Chairman's Statement

During the year, the Group went through a period of strategic changes. Seeking breakthroughs while consolidating its existing core businesses; developing new opportunities while taking part in the restructuring of state-owned assets and identifying new market positioning in the course of developing key strategies --- these strategic moves are expected to strengthen the Group's core businesses, broaden its profit base, and create new opportunities for its future development. The prospects of the PRC economy attract the attention of the investors in the capital market. This, together with the recovery of the Hong Kong economy, has provided the Group a clear direction for its development over the next decade. With a solid foundation, the Group is well positioned to share its success with its Shareholders.

Broadening profit base with encouraging business growth

The overall business growth of the Group for 2006 was encouraging. Turnover increased by 13.7% to HK$6,851 million. Profit attributable to shareholders grew by 22.4% to HK$1,258 million. Basic earnings per share increased by 21.5% to HK$1.30.

Among the Group's various business segments, profit growth for the infrastructure facilities business was the highest. Profit contribution from the segment increased by 230.9% to HK$615 million. Net profit from recurring operations of consumer products business increased 27.1% to HK$595 million as Huizhong Automotive achieved a turnaround in profits, and profits from the tobacco and printing businesses continued to grow. Net profit from recurring operations of medicine business dropped by 31.0% to HK$163 million. The decrease was mainly attributable to effects arising from the change in rules and regulations towards the pharmaceutical industry in Mainland China and the fact that the comparative figures included profit contributions from Sunve Pharmaceutical and other investment projects which were disposed last year. After deducting exceptional gains generated from the disposal of strategic investment projects in previous year, losses in technology information business has been reduced from HK$46.40 million to HK$10.42 million.

The Board of Directors has recommended a final dividend of HK30 cents per share. Together with the interim dividend of HK22 cents per share paid during the year, the total dividend for the year amounted to HK52 cents. The dividend payout ratio is 40%.

Chairman's Statement

Implementing necessary measures to strengthen core businesses

The Group is committed to focus on its core businesses, in particular, the infrastructure facilities and medicine segments, striving to increase profits and to enhance the competitiveness of the enterprises in order to sustain profit growth.

The widening and alteration works of the Hu-Ning Expressway (Shanghai Section) commenced during the year, doubling the original dual carriageway with four lanes to a dual carriageway with eight lanes. With support from the relevant authority of the Shanghai Municipal Government, the Group shall receive compensations for the deficiency in toll revenue brought about by the widening and alteration works during the construction period. This would reduce the overall investment risks of the Group in the expressway, and ensure that income from the project would not be adversely affected by the widening and alteration works, scheduled for completion in 2008. By then, the traffic flow of the expressway will increase significantly. In the meantime, the Group is committed to identify other high quality toll road projects in order to broaden the income stream of the infrastructure facilities business.

In accordance with its established development strategies, General Water of China continued to focus on investment, operation and management in the water services industry. Three investment projects were added during the year, bringing the number of contracted projects to 14, with a scheduled daily treatment capacity of nearly 4.3 million tonnes. General Water of China has become one of the most influential water services enterprises in China. Projects that have commenced operation went smoothly. Adjustment in water prices underwent changes in an orderly manner. The BOT projects were implemented as planned, and the revenue of water services business remained steady and satisfactory. The company is now staying on a growth track. The Group will capitalise on opportunities brought about by the society's awareness of environmental protection and the opening of the water services market in Mainland China. The strategies of investing in the water services industry and the outcomes were in general well received by the market.

Chairman's Statement

During the year, the Group initiated and implemented various measures, in particular, "Intellectual Property Management System", "Research and Development Incentives Scheme" and "Innovative Applied Research and Development Projects Funding Scheme", in order to advocate and encourage innovation of its enterprises to enhance their competitiveness. Satisfactory results were achieved. The commercialization of the three State Category I New Drugs of the Group proceeded as planned: "Kai Li Kang" was launched in the market in April 2006 and brought to over 100 A-grade hospitals successfully. Obtaining production approval in April 2006, the GMP Certificate of the manufacturing facilities of "Oncorine" (H101 project) was obtained in July and the product was available for sale in the market by October. The construction and trial operation of the GMP factory of the "TNF" project was completed, and applications for production approval were in progress. The innovation and independent development of MicroPort Medical made another achievement and was awarded second prize of 2006 State Technology Advancement.

Member companies of the Group that are engaged in the consumer products business are all well established, with excellent reputations, and maintaining prominent positions in the market. Through expanding market shares, cost reduction measures and uplifting of product qualities, these companies are expected to maintain steady growth in future.

Reinforcing capital operation and optimizing business structure

During the year, the Group successfully completed the share reform plans for SI Pharmaceutical and Bright Dairy, the two A-Share companies listed in Shanghai. In 2006, exceptional losses totalling HK$243 million were incurred by the Group. After the share reforms, the Group held a stake of 43.62% and 25.17% tradable shares of SI Pharmaceutical and Bright Dairy respectively. The market capitalization of the two companies amounted to HK$17.5 billion in total, representing a significant uplift in market value *(The calculation is based on the closing price of the relevant shares in the A Shares market of the Shanghai Stock Exchange as at 20th April 2007)*. The companies' financing capabilities were expanded and opportunities in capital operation were seen.

The Group disposed of its equity interest in Pudong Container during the year and entirely divested its port container business. An after-tax exceptional gain of HK$244 million was recorded, allowing resources reallocation and optimization of businesses for the Group.

The investment portfolio of the Group consists of many high quality business projects. By exerting more efforts in capital operation, the Group aims to realize the underlying value of its assets and to smoothly reconfigure its business structure within the shortest possible period.

Chairman's Statement

Prospects

The economy of Mainland China has continued to grow, with the gradual opening of the capital markets and acceleration in capital market reforms. Along with continuous improvement and adjustments in industry policies, the Group is faced with unprecedented development opportunities. By capitalizing on its unique position with Shanghai background, it will integrate into a new round of the economic development plans in Shanghai, identify new opportunities in the restructuring of state-owned assets, strive to achieve scalable acquisitions and tap into new business segments.

Looking ahead, the Group will count on the stable development of the consumer products business and concentrate its investments in the infrastructure facilities and medicine businesses and consider tapping into the real estate business, so as to maintain sustainable growth in operating profit. Meanwhile, efforts will be devoted to capture opportunities arising from the new trend of capital development in Hong Kong and Mainland China. The Group will endeavour to take advantage of the capital market conditions in both Hong Kong and China and to further optimize capital structure of the Group. Resources will be consolidated in core businesses and efforts will be made to add value to its assets and increase return from investments in order to maximize shareholders' value.

Shanghai Industrial celebrated its 10th anniversary of listing in the market in 2006. On behalf of the Board of Directors, I wish to thank our Shareholders, financial institutions and business partners for their unswerving support in the past 10 years, and extend my sincere gratitude to our management team and staff members for their dedication and contribution to the Group.

Cai Lai Xing
Chairman

Hong Kong, 20th April 2007