

# SHANGHAI INTERNATIONAL SHANGHAI GROWTH INVESTMENT LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code: 770)

## 2006 INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2006

The Board of Directors (the “Board”) of Shanghai International Shanghai Growth Investment Limited (the “Company”) is pleased to announce the unaudited interim results of the Company for the six months ended June 30, 2006, along with comparative figures for the corresponding period in 2005. Such results have been reviewed by the audit committee (“Audit Committee”) and the external auditors of the Company.

### CONDENSED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2006

		Six months ended	
		June 30, 2006 (unaudited) US\$	June 30, 2005 (unaudited) US\$
	<i>Notes</i>		
Investment income	3	370,557	899,428
Gain on sale of investments in listed securities		765,984	55,876
Gain on sale of investments in unlisted securities		–	6,685,728
Impairment loss recognized in respect of an investment in unlisted securities	4	–	(2,000,000)
Increase in fair value of an investment property	10	40,000	33,000
		<u>1,176,541</u>	<u>5,674,032</u>
Operating expenses			
– Investment Manager’s fee		(365,750)	(566,056)
Administrative expenses		(226,903)	(330,062)
		<u>(592,653)</u>	<u>(896,118)</u>
<b>Profit for the period</b>		<u><b>583,888</b></u>	<u><b>4,777,914</b></u>
<b>EARNINGS PER SHARE – BASIC</b>	7	<u><b>6.56 cents</b></u>	<u><b>53.65 cents</b></u>

**CONDENSED BALANCE SHEET**  
AS AT JUNE 30, 2006

	<i>Notes</i>	<b>June 30, 2006 (unaudited) US\$</b>	December 31, 2005 (audited) US\$
<b>NON-CURRENT ASSETS</b>			
Investments in unlisted securities	8	<b>3,960,000</b>	3,960,000
Investments in listed securities	9	<b>11,032,772</b>	11,424,171
Investment property	10	<b>680,000</b>	640,000
		<b><u>15,672,772</u></b>	<u>16,024,171</u>
<b>CURRENT ASSETS</b>			
Dividend, interest and other receivables and prepayments		<b>473,752</b>	357,859
Bank balances		<b>9,981,858</b>	19,733,275
		<b><u>10,455,610</u></b>	<u>20,091,134</u>
<b>CURRENT LIABILITIES</b>			
Accrued charges		<b>36,789</b>	8,575
Amount due to Investment Manager		<b>129,809</b>	184,073
		<b><u>166,598</u></b>	<u>192,648</u>
<b>NET CURRENT ASSETS</b>		<b><u>10,289,012</u></b>	<u>19,898,486</u>
		<b><u>25,961,784</u></b>	<u>35,922,657</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>890,500</b>	890,500
Reserves		<b>25,071,284</b>	35,032,157
		<b><u>25,961,784</u></b>	<u>35,922,657</u>
<b>NET ASSET VALUE PER SHARE</b>	<i>11</i>	<b><u>2.92</u></b>	<u>4.03</u>

*Notes:*

**1. BASIS OF PREPARATION**

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

**2. PRINCIPAL ACCOUNTING PRACTICE**

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair value, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Company's audited annual financial statements for the year ended December 31, 2005.

In the current interim period, the Company has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning either on or after December 1, 2005 or January 1, 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2007.

<sup>2</sup> Effective for annual periods beginning on or after March 1, 2006.

<sup>3</sup> Effective for annual periods beginning on or after May 1, 2006.

<sup>4</sup> Effective for annual periods beginning on or after June 1, 2006.

### 3. INVESTMENT INCOME

	Six months ended June 30,	
	2006 US\$	2005 US\$
Dividend Income		
– Listed securities	114,979	107,779
– Unlisted securities	–	566,277
Interest income	255,578	225,372
	370,557	899,428

No segment information is presented as the Company has only one business activity, namely investment holding, and operates in the Greater China region only.

### 4. IMPAIRMENT LOSS RECOGNIZED IN RESPECT OF AN INVESTMENT IN UNLISTED SECURITIES

Impairment loss in the previous period was recognized based on the estimated recoverable amount of an investment in unlisted securities which has been making continuous loss.

### 5. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company has no assessable profits for both periods.

## 6. DIVIDENDS

During the period, the Company has paid out the following dividends:

	Six months ended June 30,	
	2006	2005
	US\$	US\$
2005 final dividend – nil (2004: US\$0.30 per share)	–	2,671,500
2005 special final dividend – US\$1.20 per share (2004: US\$1.20 per share) from the share premium account	<b>10,686,000</b>	10,686,000
	<b><u>10,686,000</u></b>	<b><u>13,357,500</u></b>

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2006 (2005: Nil).

## 7. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the net profit for the period of US\$583,888 (for the six months ended June 30, 2005: US\$4,777,914) and 8,905,000 (for the six months ended June 30, 2005: 8,905,000) ordinary shares in issue.

No diluted earnings per share has been presented as the Company has no dilutive potential ordinary shares outstanding during both periods.

