Guangdong Techpool achieved rapid growth in sales through adjustment of sales policies and injection of additional resources into several key districts. The company recorded an increase in sales of 32.1% over last year with its principal products, "Ulinastatin" and "Kai Li Kang" recording an increase in sales of 47.4% and 2.06 times respectively.

### Chemical Medicine

Changzhou Pharmaceutical Co. Ltd. ("Changzhou Pharmaceutical") is a well-known local pharmaceutical enterprise and its subsidiary, Changzhou Pharmaceutical Factory, is the first batch of enterprises designated for the production of basic pharmaceuticals used in urban communities and villages. Major products include "Captopril Tablets" and raw pharmaceuticals, "Compound Reserpine Tablets", "Thalidomide Tablets" and "Compound Dihydralazine Sulfate Tablets". During the year, Changzhou Pharmaceutical achieved an increase of 23.2% in consolidated turnover, while "Captopril Tablets", "Thalidomide Tablets" and "Compound Dihydralazine Sulfate Tablets" each recorded an increase in sales of 30.9%, 49.7% and 28.7% respectively due to market expansion.

### Medical Equipment

During 2008, overall sales of Shanghai Medical Instruments Co. Ltd. remained stable with an increase of 9.0%, of which tooth filling material and operating table each recorded an increase in sales of 32.1% and 16.8% respectively. Annual total sales of MicroPort Medical (Shanghai) Co. Ltd. grew by 29.1%. Sales of its main product, Drug Stent System rose by 25.7%. Following their successful expansion into the overseas market, Coronary Stent System and Balloon Catheter each recorded an increase in sales of 29.2% and 2.46 times respectively.

## CONSUMER PRODUCTS

In 2008, profit contribution from the consumer products business was HK$488 million, accounting for approximately 21.9% of the Group's Net Business Profit*. The decline in profit of 49.5% was mainly due to a gain recorded during 2007 arising from the disposal of the Group's automobiles and parts business and the relatively large operating loss incurred by Bright Dairy and Food Co. Ltd. ("Bright Dairy") in the third quarter of 2008. After deducting such disposal gain and related profit contributions, profit from the consumer products business dropped 26.3% over last year. Nanyang Brothers Tobacco Co. Ltd. ("Nanyang Tobacco") continued to contribute stable income and cash flows to the Group, providing considerable support for sustainable business growth.

**Tobacco**

In the face of the worldwide economic downturn, Nanyang Tobacco maintained a growth in turnover in 2008 of HK$1,976 million, up 3.1%, and recorded a net profit of HK$445 million, up 4.7% over last year. The increase in profit was mainly due to adjustments of the distribution structure during the year and the rise in sales for high-margin brand cigarettes. In relation to this, "Double Happiness Classic Deluxe" and canned "Portrait" recorded an increase in sales of 75% and 3.6 times respectively over last year.

During the year, the company took active measures to open up new distribution channels, gearing up brand promotion, improving distribution systems and capturing market shares. As a result, sales in the Hong Kong and Macau markets increased 15.0% and 6.2% respectively; sales in the duty-free market and China market increased 12.2% and 26.5% respectively; overseas markets declined by 7.5% over last year due to structural adjustments of distribution channels. Looking ahead, the company will seek further expansion into new markets such as Thailand and Singapore in order to further explore market potentials.

The extension project of expanded cut tobacco's production lines of Nanyang Tobacco was completed at the end of 2008. The project is currently under trial production with a view to increasing its daily production capacity to 4,000kg through further refinement. The new technology can expand cut tobacco capacity, thereby reducing the use of cut tobacco, tar and other harmful substances. Production will also become more economical, and this will in turn enhance the quality of production.

**Dairy**

Bright Dairy achieved a rapid sales growth of more than 30% for the first eight months of the year, but the outbreak of the "melamine" event in September dampened the entire dairy industry. The dairy product market suffered a big blow as a result, adversely affecting the business of the company. Through stronger control over milk source, brand promotion and terminal management, the company recovered its sales gradually during the fourth quarter of 2008. The annual turnover for the company amounted to RMB7,379 million (equivalent to approximately HK$8,381 million) with a net loss of RMB286 million (equivalent to approximately HK$325 million). In 2009, market recovery will remain the priority for the company. It will focus on regional and product category promotion, maintain product quality and safety measures, and build brand assets and improve profitability.

In March 2008, the Group's acquisition of a 10.005% stake in Bright Dairy from Danone Group was approved by the relevant PRC authorities. The Group currently holds a 35.176% equity interest in Bright Dairy.

**Printing**

In 2008, The Wing Fat Printing Co. Ltd. ("Wing Fat Printing") recorded a turnover of HK$1,777 million, up 9.9%. The company's earnings performance was affected as the sales market shrank during the second half of the year amidst the depressed global economy while raw material price and operating cost continued to rise. The company recorded a net profit of HK$102 million, declining by approximately 44% compared to last year. In view of the volatile global market conditions, the board of Wing Fat Printing decided to postpone the proposed listing in March 2008, but this may be resumed later depending on market situations.

The new sixth production line of Hebei Yongxin Paper Co. Ltd. ("Hebei Yongxin Paper"), a subsidiary of Wing Fat Printing, has entered the final stage of construction. In December 2008, the Group made a total capital contribution of approximately HK$80 million to increase its equity interest in Hebei Yongxin Paper by 12.13%, from 66% to 78.13%. The injection of the new capital has helped resolve the company's fund raising problem and ensured the timeliness of the project. The production line is expected to commence operation by mid 2009.

Looking ahead, Wing Fat Printing will concentrate its resources in developing printing business which will focus on the printing of cigarette, wine and medicine packaging. The company will seek further strategic partners and leverage on acquisition and merger opportunities to strengthen its competitive edge and to further consolidate and expand its market presence.

