CHAIRMAN'S STATEMENT

The audited consolidated profits for Shanghai Industrial Holdings Limited for the year ended 31st December 2005 amounted to HK$1,028 million, a decrease of 25.4% over the previous year. The decline was principally attributable to a drop in exceptional profit and a fall in operating results of certain individual businesses.

During the year, the Group's medicine and infrastructure facilities businesses continued to achieve robust growth. The medicine segment recorded a profit of HK$236 million, representing a 57.6% increase over last year. This was mainly attributable to the consolidation of the results of SI United (SSE Stock Code: 600607) commencing the beginning of 2005 upon completion of the acquisition of SI United's controlling interest at the end of 2004.

Driven by water service and port facilities projects, the infrastructure facilities segment contributed a profit of HK$186 million to the Group, representing an increase of 19% over the previous year.

The performances of the Group's consumer products and information technology segments were affected by declining operating results of the automobiles and parts projects and a slowdown in the global semiconductor industry respectively. During the year, profit contribution from the consumer products segment decreased by 20.3% to HK$468 million. The information technology segment also fell 92.4% to HK$45.34 million. Fluctuations in the semiconductor industry, however, were seasonal, and there were signs of recovery in the latter half of 2005.

In addition, the Group disposed of its entire interests in China Netcom (HK) during the year, reaping an exceptional profit of HK$91.74 million.

The Directors have recommended a final dividend of HK22 cents per share. Together with the interim dividend of HK20 cents per share paid, total dividends for the year amounted to HK42 cents. The dividend payout ratio is 39.3%.


Cai Lai Xing
Chairman

New Project Investment Fuels Growth Momentum

GWC achieved a solid foundation during the year with the addition of five new projects, located in Xianyang, Huzhou, Shenzhen and Wenzhou. Capitalizing on opportunities arising from developments and reforms of the water services market in Mainland China, GWC has acquired a total of 11 water services projects in eight cities since its establishment at the end of 2003. Total investments for these projects amounted to RMB3,306 million, with a scale of operation for 3.75 million tonnes in daily sewage treatment and water supplies capacities.

Consolidated Investment Portfolio Streamlines Business Structure

During the year, the Group actively consolidated its existing investment portfolio, including the disposal of a 28.15% stake in Shanghai Jahwa — thereby entirely divesting its personal care products business — as well as medicine projects in which the Group did not have controlling interests. These included Kehua Biotech, Sunve Pharmaceutical and Helishi Dental. Upon the completion of these transactions, the Group will realize a total of approximately RMB689 million, of which RMB270 million has been received during the year.

In order to streamline its business structure, the Company entered into an asset swap framework agreement with SI United under which it would transfer of four medicine projects at a total consideration of RMB445 million to SI United. In return, the Company would acquire commercial retail projects held by SI United, including a 21.17% stake of Lianhua Supermarket (Stock Exchange Stock Code 980) at a total consideration of RMB433 million. Through the asset swap, SI United will be restructured as a listed company specifically engaged in medicine. The swap is expected to enhance SI United's operating profits as well as its positioning and branding in the market. The agreements for the respective transactions are yet being approved.

Achieving Breakthroughs in Medicine Research and Development

During the year, the Group's medicine segment achieved major breakthroughs in research and development. Currently the Group has three projects certified as State Category I New Drugs. These include "H101", "Kai Li Kang" and the "TNF" project, a project jointly developed with the Shanghai PLA Second Military Medical University. These three State Category I New Drugs are targeted at diseases with high morbidity in China, such as cancer and stroke and have enormous market development potential.

Reinforcing Funding Operation to Enhance Return to Shareholders

The Group has been able to maintain sufficient capital and a sound financial position. As at the end of 2005, consolidated net assets amounted to HK$16,380 million and net cash amounted to HK$6,068 million, providing a solid foundation for the Group's investment activities. To enhance returns for the shareholders' fund, the Group further strengthened its funding operations. A satisfactory return was received from securities investments during the year. While closely managing its investment exposure, the Group will continue to maximize its cash resources in order to enhance its return on capital as a whole.

Prospects

The Group is optimistic about its growth prospects for the coming years. While consolidating existing businesses and strengthening income base, the Group will boost up its scale of investment. The infrastructure facilities segment will continue to focus on projects in toll roads and water services. The Group will step up the expansion and widening program for the Shanghai-Nanjing Expressway (Shanghai Section). Further efforts will be made to identify investment opportunities for toll roads projects, thereby enhancing the Group's profitability for the infrastructure facilities segment.

With respect to the medicine segment, the Group will focus on key projects acquisition and the commercialization of the three Category I New Drugs so as to strengthen its business foundation and income base.

For the consumer products segment, measures will be taken to expand market share, reduce costs and improve efficiency in order to absorb the impact from industrial cyclical fluctuations and, at the same time, maintain sustainable earnings growth.

During the past few years, the Group has dedicated great efforts to consolidate its investment portfolio, streamline business structure and promote vertical integration and in-depth development to achieve synergy in operation. To centralize its resources, the Group has divested its investments in the department retail and logistics sectors as well as personal care products. In line with its business strategies of limited diversification and in consideration of the new wave of economic development in Shanghai, the Group is considering tapping into different industries and develop new drivers for its long-term development.

Leveraging on its Shanghai background and its favourable position in Mainland China, the Group aims to capitalize on the opportunities arising from the restructuring of state-owned assets in China. It is expected that new horizons will be created and new breakthroughs will be achieved. "Focus", "Endeavour", "Aggressiveness" and "Innovation" are the Group's key strategies. The Group will endeavour to pursue greater achievements and produce stronger results so as to deliver higher returns to our shareholders.

On behalf of the Board of Directors, I wish to thank our Shareholders, financial institutions and business partners for their unswerving support, 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, 21st April 2006