## 8. INVESTMENTS IN UNLISTED SECURITIES

	June 30, 2006	December 31, 2005
	US\$	US\$
Unlisted equity investments in the People's Republic of China (the "PRC")	<b><u>3,960,000</u></b>	<b><u>3,960,000</u></b>

At the balance sheet date, the Company holds more than 20% of equity interest in certain unlisted investee companies. In the opinion of the directors, as the Company is an investment fund company which acts as a passive investor to the investee companies, it does not exert any significant influence over nor participate in the financial and operating policy decisions of those investee companies. Therefore, investments in those companies are classified as investments in securities in the financial statements.

The unlisted equity investments in the PRC are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

## 9. INVESTMENTS IN LISTED SECURITIES

	June 30, 2006	December 31, 2005
	US\$	US\$
Listed securities, at fair value:		
Shares listed in Hong Kong	<b>7,983,749</b>	8,570,216
Shares listed in Taiwan	<b>1,655,775</b>	424,759
Non-tradable securities ( <i>Note</i> )	<b>1,393,248</b>	2,429,196
	<b><u>11,032,772</u></b>	<b><u>11,424,171</u></b>

The investments in listed securities are held for long-term and non-trading in nature. Fair values of the investments in listed securities have been determined by reference to bid prices quoted in active markets.

Gain arising from fair value changes of investments in listed securities of US\$141,239 was recognized directly in capital reserve for the current period.

*Note:*

The amount represents the investment in Semiconductor Manufacturing International Corporation (“SMIC”), whose shares were listed in both Hong Kong and the United States in March 2004. The shares of SMIC held by the Company are subject to certain investor regulations and restriction from trade for a lock-up period of 180 days subsequent to its listing (the “Lock-up Period”). For a maximum period of three years from the expiration of the Lock-up Period (the “Post Lock-up Period”), the Company could sell or transfer up to 15% of its holding of pre-listing shares in SMIC at the beginning of every 6 months throughout the Post Lock-up Period. Fair value of the non-tradable listed securities has been determined by reference to the quoted market bid price. The directors are of the opinion that the Post Lock-up Period may have little, if any, effect on the price that a knowledgeable, willing market participant would pay for these shares.

## 10. INVESTMENT PROPERTY

	<b>June 30, 2006 US\$</b>	December 31, 2005 US\$
Fair value:		
At January 1	<b>640,000</b>	567,000
Increase in fair value recognized in the income statement	<b>40,000</b>	73,000
	<b><u>680,000</u></b>	<b><u>640,000</u></b>

The property is located in the PRC and held under long lease. The fair value of the Company’s investment property at June 30, 2006 had been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, an independent firm of qualified professional valuers.

## 11. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net asset value of the Company as at June 30, 2006 of US\$25,961,784 (at December 31, 2005: US\$35,922,657) and on the 8,905,000 (at December 31, 2005: 8,905,000) ordinary shares in issue as at June 30, 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *FINANCIAL REVIEW*

The Company recorded a net profit of US\$583,888 for the six months ended June 30, 2006 (2005: US\$4,777,914), representing a decrease of 87.8% over the corresponding period in 2005. The drop in income was mainly attributable to lack of realized gains and dividend income derived from unlisted investments as was in 2005. The Company has exhausted much effort in the past two years to identify exit alternatives for non-performing unlisted investments. Save for one active unlisted investment remaining at end of the period under review, the Company was able to divest most of the targeted exits. As for investments in listed securities, during the period the Company received US\$114,979 in dividend income (2005: US\$107,779) and US\$765,984 (2005: US\$55,876) in realized gains on disposal of listed securities.

As at June 30, 2006, the Company’s net asset value (“NAV”) per share was US\$2.92 subsequent to its May distribution of US\$1.20 per share as special dividends for the previous financial year, up 2.23% compared to that at the end of 2005 on an ex-dividend basis. At the end of the period under review, the Company’s share price was US\$2.725 (December 31, 2005: US\$3.925), reflecting a discount to NAV per share of 6.7%, which has remained unchanged since before dividend payment for 2005.

## **INVESTMENT REVIEW**

### **Unlisted Investments Portfolio**

At the end of June 30, 2006, there is only one active investment remaining in the Company's unlisted investment portfolio: namely Shanghai Well Bright Foods Co., Ltd., at a fair value of US\$3,960,000.

During the six months under review, the Company continued to make progress in exiting from its portfolio investments:

- Sale of the Company's 25% equity interest in Zhejiang Huguang Heat and Power Co., Ltd. was completed on March 20, 2006 upon receipt of official approval from the Foreign Trade and Economic Cooperation Bureau in Shao Xing on the relevant share transfer.
- The Company recovered all of its US\$500,000 invested capital in GSMC International Limited at the end of March 2006 since its exit in 2002. The long process of recovery was compensated by the 8% per annum interest payment aggregating a net gain of US\$129,490.
- Three fully impaired unlisted investments, namely Shanghai Lian Ji Synthetic Fiber Co. Ltd., Shanghai Hua Xin High Biotechnology Inc. and Shanghai Xinpu Transport Co., Ltd., were either in the process of liquidation or finding an exit.