**Chain Supermarkets**

During the year, Lianhua Supermarket Holdings Co. Ltd. ("Lianhua Supermarket') recorded a turnover of RMB20,702 million (equivalent to approximately HK$23,514 million), up 14.46%, and a profit attributable to shareholders of RMB388 million (equivalent to approximately HK$441 million), up 44.74%. Subsequent to the balance sheet date, the Group announced the disposal of its equity interest of 21.17% in Lianhua Supermarket for a consideration of approximately RMB1,056 million (equivalent to approximately HK$1,199 million) to further cut down non-core businesses and to streamline the investment portfolio of the Group. The transaction was completed in March 2009. SI Pharmaceutical is expected to receive a disposal gain before tax of approximately HK$622 million for the year 2009.

## REAL ESTATE

During 2008, the real estate business contributed a profit of approximately HK$440 million to the Group through property sales, hotel operations, rental income and revaluation of investment properties, accounting for approximately 19.8% of the Group's Net Business Profit*. The operating results of Shanghai Urban Development (Holdings) Co. Ltd. ("Shanghai Urban Development") have been consolidated into the accounts of the Company in 2008 and a net profit of HK$704 million was recorded. During the year, the Group acquired from the parent company an equity interest of about 87% in the Four Seasons Hotel Shanghai for a consideration of HK$1,350 million and further injected high-quality assets for the investment portfolio of its real estate business.

### Land Reserve

As at 31st December 2008, the Group had a total of eight real estate development projects. As a result of the macro control measures implemented in mainland China against the real estate industry earlier in the year, an increasingly prevalent "wait-and-see" sentiment was common among home buyers in the market. The outbreak of the global financial crisis in the second half of 2008 further intensified the severe situation of the real estate market. In view of this, Shanghai Urban Development has adopted a prudent strategy to focus on a project's value-added potential and the consumption capacity of the market when seeking quality acquisition projects. On such premise for controlling land reserve, the company acquired two parcels of land during the year.

In the first quarter of 2008, Shanghai Urban Development acquired two parcels of land in Chongqing and Kunshan respectively through open market tender. Newly added permissible gross floor area amounted to approximately 215,977 square meters (based on adjusted plot ratio), with an increase in land reserve of 160,763 square meters, resulting in a permissible total gross floor area of up to 3,260,000 square meters.

### Property Development

During the year, Shanghai Urban Development pre-sold properties in the amount of about HK$1,397 million, comprising a gross floor area of approximately 120,500 square meters. This included Lot E2 of Urban Cradle which was completed and occupied in March 2008. "Urban Cradle – Royal House" villa project and "Urban Cradle - Lounge City" high-rise apartment made debut on the market in November 2008 and soon became the focus of the market with a total of 160 units sold by year end, generating a total pre-sale proceed of HK$1,020 million, a very satisfactory result amidst the slumping property market environment.

Other property projects under Shanghai Urban Development including Kunshan Kuncheng Dijing Garden, Hefei Rose City and Changsha Toscana recorded a pre-sale amount of approximately HK$349 million with a total gross floor area of approximately 57,700 square meters presold. Looking ahead, the company will continue to invest in development projects and sell them in a timely manner when appropriate, with a view to maintaining steady cash flow and creating greater values.

**Property Investment**

As at the end of 2008, properties held for investment under Shanghai Urban Development reached a total gross floor area of approximately 76,870 square meters, realizing a total rental income of HK$114 million during the year. The properties, mostly on long term leases, consisted mainly of Urban Development International Tower, Huimin Commercial Tower and other odd properties. Urban Development International Tower is a modern grade A office building conveniently located at the heart of Xujiahui business centre. The tower which has been for rent in the market since late 2007 has achieved satisfactory rental returns. Huimin Commercial Tower is a commercial property with restaurants, food and entertainment located at the heart of Xujiahui business circle with high traffic flow.

In addition to exploring property development projects, the company will monitor the market closely to acquire suitable high-quality and potential value-added property for investment to maintain a solid rental income.

**Hotel Operations**

In July 2008, the Company announced its acquisition from its parent company of an equity interest of about 87% in the Four Seasons Hotel Shanghai for a consideration of HK$1,350 million. The Four Seasons Hotel Shanghai is a prestigious five-star hotel located in downtown Shanghai and the shopping, entertainment and business hub of Nanjing Road and Huaihai Road. The hotel consists of 421 guest rooms and provides conference and banquet facilities, fitness centre and spa, as well as a food and beverage hall, etc. The acquisition was completed in early December 2008.

The hotel industry faced considerable challenges in 2008 as a result of changes in the global economy, the appreciating RMB as well as rising operating costs. Under the circumstances, Shanghai SIIC South Pacific Hotel Co. Ltd. ("SIIC South Pacific Hotel") has taken active steps to develop effective sales strategies to control costs and to explore new sources for hotel guests. For the year 2008, the company recorded an operating income of HK$324 million with an average revenue per room per day (RevPAR) of approximately RMB1,094. The alteration works for the spa facilities commenced last year is scheduled for completion by mid 2009. While meeting the needs of hotel guests, the premium services offered under the hotel's brand will also be further enhanced by then. Looking ahead, the company will keep a close eye on market conditions, implement effective operating measures and maintain its high-quality brand services in order to increase its competitiveness in the market.

