

## DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report and the audited financial statements of Shanghai Industrial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31st December 2005.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the business of infrastructure facilities, medicine, consumer products and information technology.

## PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Details of the principal subsidiaries, jointly controlled entities and associates at 31st December 2005 are set out in notes 55, 56 and 57 to the financial statements respectively.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2005 are set out in the consolidated income statement on page 61 of this annual report.

An interim dividend of HK20 cents per share was paid during the year. The Directors recommended a final dividend of HK22 cents per share to the Shareholders whose names appear on the register of members of the Company on 30th May 2006.

## FINANCIAL SUMMARY

A summary of the financial information of the Group for the year ended 31st December 2005 and the financial information of the Group for the previous four years is set out on page 162 of this annual report.

## SHARE CAPITAL

Changes in the share capital of the Company during the year are set out in note 40 to the financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 42 to the financial statements.

## DIRECTORS' REPORT

### INVESTMENT PROPERTIES

At 31st December 2005, the investment properties of the Group were revalued by an independent property valuer based on an open market value on existing use basis at HK\$51.8 million. Details are set out in note 16 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 17 to the financial statements.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

#### Executive Directors:

Cai Lai Xing	(Chairman)	
Cai Yu Tian	(Vice Chairman, Chief Executive Officer)	(appointed on 19th December 2005)
Qu Ding	(Vice Chairman, Executive Deputy CEO)	
Lu Ming Fang		
Lu Da Yong		(resigned on 19th December 2005)
Ding Zhong De		
Lu Shen		(resigned on 19th December 2005)
Qian Shi Zheng	(Deputy CEO)	
Yao Fang		
Tang Jun		

#### Independent Non-Executive Directors:

Lo Ka Shui  
Woo Chia-Wei  
Leung Pak To, Francis

In accordance with Articles 92 and 101 of the Company's Articles of Association, Mr. Cai Yu Tian, Mr. Ding Zhong De, Mr. Qian Shi Zheng, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis retire and, being eligible, offer themselves for re-election.

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The term of office of each of the Independent Non-Executive Directors shall be terminated on whenever is the earlier of (i) 1st January 2008 and (ii) the Independent Non-Executive Directors ceasing to be a Director for any reasons pursuant to the Company's Articles of Association or any other applicable laws.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2005, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

##### (a) Ordinary shares

Name of Director	Capacity	Nature of interests	Number of issued shares held	Percentage of issued share capital
Cai Lai Xing	Beneficial owner	Personal	4,000,000	0.41%
Qu Ding	Beneficial owner	Personal	1,250,000	0.13%
Lu Ming Fang	Beneficial owner	Personal	4,200,000	0.43%
Ding Zhong De	Beneficial owner	Personal	200,000	0.02%
Qian Shi Zheng	Beneficial owner	Personal	200,000	0.02%
Yao Fang	Beneficial owner	Personal	200,000	0.02%

All interests stated above represented long positions.

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### (b) Share options

Name of Director	Capacity	Number of share options held	Percentage of issued share capital
Cai Lai Xing	Beneficial owner	800,000	0.08%
Qu Ding	Beneficial owner	560,000	0.06%
Lu Ming Fang	Beneficial owner	480,000	0.05%
Qian Shi Zheng	Beneficial owner	300,000	0.03%
Tang Jun	Beneficial owner	300,000	0.03%

## (II) Interests in shares of associated corporation of the Company

### Publicly tradable shares of SI United

Name of Director	Capacity	Nature of interests	Number of issued shares held	Percentage of total issued share capital
Lu Ming Fang	Beneficial owner	Personal	15,000	0.005%
Ding Zhong De	Beneficial owner	Personal	15,000	0.005%

All interests stated above represented long positions.

Save as disclosed above, as at 31st December 2005, none of the Directors nor Chief Executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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### SHARE OPTIONS

Particulars of the share option schemes adopted by the Group are set out in note 41 to the financial statements.