### **Current Invested Portfolio**

*Shanghai Well Bright Foods Co., Ltd. ("Well Bright")*

During the first half of 2006, Well Bright recorded an unaudited operating loss of RMB2,125,905. The Company has held numerous discussions with the other shareholder over its management and mode of operation of Well Bright. It even instituted arbitration against the other shareholder's alleged breach of contract when talks failed, but to no avail. The Company's board of directors has authorized the incorporation of an offshore single purpose company to transfer the Company's entire beneficial interest in Well Bright to that offshore company. The transfer was completed on August 14, 2006 upon receiving government approval. Such structure will facilitate the share sale of Well Bright's interests to a bona fide purchaser once identified. As the Company perceives its interests in Well Bright is not likely to be realized or investment cost recaptured without the full cooperation of the other shareholder, which so far has not been forthcoming, the Company is determined to exit from this investment.

### **Listed Investments Portfolio**

#### ***Listed Investment – Non-tradable***

*Semiconductor Manufacturing International Corporation ("SMIC")*

The Company invested approximately US\$6 million in SMIC's unlisted shares since 2001 and the investment was converted into 54 million ordinary shares upon SMIC's listing in March 2004. As of June 30, 2006, 28.7 million shares in SMIC were held by the Company, of which 9.8 million shares were still subject to lock-up restriction, with portion released bi-annually to become freely tradable. As of June 30, 2006, the Company registered a cumulative net gain of approximately US\$4.3 million or 72.05% in respect of partial sale and continuous holding of this investment.

#### ***Listed Investments – Tradable***

Hong Kong's key market indices, namely the HSI and Hang Seng China Enterprises Index surged 9.35% and 27.3% respectively in the first six months. The Company re-balanced its portfolio with some profit taking. Accordingly its portfolio recorded a 3% gain during the first six months, only dimmed by lack luster performance of technology stocks. Since the overall market direction will be dictated by fund flows, rising interest rates and surging oil prices, as long as these elements remain uncertain and contingent, they will continue to weigh on the local market. The Company will remain vigilant in watching market movements and study all relevant indicators in the second half.

## **LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL COMMITMENT**

Subsequent to a distribution of special dividend in May 2006, the Company's bank balances as of June 30, 2006 were US\$9,981,858 (December 31, 2005: US\$19,733,275), of which US\$664,021 (December 31, 2005: US\$892,123) were held in RMB equivalent in trust deposits with a registered financial institution in China. RMB is not a freely convertible currency and the RMB exchange rate remained relatively stable during the period.

The Company did not have any bank borrowing or capital commitment on its unlisted investments at the end of June 2006 and December 2005 respectively.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

Except for the RMB bank deposits, the majority of the Company's assets are denominated in US dollars and Hong Kong dollars. As the peg of the Hong Kong dollar to the US dollar is expected to continue in the foreseeable future, the Company does not envisage any material exposure of its liquid assets to exchange rate fluctuations. Accordingly, no hedging instruments were deployed to cover such exposure.

## **PROSPECTS**

During the first half of 2006, the Company has reviewed more than 40 investment opportunities, and conducted a number of site visits for due diligence. Meanwhile, continuous efforts to exit from certain historical portfolio investments are being made with the objective of recovering most, if not all, of the Company's invested capital in those companies. The objective is to realize or recover the Company's assets in those investments which otherwise would mean nothing more than a statistics without any dividend or cashable value.

The Company will remain vigilant on the changes in the China investment landscape and continue to look for sound investment opportunities to enhance capital appreciation.

## **EMPLOYEES**

Other than employing a qualified accountant to comply with the requirement under the Listing Rules, the Company has no other employee. The Company continues to delegate the day-to-day administration of its investment portfolio to its Investment Manager.

## **PURCHASE, SALE AND REDEMPTION OF SECURITIES**

During the six months ended June 30, 2006, the Company did not purchase, sell or redeem any of the Company's own securities.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee since 1999, which currently comprises four non-executive directors, three of them being independent. The Audit Committee has reviewed the unaudited interim financial statements in conjunction with the management and the external auditors. The Audit Committee also meets with the management of the Investment Manager to supervise the Company's matters on internal control, risk management and financial reporting process.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code during the six months ended June 30, 2006.

## **CORPORATE GOVERNANCE**

The Company has complied with all the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended June 30, 2006.

## **PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

This announcement will be published on the Stock Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)). The Company's 2006 interim report will also be submitted to the Stock Exchange for uploading onto its website and will be dispatched to the shareholders of the Company in due course.

By Order of the Board  
**Shanghai International Shanghai Growth Investment Limited**  
**Wu Choi Sun William**  
*Executive Director*

Hong Kong, September 22, 2006

*The Board of the Company as at the date of this announcement comprises Mr. Wu Choi Sun William and Dr. Xue Wanxiang as executive directors; Dr. Hua Min, Mr. Ong Ka Thai and Mr. Yick Wing Fat Simon as independent non-executive directors; and Mr. Cai Nongrui, Mr. Chen Chi-chuan, Mr. Chiu Tak-chiang, Mr. Hu Jinggang, Mr. Lee Tien-chieh, Mr. Tseng Ta-mon, Dr. Wang Changhong and Mr. Zhou Youdao as non-executive directors.*

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