## OTHERS

In the first quarter of 2008, Semiconductor Manufacturing International Corporation ("SMIC") decided to exit the commodity DRAM business and divert its production capacity to logic wafer production, which has a greater market demand. An impairment loss of US$105.80 million (equivalent to approximately HK$825 million) on long-lived assets was recorded. During the year, sales of SMIC decreased by 12.7% from US$1,549.80 million (equivalent to approximately HK$12,088 million) for 2007 to US$1,353.70 million (equivalent to approximately HK$10,559 million), primarily due to the transition of DRAM production to logic production to its Beijing fab and the sharp market downturn experienced in the fourth quarter. However, non-DRAM revenue has grown by 14.3% over last year. Looking ahead, SMIC will continue to focus on non-DRAM businesses and explore opportunities with its Chinese customer. For the year ended 2008, the Group shared an operating loss of HK$167 million from SMIC, which included impairment losses on related inventory and long-lived assets in regard to SMIC's exit from the DRAM market.

In November 2008, SMIC made a placement of 3,699,094,300 ordinary shares to a strategic investor, representing 19.9% of the then issued shares of SMIC. As a result of the placement, the Group's stake in SMIC was diluted to 8.21%. Prior to the balance sheet date, the Group held shares of SMIC conferring a right to vote of up to 10.09% through its direct shareholding and from voting rights conferred by its parent company.

The Company announced its disposal of 20% equity interest in Shanghai Information Investment Inc. ("Shanghai Information Investment") for a consideration of HK$775 million in May 2008 which was to follow through the strategy to orderly divest its non-core business. The transaction was completed in June and brought a disposal gain of approximately HK$332 million to the Group in 2008.

** Net profit excluding net corporate expenses.*

# PROSPECTS

During the year, the Group has been able to maintain satisfactory income growth and profitability for its core businesses. Looking ahead, the Group will continue to develop its core businesses and optimize its business structure in order to bring recurrent earnings growth, to exit from non-core businesses and to capitalize on financing resources. The Group will actively participate in the strategic restructuring of state-owned assets in Shanghai to seize development opportunities. Taking advantage of its Shanghai background and continued support from its parent company, the Group is expected to achieve sustainable and stable development and increase earnings contribution to enhance shareholder value.

On the infrastructure business, the Group will continue to acquire toll road projects with earning prospects while ensuring good traffic flow after the alteration and widening of Shanghai-Nanjing Expressway (Shanghai Section) and smooth work progress for the Hu-Hang Expressway (Shanghai Section). The Group will devote greater efforts to its water services projects to increase its competitive edge, enhance operational efficiency and further optimize its capital structure, in order to promote the stable and rapid growth of the company's business.

As for the medicine business, the Group will closely monitor market trends in order to increase market share and profitability. Capitalizing on opportunities in the restructuring of state-owned assets in Shanghai, the Group will also make effective dispositions to further consolidate its medicine resources and eliminate potential competition with its parent company. This is expected to create better synergy within the Group and to promote further business growth.

On the consumer products business, the Group will endeavor to maintain its business growth momentum, strengthen its operations and expand its sales network. Such measures will help increase its level of profitability and ensure steady profit contribution and cash flow for the Group.

On the real estate business, the Group will step up its efforts in the planning and execution of its existing projects while seizing every opportunity to acquire premium real estate projects. The Group will also implement investment strategies to optimize its earnings structure and to build up a long-term and stable source of income that will contribute to the sustainable development of its real estate business.

Lastly, on behalf of the Board of Directors, I wish to thank our shareholders and business partners for their continued support and patronage over the years, and extend my sincere gratitude to our management team and staff members for their total dedication and invaluable contribution in the development of the Group.

**Teng Yi Long**

*Chairman*

Hong Kong, 21st April 2009

## FINAL DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK36 cents per share (2007: HK43 cents per share) for the year ended 31st December 2008. Subject to approval by the Shareholders at the forthcoming Annual General Meeting to be held on Friday, 5th June 2009, the final dividend will be paid on Tuesday, 16th June 2009 to Shareholders whose names appear on the Register of Members of the Company on Friday, 5th June 2009. Together with the interim dividend of HK45 cents per share (2007: HK37 cents per share), the total dividend for the year amounts to HK81 cents per share (2007: HK80 cents per share). The dividend payout ratio is 41.3% (2007: 41.2%).

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 3rd June 2009 to Friday, 5th June 2009, both days inclusive, during which period no transfer of shares will be effected. Notice of Dividend will be dispatched to the Shareholders on or about Tuesday, 16th June 2009. In order to qualify for the entitlement of the final dividend and be entitled to attend the Annual General Meeting, 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, 2nd June 2009.

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at the Conference Room of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Friday, 5th June 2009 at 3:00 p.m. Notice of the meeting will be despatched to the Shareholders on or before 30th April 2009 and will be made available at the HKExnews website of The Hong Kong Stock Exchange of Hong Kong Limited ("Stock Exchange") at *www.hkexnews.hk* and the website of the Company at *www.sihl.com.hk* accordingly.

## REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Company's consolidated annual results for the year ended 31st December 2008.

## CORPORATE GOVERNANCE

According to the provisions of the Code on Corporate Governance Practices, all newly appointed Directors are subject to re-election by the shareholders at the first general meeting after appointment. Mr. Teng Yi Long was appointed on 30th May 2008. Subsequently, the

Company announced the acquisition of interest of the Shanghai Hu-Hang Expressway and the Four Seasons Hotel Shanghai in July 2008 and convened an extraordinary general meeting in September 2008 in respect thereof. As the matters in relation to Mr. Teng Yi Long's appointment were already reported to the Shareholders at the Annual General Meeting held on 30th May 2008 and the relevant announcement was then made on the same day, no arrangement in respect of the re-election of Mr. Teng Yi Long was made at the said extraordinary general meeting. Accordingly, Mr. Teng will, in accordance with the Company's Articles of Association, being eligible for re-election, retire at the forthcoming 2009 Annual General Meeting to be held on 5th June 2009.