During the year, the movements in the share options to subscribe for the Company's shares were as follows:

		Number of shares subject to share options				
	Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
Category 1: Directors						
Cai Lai Xing	2.9.2005	14.89	–	800,000	–	800,000
Qu Ding	10.9.2002	11.71	500,000	–	(500,000)	–
	2.9.2005	14.89	–	560,000	–	560,000
Lu Ming Fang	2.9.2005	14.89	–	480,000	–	480,000
Qian Shi Zheng	2.9.2005	14.89	–	300,000	–	300,000
Tang Jun	2.9.2005	14.89	–	300,000	–	300,000
Total for Directors			500,000	2,440,000	(500,000)	2,440,000
		Number of shares subject to share options				
	Date of grant	Exercise price per share HK\$	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
Category 2: Employees						
	10.9.2002	11.71	15,780,000	–	(8,395,000)	7,385,000
	2.9.2005	14.89	–	4,560,000	–	4,560,000
Total for employees			15,780,000	4,560,000	(8,395,000)	11,945,000
Category 3: Others						
	2.9.2005	14.89	–	3,000,000	–	3,000,000
Total for all categories			16,280,000	10,000,000	(8,895,000)	17,385,000

Share options granted in September 2002 ("First Lot Share Options") under the Company's share option scheme are exercisable in three batches within a period of three and a half years commencing from six months after the respective dates of acceptance of the share options.

Share options granted in September 2005 ("Second Lot Share Options") under the Company's share option scheme are exercisable during the period from 2nd March 2006 to 1st March 2009 in three batches.

During the year, the weighted average closing price of the Company's shares on the trading day immediately before the respective dates on which the First Lot Share Options were exercised was HK\$15.75.

The closing price of the Company's shares on the trading day immediately before 2nd September 2005, being the date of grant of the Second Lot Share Options, was HK\$14.85.

## DIRECTORS' REPORT

### DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed under the section of "Share Options" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any other arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, the interests and short positions of the substantial Shareholders of the Company and other persons, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, are set out below:

#### Ordinary shares

Name of Shareholder	Capacity	Nature of interests	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of the Company
(a) <i>Long Positions</i>				
SIIC	Interests held by controlled corporations	Corporate	548,076,000 (note (i))	56.65%
Templeton Asset Management Limited	Beneficial owner	Corporate	48,436,253	5.01%
(b) <i>Short Positions</i>				
SIIC	Interests held by controlled corporations	Corporate	87,653,993 (note (ii))	9.06%

Notes:

- (i) SIH, SIIC Capital and SIIC CM Development held 468,066,000, 80,000,000 and 10,000 ordinary shares of the Company respectively. SIIC owns 100% of SIIC CM Development and STC respectively whereas STC owns 100% of SIH, which in turn owns 100% of SIIC Capital.
- (ii) SIIC was taken to have short positions in respect of 87,653,993 underlying shares of the Company under certain listed equity derivatives pursuant to the Zero Coupon Guaranteed Exchangeable Bonds issued by STC due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company.

Save as disclosed above, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31st December 2005.

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### CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 52(i) to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of Chapter 14A of the Listing Rules.

The Independent Non-Executive Directors have reviewed the continuing connected transactions set out in note 52(i) to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, or any of its subsidiaries, and its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### COMPETING INTERESTS

The ultimate holding company of the Company, SIIC, has interest in SIICI.

SIICI has interest in SMU Biotech. SMU Biotech is principally engaged in the manufacturing and distribution of recombinant streptokinase for injection which is used for emergency treatment to dissolve blood clog from myocardial infection.

Save as disclosed above, during the year ended 31st December 2005, none of the Directors or the substantial Shareholders of the Company had an interest in a business, which competes or may compete with the business of the Group.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total sales and purchases respectively.

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### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

### DONATIONS

During the year, the Group made charitable and other donations totalling HK\$1,242,000.

### RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 51 to the financial statements.

### POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 58 to the financial statements.

### CORPORATE GOVERNANCE

The corporate governance principals and practices adopted by the Company are set out in the Corporate Governance Report on pages 32 to 41 of this annual report.

### AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board



**Cai Lai Xing**

*Chairman*

Hong Kong, 21st April 2006