Save as disclosed above, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices throughout the year ended 31st December 2008.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## PUBLICATION OF THE ANNUAL REPORT

The Annual Report 2008 will be despatched to the Shareholders on or before Thursday, 30th April 2009 and will be made available at the HKExnews website of the Stock Exchange at *www.hkexnews.hk* and the website of the Company at *www.sihl.com.hk* accordingly.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises eight Executive Directors, namely Mr. Teng Yi Long, Mr. Cai Yu Tian, Mr. Lu Ming Fang, Mr. Ding Zhong De, Mr. Zhou Jie, Mr. Qian Shi Zheng, Mr. Yao Fang and Mr. Zhou Jun; three Independent Non-Executive Directors, namely, Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis.

# CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31ST DECEMBER 2008

| | NOTES | 2008<br>HK$'000 | 2007<br>HK$'000<br>(restated) |
|---|---|---|---|
| Turnover | 3 | **12,732,652** | 8,432,300 |
| Cost of sales | | **(8,084,226)** | (5,175,131) |
| Gross profit | | **4,648,426** | 3,257,169 |
| Other investment income | | **284,485** | 598,485 |
| Other income | | **624,460** | 445,412 |
| Increase in fair value of properties under development upon transfer to investment properties | | **497,073** | - |
| Selling and distribution costs | | **(1,399,618)** | (1,112,848) |
| Administrative expenses | | **(1,338,826)** | (893,411) |
| Finance costs | | **(322,224)** | (158,466) |
| Share of results of jointly controlled entities | | **64,968** | 277,456 |
| Share of results of associates | | **(106,396)** | 158,161 |
| Discount on acquisition of interests in associates | | **1,410,222** | - |
| Discount on acquisition of interest in a subsidiary | | **902** | 2,563 |
| Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities | | **556,618** | 159,332 |
| Impairment loss recognised in respect of available-for-sale investments | | **(1,527,388)** | - |
| Impairment losses recognised in respect of goodwill relating to subsidiaries | | **(1,115)** | (157,614) |
| Profit before taxation | | **3,391,587** | 2,576,239 |
| Income tax expenses | 4 | **(533,821)** | (295,130) |
| Profit for the year | 5 | **2,857,766** | 2,281,109 |
| Attributable to | | | |
| - Equity holders of the Company | | **2,101,546** | 1,963,023 |
| - Minority interests | | **756,220** | 318,086 |
| | | **2,857,766** | 2,281,109 |
| Dividends | 6 | **946,793** | 686,618 |
| Earnings per share | 7 | | |
| - Basic | | **HK$1.96** | HK$1.94 |
| - Diluted | | **HK$1.95** | HK$1.93 |

# CONSOLIDATED BALANCE SHEET
## AT 31ST DECEMBER 2008

| | NOTES | 2008 HK$'000 | 2007 HK$'000 (restated) |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Investment properties | | **1,986,896** | 540,268 |
| Property, plant and equipment | | **3,737,481** | 4,058,066 |
| Prepaid lease payments - non-current portion | | **628,476** | 580,548 |
| Toll road operating rights | | **9,681,461** | 7,434,490 |
| Other intangible assets | | **145,216** | 145,329 |
| Goodwill | | **400,692** | 391,734 |
| Interests in jointly controlled entities | | **1,152,494** | 1,498,470 |
| Interests in associates | | **4,044,789** | 3,828,644 |
| Investments | | **584,274** | 442,742 |
| Loan receivables - non-current portion | | **3,085** | 3,323 |
| Deposits paid on acquisition of property, plant and equipment | | **857,057** | 808,526 |
| Deposit paid on acquisition of additional interest in an associate | | **-** | 484,802 |
| Restricted bank deposits | | **73,109** | 68,272 |
| Deferred tax assets | | **86,631** | 83,937 |
| | | **23,381,661** | 20,369,151 |
| **Current Assets** | | | |
| Inventories | | **14,353,180** | 14,363,794 |
| Trade and other receivables | 8 | **4,150,592** | 2,355,554 |
| Prepaid lease payments - current portion | | **28,580** | 36,719 |
| Investments | | **117,173** | - |
| Loan receivables - current portion | | **-** | 32,051 |
| Financial assets at fair value through profit or loss | | **45,542** | 3,136,221 |
| Taxation recoverable | | **2,616** | 57,388 |
| Pledged bank deposits | | **800,541** | 51,975 |
| Short-term bank deposits | | **1,547,332** | 659,092 |
| Bank balances and cash | | **7,220,765** | 6,223,115 |
| | | **28,266,321** | 26,915,909 |
| **Assets classified as held for sale** | | **-** | 203,887 |
| | | **28,266,321** | 27,119,796 |
| **Current Liabilities** | | | |
| Trade and other payables | 9 | **7,277,356** | 8,923,087 |
| Taxation payable | | **614,651** | 397,074 |
| Bank and other borrowings | | **3,824,193** | 2,353,553 |
| | | **11,716,200** | 11,673,714 |
| **Net Current Assets** | | **16,550,121** | 15,446,082 |
| **Total Assets less Current Liabilities** | | **39,931,782** | 35,815,233 |

| | NOTES | 2008 | 2007 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| | | | (restated) |
| **Capital and Reserves** | | | |
| Share capital | | **107,644** | 107,126 |
| Share premium and reserves | | **23,293,714** | 22,518,605 |
| **Equity attributable to equity holders of the Company** | | **23,401,358** | 22,625,731 |
| **Minority interests** | | **8,479,654** | 7,459,143 |
| **Total Equity** | | **31,881,012** | 30,084,874 |
| **Non-Current Liabilities** | | | |
| Bank and other borrowings | | **5,829,901** | 3,687,693 |
| Deferred tax liabilities | | **2,220,869** | 2,042,666 |
| | | **8,050,770** | 5,730,359 |
| **Total Equity and Non-Current Liabilities** | | **39,931,782** | 35,815,233 |

*Notes:-*

**(1) STATUTORY FINANCIAL STATEMENTS**

The financial information contained in this results announcement does not constitute the Group's statutory financial statements for the year ended 31st December 2008 but is derived from those financial statements.

**(2) BASIS OF PREPARATION, CHANGES IN ACCOUNTING POLICY AND RESTATEMENT**

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

(i) Merger Accounting

In the current year, the Group acquired Good Cheer Enterprises Limited and S.I. Hu-Hang Development Limited from wholly owned subsidiaries of Shanghai Industrial Investment (Holdings) Co., Ltd ("SIIC"). The Group has applied the principle of merger accounting in accordance with the requirements set out in Accounting Guideline 5 to business combinations involving entities under the control of SIIC. The consolidated financial statements for the year ended 31st December 2007 have been restated to include the financial position and operating results of the businesses acquired from SIIC in prior periods and in the current year as if these acquisitions had been completed on 1st January 2007 or since the date the respective business came under the control of SIIC.

(ii) Adjustments to Goodwill after Completion of Initial Accounting

In relation to the acquisition of Shanghai Urban Development, of which the fair values assigned to the identifiable assets, liabilities and contingent liabilities and the cost of the combination were determined provisionally in 2007, the Group completed the initial accounting in the current year. As a result, adjustments have been made to certain provisional values determined at the date of acquisition and goodwill.

(iii) Application of New and Revised HKFRS

In the current year, the Group has applied, the following amendments and interpretations issued by the HKICPA, which are or have become effective.

| | |
|---|---|
| HKAS 39 – HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC) – Int 11 | HKFRS 2: Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

## (3) SEGMENT INFORMATION BY BUSINESS

For management purposes, the Group is currently organised into four operating businesses - real estate, infrastructure facilities, medicine and consumer products. Segment information about these businesses is presented below:

**For the year ended 31st December 2008**

| | Real estate HK$'000 | Infrastructure facilities HK$'000 | Medicine HK$'000 | Consumer products HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| **TURNOVER** | | | | | | |
| **External sales** | **2,961,994** | **938,802** | **5,280,547** | **3,551,309** | **-** | **12,732,652** |
| **Segment results** | **1,029,190** | **831,197** | **670,701** | **666,162** | **-** | **3,197,250** |
| **Net unallocated corporate income** | | | | | | **118,750** |
| **Finance costs** | | | | | | **(322,224)** |
| **Share of results of jointly controlled entities** | **-** | **6,387** | **49,625** | **149** | **8,807** | **64,968** |
| **Share of results of associates** | **10,811** | **-** | **408** | **49,673** | **(167,288)** | **(106,396)** |
| **Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities** | | | | | | **556,618** |
| **Impairment loss recognised in respect of goodwill relating to a subsidiary** | | | | | | **(1,115)** |
| **Impairment loss recognised in respect of available-for-sale investments** | | | | | | **(1,527,388)** |
| **Discount on acquisition of interests in associates** | | | | | | **1,410,222** |
| **Discount on acquisition of interest in a subsidiary** | | | | | | **902** |
| **Profit before taxation** | | | | | | **3,391,587** |
| **Income tax expenses** | | | | | | **(533,821)** |
| **Profit for the year** | | | | | | **2,857,766** |

For the year ended 31st December 2007 (restated)

| | Real estate HK$'000 | Infrastructure facilities HK$'000 | Medicine HK$'000 | Consumer products HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| TURNOVER | | | | | | |
| External sales | 369,983 | 446,690 | 4,322,141 | 3,293,486 | - | 8,432,300 |
| Segment results | 81,086 | 427,653 | 533,134 | 743,500 | - | 1,785,373 |
| Net unallocated corporate income | | | | | | 509,434 |
| Finance costs | | | | | | (158,466) |
| Share of results of jointly controlled entities | 4,375 | (2,379) | 39,522 | 119,976 | 115,962 | 277,456 |
| Share of results of associates | - | - | 18,313 | 170,757 | (30,909) | 158,161 |
| Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities | | | | | | 159,332 |
| Impairment losses recognised in respect of goodwill relating to subsidiaries | | | | | | (157,614) |
| Discount on acquisition of interest in a subsidiary | | | | | | 2,563 |
| Profit before taxation | | | | | | 2,576,239 |
| Income tax expenses | | | | | | (295,130) |
| Profit for the year | | | | | | 2,281,109 |

**(4) INCOME TAX EXPENSES**

| | **2008** **HK$'000** | 2007 HK$'000 (restated) |
|---|---|---|
| Current tax | | |
| - Hong Kong | **88,607** | 104,868 |
| - PRC Land appreciation tax ("PRC LAT") | **46,917** | - |
| - PRC Enterprise income tax | **424,231** | 173,887 |
| | **559,755** | 278,755 |
| (Over)underprovision in prior years | | |
| - Hong Kong | **(5,605)** | (1,468) |
| - PRC Enterprise income tax | **(7,092)** | 1,497 |
| | **(12,697)** | 29 |
| Deferred taxation | | |
| - Current year | **(7,207)** | 18,697 |
| - Attributable to a change in tax rate | **(6,030)** | (2,351) |
| | **(13,237)** | 16,346 |
| | **533,821** | 295,130 |

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. On 26th June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

On 16th March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. For companies that were qualified under old law or regulations for incentive tax rate of 15%, the tax rate will progressively increase to 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012, respectively. For companies that were still entitled to certain exemption and reliefs ("Tax Benefit") from PRC income tax, the New Law and Implementation Regulations allowed the companies to continue to enjoy the Tax Benefit and afterwards change the tax rate to 25%. For companies that were subject to tax rate of 33%, the New Law and Implementation Regulations have changed the tax rate from 33% to 25% from 1st January 2008.

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including cost of land use rights and property development expenditures.

## (5) PROFIT FOR THE YEAR

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (restated) |
| Profit for the year has been arrived at after charging (crediting): | | |
| Amortisation of toll road operating rights (included in cost of sales) | **208,653** | 99,428 |
| Amortisation of other intangible assets (included in administrative expenses) | **7,888** | 7,268 |
| Depreciation of property, plant and equipment | **367,463** | 294,940 |
| Release of prepaid lease payments to income statement | **28,551** | 36,263 |
| Impairment loss on bad and doubtful debts | **19,106** | 12,666 |
| Reversal of impairment loss on bad and doubtful debts (included in other income) | **(36,450)** | - |
| Increase in fair value of investment properties (included in other income) | **(12,788)** | (10,783) |
| Loss (gain) on disposal of investment properties (included in other income) | **8,830** | (5,787) |
| Loss (gain) on disposal of property, plant and equipment | **1,786** | (5,790) |
| Research and development costs | **78,577** | 37,866 |
| Share of PRC income tax of jointly controlled entities (included in share of results of jointly controlled entities) | **(8,910)** | 25,650 |
| Share of PRC income tax of associates (included in share of results of associates) | **(24,145)** | 25,678 |

## (6) DIVIDENDS

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Ordinary shares: | | |
| 2008 interim dividend of HK45 cents (2007: HK37 cents) per share | **484,362** | 395,900 |
| 2007 final dividend of HK43 cents (2006: HK30 cents) per share | **462,431** | 290,718 |
| | **946,793** | 686,618 |

A final dividend of HK36 cents per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## (7) EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (restated) |
| Earnings: | | |
| Profits for the purposes of basic earnings per share (profit for the year attributable to equity holders of the Company) | **2,101,546** | 1,963,023 |
| Effect of dilutive potential ordinary shares | | |
| - adjustment to the share of results of a jointly controlled entity based on potential dilution of its earnings per share (note) | **(865)** | (707) |
| Earnings for the purposes of diluted earnings per share | **2,100,681** | 1,962,316 |

| | **2008** | 2007 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **1,074,822,708** | 1,013,132,770 |
| Effect of dilutive potential ordinary shares | | |
| - share options | **1,914,212** | 4,719,136 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **1,076,736,920** | 1,017,851,906 |

Note: The dilutive impact on the share of results of a jointly controlled entity is effected from share options issued by the jointly controlled entity.

The effects of the application of HKAS 39 & HKFRS 7 (Amendments) and merger accounting on the Group's basic and diluted earnings per share for the current and prior year:

**Impact on basic earnings per share**

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Reported figures before adjustments | **1.89** | 1.98 |
| Adjustments arising from changes in accounting policies: | | |
| - Merger accounting | **0.02** | (0.04) |
| - Reclassification of financial assets | **0.05** | - |
| Restated | **1.96** | 1.94 |

**Impact on diluted earnings per share**

| | 2008 HK$ | 2007 HK$ |
|---|---|---|
| Reported figures before adjustments | **1.88** | 1.97 |
| Adjustments arising from changes in accounting policies: | | |
| - Merger accounting | **0.02** | (0.04) |
| - Reclassification of financial assets | **0.05** | - |
| Restated | **1.95** | 1.93 |

**(8) TRADE AND OTHER RECEIVABLES**

| | 2008 HK$'000 | 2007 HK$'000 (restated) |
|---|---|---|
| Trade receivables | **1,752,287** | 1,145,950 |
| Less: allowance for doubtful debts | **(69,382)** | (99,574) |
| | **1,682,905** | 1,046,376 |
| Other receivables | **2,467,687** | 1,309,178 |
| Total trade and other receivables | **4,150,592** | 2,355,554 |

The Group generally allows credit periods ranging from 30 days to 180 days to its trade customers, other than property buyers. For property sales, due to the nature of business, the Group generally grants no credit period to property buyers. An aged analysis of trade receivables, net of allowance for doubtful debts, is as follows:

| | 2008 HK$'000 | 2007 HK$'000 (restated) |
|---|---|---|
| Trade receivable: | | |
| Within 30 days | **1,122,315** | 473,020 |
| Within 31 - 60 days | **243,795** | 237,233 |
| Within 61 - 90 days | **142,394** | 124,230 |
| Within 91 - 180 days | **114,355** | 117,193 |
| Within 181 - 365 days | **35,816** | 75,284 |
| Over 365 days | **24,230** | 19,416 |
| | **1,682,905** | 1,046,376 |

**(9) TRADE AND OTHER PAYABLES**

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 (restated) |
| Trade payables | **1,744,506** | 1,138,582 |
| Customers deposits from sales of properties | **299,140** | 1,497,244 |
| Consideration payables | **2,773,156** | 560,581 |
| Other payables | **2,460,554** | 5,726,680 |
| Total trade and other payables | **7,277,356** | 8,923,087 |

An aged analysis of trade payables are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 (restated) |
| Trade payables: | | |
| Within 30 days | **1,200,732** | 816,807 |
| Within 31 - 60 days | **281,451** | 116,315 |
| Within 61 - 90 days | **102,587** | 74,916 |
| Within 91 - 180 days | **41,530** | 59,550 |
| Within 181 - 365 days | **93,429** | 34,759 |
| Over 365 days | **24,777** | 36,235 |
| | **1,744,506** | 1,138,582 |

# FINANCIAL REVIEW

## I Analysis of Financial Results

### 1 Turnover

Turnover in 2008 increased by approximately 51.0% over 2007, this was driven not only by the organic growth in medicine and consumer products businesses, but most importantly the first year inclusion of property sales revenue in real estate business on consolidation, and the increase in toll revenue from Hu-Hang Expressway of infrastructure facilities business. These factors were also the major reasons for the Group’s turnover surpassing HK$10 billion for the first time.

Turnover of real estate business of the Group comprised mainly property sales revenue and the turnover from SIIC South Pacific Hotel. The sales of Yi Town and Yuxi of Urban Cradle, Changsha Toscana and Kunshan Kuncheng Dijing Garden have been completed and delivered for occupation, with a turnover of approximately HK$2.6 billion. The turnover of SIIC South Pacific Hotel has been accounted for using the merger accounting method. The turnover in 2008 decreased as compared with 2007, due to the global financial crisis and the reduction in inbound business travelers caused by the Olympics held in China.

The snow storm in China at the beginning of the year and the alteration and expansion works of the Hu-Ning Expressway had a negative impact on traffic flow and toll revenue, resulting in a 10.2% decrease in toll revenue. During the year, turnover from the acquired Luqiao Development has been accounted for using the merger accounting method since the completion of acquisition by SIIC in November 2007, and the toll revenue of HK$635.09 million in 2008 represented an increase of HK$526.57 million from the restated turnover of HK$108.52 million for last year.

Medicine subsidiaries still operated in an unstable macro environment with uncertainties in medical reform policies, rising raw material prices, increased government spending in medicine and concern over human health issues, but turnover of our medicine business recorded a double digit growth for the second year through increased marketing and promotional efforts. With respect to consumer products business, its turnover experienced steady growth, with increases in turnover of 3.1% and 9.9% respectively for Nanyang Tobacco and Wing Fat Printing.

2 Profit Contributed From Each Business

Following the completion of acquisition of a 59% equity interest in Shanghai Urban Development in December 2007, its full year financial results have been consolidated for the first time in the year. The acquisition of a 87% equity interest in SIIC South Pacific Hotel was also completed in the year, with its results reflected in real estate business in accordance with the merger accounting method. The sales revenue of Yi Town and Yuxi of Urban Cradle, Changsha Toscana and Kunshan Kuncheng Dijing Garden have been recognized upon completion of delivery procedures, together with the completion of Urban Development International Tower that brought revaluation gain and recurrent rental income, which were the major sources of profit to real estate business.

Profit from the infrastructure facilities business increased significantly by approximately 223.7% from last year. In addition to the disposal gain of HK$207.77 million from the disposal of 30% equity interests in Yongjin Expressway in the year, and the recognition of full year results of HK$205.09 million from the acquired Luqiao Development in accordance with the merger accounting method; General Water of China and Hu-Ning Expressway, the two existing infrastructure facilities entities, also achieved steady business growth through subsidy income for water supply business and toll revenue deficiency compensation for alteration and expansion works respectively.

Operating conditions of the medicine business were still affected by a number of factors including uncertainties in medical reform policies and rising raw material prices, however, all major medicine enterprises of the Group recorded operating profit growth during the year by strengthening their efforts in marketing and cost control, together with a major medicine enterprise was granted the High-New Technology Enterprise qualifications with applicable preferential tax rate of 15%, resulted in remarkable increase in the overall profit of the business.

As the main profit contributor of consumer products business, Nanyang Tobacco maintained a stable profit in the year driven by sales. However, due to the completion of disposal of three automobile and parts enterprises last year, no operating income nor disposal gain from such three enterprises was recorded for the year; the melamine incident that Bright Dairy had to incur impairment on recalled and returned products as well as make provision for sales costs; and the high raw material prices that Wing Fat Printing suffered from a decrease in operating profit, all resulted in a decline of approximately 49.5% in results of consumer products business. Excluding the profit contributions from the three automobile and parts enterprises in 2007, the profit from consumer products business decreased 26.3% in the year.

In the year, the Group completed the disposal of Shanghai Information Investment and some strategic investments, and recorded remarkable growth for the results of information technology business. With respect to SMIC, it successfully introduced Datang Telecom Technology & Industry Holdings Co., Ltd ("Datang") as a strategic investor, to leverage Datang's technology expertise, resources and PRC and global network, so as to enhance SMIC's PRC presence and further improve its global competitiveness. SIIC, the major shareholder of the Group, unconditionally granted the Company all voting and management rights attached to all its shareholdings in SMIC during the year, the SMIC shares held by the Group have then been reclassified from available-for-sale investments to interest in associates, and SMIC's assets and liabilities were revaluated at fair value and recorded a discount on acquisition of interests in associates, which approximated to its impairment loss recognized in respect of available-for-sale investments.

3 Profit before Taxation

*(1) Gross profit margin*

Gross profit margin for the year was 36.5%, representing a decrease of approximately 2.1 percentage points compared to 38.6% last year. Such decrease was due to the turnover of real estate comprised 2007 pre-sale properties, and their cost of sales have accounted for their valuation adjustments at the time of equity acquisition of Shanghai Urban Development.

(2) *Other investment income*

The decrease in other investment income was mainly due to the falling market interest rates and the fluctuation in investment markets, resulting in a decrease in both interest income and fair value of investments.

(3) *Other income*

The snow storm at the beginning of the year and the alteration and expansion works of the Hu-Ning Expressway had a negative impact on traffic flow, resulting in an increase in toll revenue deficiency compensation for alteration and expansion works of HK$82.65 million for the year to HK$214.36 million, which was the main reason for the increase in other income.

(4) *Share of results of jointly controlled entities*

Last year, the Group recorded a share of profit of HK$126.34 million from Huizhong Automotive, and an accretion gain of HK$67.48 million derived from the injection of the information and media related assets into Shanghai Information Investment by one of its shareholders. However, with the disposal of equity interests in Huizhong Automotive and Shanghai Information Investment, the Group's share of profit of jointly controlled entities decreased.

(5) *Share of results of associates*

Share of results of associates decreased, mainly due to the decreases in the results of two major associates. Bright Dairy had to incur impairment on recalled and returned products as well as make provision for sales costs due to the melamine incident, resulting in a loss of RMB286 million for the year, and the Group's share of loss of HK$94.44 million, as opposed to a share of profit of HK$54.75 million last year. In addition, due to continuous price drop of DRAM products, SMIC exited commodity DRAM business and had to make impairment provisions for relevant inventories and long-lived assets which resulted in increased losses.

(6) *Impairment losses recognized in respect of available-for-sale investments and discount on acquisition of interests in associates*

During the first half of 2008, the Group adjusted its investment strategies, with SMIC reclassified as available-for-sale investments. Thereafter, SIIC granted the Company unconditionally all voting and management rights attached to all its shareholdings in SMIC, and the Group regained significant influence on SMIC, and reclassified its equity interests in SMIC again as interests in associates. Based on the fair value of the assets and liabilities of SMIC, a discount income on acquisition was recorded, which approximated to the impairment loss of SMIC recognized under available-for-sale investments.

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

The Group completed the disposal of Shanghai Information Investment and Yongjin Expressway during the year, with disposal gains of HK$331.98 million and HK$207.77 million respectively.

4 Dividends

The Group adopts a stable dividend payout policy. The Board of Directors has proposed to declare a final dividend of HK36 cents per share, together with an interim dividend of HK45 cents per share, the total dividend amounts to HK81 cents per share for the year. The dividend payout ratio was 41.3% for the year.

II Financial Position of the Group

1 Capital and Shareholders' Equity

The Group had a total of 1,076,435,000 shares in issue as at 31st December 2008, which was increased by 5,174,000 shares as compared with 1,071,261,000 shares in issue as at the end of 2007. The increase is mainly attributable to the exercise of share options by employees.

The Group maintains a sound financial position. The shareholders' equity, reached HK$23,401.36 million as at 31st December 2008, which was attributable to the net profits and the increase in number of shares in issue for the year after deducting the dividend actually paid during the year.

2 Indebtedness

*(1) Borrowings*

The Group obtained two three-year term syndication loan facilities of a total of HK$2.87 billion in the year through a wholly-owned subsidiary, SIHL Finance Limited, together with the long term and revolving loan facilities of HK$3 billion obtained in 2006, they will provide sufficient funds to finance the Group's operation and development amid the global financial crisis and tightening credit market.

As at 31st December 2008, the total borrowings of the Group amounted to approximately HK$9,660.04 million (31st December 2007: HK$6,049.30 million), of which 59.7% (31st December 2007: 52.1%) was an unsecured credit facility.

*(2) Pledge of assets*

As at 31st December 2008, the following assets were pledged by the Group in order to secure general credit facilities granted to the Group:

(a) investment properties with a carrying value of approximately HK$1,898,796,000 (2007: HK$125,962,000);
(b) plant and machinery with a carrying value of approximately HK$110,309,000 (2007: HK$40,044,000);
(c) leasehold land and buildings with a carrying value of approximately HK$274,381,000 (2007: HK$258,610,000);
(d) motor vehicles with a carrying value of approximately HK$90,000 (2007: HK$843,000);
(e) properties under development held for sale of approximately HK$1,892,262,000 (2007: HK$1,584,019,000);
(f) properties held for sale of approximately HK$762,119,000 (2007: HK$23,675,000);
(g) toll road operating rights of approximately HK$5,820,389,000 (2007: HK$5,613,348,000);
(h) other inventories of approximately HK$38,948,000 (2007: Nil); and
(i) bank deposit of approximately HK$800,541,000 (2007: HK$51,975,000).

*(3) Contingent liabilities*

As at 31st December 2008, the Group has given guarantees to banks in respect of banking facilities utilized by an entity controlled by Xuhui District State-owned Assets Administrative Committee, a jointly controlled entity, associates and outsiders of approximately HK$1,261.10 million (31st December 2007: HK$1,065.38 million) in total.

3 Capital Commitments

As at 31st December 2008, the Group had capital commitments mainly contracted for business development and investments in fixed assets of HK$1,737.97 million (31st December 2007: HK$1,984.68 million). The Group had sufficient internal resources to finance its capital expenditures.

4 Bank Deposits and Short-term Investments

As at 31st December 2008, bank balances and short-term investments held by the Group amounted to HK$9,568.64 million (31st December 2007: HK$6,934.18 million) and HK$162.72 million (31st December 2007: HK$3,136.22 million) respectively. The proportions of US dollars, Renminbi and HK dollars were 29%, 67% and 4% (31st December 2007: 23%, 65% and 12%) respectively. Short-term investments mainly consisted of investments such as equity linked notes, bonds and PRC listed shares.

While having sufficient working capital and a healthy interest cover, the Group is monitoring the market situation and the funding requirements for business development, will seek opportunities to optimize capital structure should needs arise.

III Post Balance Sheet Event

The following events were entered into by the Group subsequent to 31st December 2008:

1. On 16th January 2009, Luqiao Development, a wholly owned subsidiary of the Company entered into an agreement with Shanghai Public Road Construction Company, an independent third party, for the widening and alteration on the Xin-Song Section of Hu-Hang Expressway for the aggregate amount of RMB1,200 million.

2. On 21st January 2009, SI Pharmaceutical and Shanghai Hua Rui Investment Co. Limited entered into the equity transfer agreement with Bailian Group Co. Limited ("Bailian"), to transfer the Group's entire equity interest in Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SIUC") to Bailian at an aggregate consideration of RMB1,055.85 million. The Group through SIUC holds a 21.17% shareholdings in Lianhua Supermarket. The transaction was completed on 3rd March 2009.

*For the purposes of the Business Review of this announcement, the exchange rates of HK$1.00 = RMB0.8804 and HK$7.80 to US$1.00 have been used, where applicable, for purpose of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged at any particular rate on the date or dates in question or any other date.*