

上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED
(Incorporated in Hong Kong under the Companies Ordinance)

ACQUISITION OF INTEREST IN SHANGHAI INDUSTRIAL UNITED HOLDINGS CO., LTD. CONNECTED TRANSACTION

- On 21st May 2003, the Company's wholly-owned subsidiary, Shanghai Industrial YKB, entered into the Acquisition Agreement with the Vendors to acquire from them non-publicly tradable SI United Shares representing an aggregate of approximately 56.63% of the issued share capital of SI United as at the Latest Practicable Date, as to which 41.6% is to be acquired from the Connected Vendors and 15.03% is to be acquired from the Independent Vendors.
- Completion of the Acquisition Agreement will result in SI United becoming a subsidiary of the Company.
- Total consideration for the Acquisitions amounted to approximately RMB866.46 million (equivalent to approximately HK\$817.42 million) and will be satisfied by cash payment. Consideration per SI United Share, being RMB4.9917 (equivalent to approximately HK\$4.7092) payable by Shanghai Industrial YKB to each of the Vendors is the same.
- On 21st May 2003, SI United and, one of its subsidiaries, Shanghai United entered into the Reorganization Agreements with three affiliated companies of SIIC whereby SI United and Shanghai United agreed to dispose their respective entire interests in the Excluded Companies which carry on spinning, weaving and other operations.
- The consideration payable to the Vendors will be made in cash by Shanghai Industrial YKB within 15 business days after the Acquisition Agreement has become effective and SI United and Shanghai United have received the consideration payable to them under the Reorganization Agreements.
- SI United, whose RMB-denominated domestic A shares are listed and traded on the Shanghai Stock Exchange, is primarily engaged in bio-medicine related operations and commercial network operations.
- The Connected Vendors are ultimately controlled by SIIC and therefore are connected persons of the Company. In view of the interest of the Connected Vendors in the Acquisitions and in accordance with the requirements of the Listing Rules, the entering into of the Acquisition Agreement constitutes a connected transaction for the Company under the Listing Rules, and is subject to the approval by the Independent Shareholders at the Extraordinary General Meeting. An independent board committee will be formed to advise the Independent Shareholders in respect of the Acquisition Agreement. An independent financial advisor will be appointed to advise the independent board committee in respect of the Acquisition Agreement. A circular containing, amongst other things, further information of the Acquisitions, letters of advice from the independent board committee and the independent financial adviser respectively and a notice of the Extraordinary General Meeting will be despatched to the Shareholders as soon as practicable.
- The Independent Vendors are independent third parties unconnected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any associate of any of them.

ACQUISITIONS

Date of the Acquisition Agreement

21st May 2003

Parties

Purchaser: Shanghai Industrial YKB, a wholly-owned subsidiary of the Company

Vendors:

<i>Connected Vendors</i>	1. SIIC Shanghai
	2. City Note
<i>Independent Vendors</i>	3. Shanghai Weaving
	4. Uni-Shanghai; and
	5. Shanghai AJ

Interests to be acquired

Shanghai Industrial YKB has agreed to acquire 173,580,341 SI United Shares being the entire interests held by all of the Vendors in SI United and representing an aggregate of approximately 56.63% of the issued share capital of SI United as at the Latest Practicable Date. The SI United Shares held by the Vendors are non-publicly tradable shares. Particulars of their interests in SI United to be acquired by Shanghai Industrial YKB are shown as follows:

Name of Vendor	Number of SI United Shares to be sold	Approximate Percentage of Shareholding	Class of shares*
1. SIIC Shanghai	68,472,000	22.34%	state shares
2. City Note	59,027,603	19.26%	foreign legal person shares
3. Shanghai Weaving	27,688,500	9.03%	state legal person shares
4. Uni-Shanghai	9,841,230	3.21%	foreign legal person shares
5. Shanghai AJ	8,551,008	2.79%	domestic legal person shares
Total:	173,580,341	56.63%	

After completion of the Acquisitions, the Company will indirectly hold a total of 173,580,341 SI United Shares, representing approximately 56.63% of the issued share capital of SI United as at the Latest Practicable Date, and SI United will become a subsidiary of the Company and its results will be consolidated into the results of the Group.

Consideration

The aggregate consideration for the Acquisitions amounted to approximately RMB866.46 million (equivalent to approximately HK\$817.42 million) and is payable by Shanghai Industrial YKB in the following manner:

Name of Vendor	Amount of consideration	
	RMB	HK\$ equivalent
1. SIIC Shanghai	341,791,682	322,444,983
2. City Note	294,648,086	277,969,892
3. Shanghai Weaving	138,212,685	130,389,326
4. Uni-Shanghai	49,124,468	46,343,838
5. Shanghai AJ	42,684,067	40,267,987
Total:	866,460,988	817,416,026

The consideration payable to the Vendors will be made in cash by Shanghai Industrial YKB within 15 business days after (a) the Acquisition Agreement has become effective (see the section headed "Events to take place prior to the Acquisition Agreement becoming effective" below) and (b) SI United and Shanghai United have received the consideration payable to them under the Reorganization Agreements.

The consideration for the Acquisitions was determined after arm's length negotiations between the Company and the Vendors by reference to the net asset value per SI United Share as mentioned in items 3 and 4 of the immediate following paragraph. The consideration will be funded by the internal resources of the Group.

The consideration per SI United Share payable by each Vendor is the same, being RMB4.9917 (equivalent to approximately HK\$4.7092) and represents approximately:

- approximately 50.87% discount to the closing price of RMB10.16 per SI United Share as quoted on the Shanghai Stock Exchange on 20th May 2003 (being the last trading date immediately prior to the date of the Acquisition Agreement);
- approximately 50.58% discount to the average closing price of approximately RMB10.10 per SI United Share based on the daily closing prices as quoted on the Shanghai Stock Exchange over the five trading days up to and including 20th May 2003;
- 10% premium over the adjusted consolidated net assets per SI United Share of approximately RMB4.5379 as at 31st December 2002 which was based on the audited consolidated net assets of SI United Group prepared in accordance with the generally accepted accounting principles in the PRC and adjusted according to the "Disclosure and Presentation Requirements of Annual Report for Listed Companies of the PRC"; and
- approximately 6.57% premium over the pro forma consolidated net assets per SI United Share of approximately RMB4.6841 as at 31st December 2002 which was prepared on the basis as if the transactions contemplated under the Reorganization Agreements were completed on 31st December 2002 and in accordance with the generally accepted accounting principles in Hong Kong. Further details of the Reorganization Agreements are set out below in the paragraph headed "Reorganization of SI United Group".

Events to take place prior to the Acquisition Agreement becoming effective

The Acquisition Agreement will become effective upon the fulfilment of, amongst other things, the following Conditions:

- the passing by the Independent Shareholders at a general meeting of an ordinary resolution approving the Acquisition Agreement and the transactions contemplated thereunder;
- necessary approval from the CSRC waiving the obligation of Shanghai Industrial YKB to make a general offer to the shareholders of SI United having been obtained;
- approvals for the transactions contemplated under the Acquisition Agreement having been obtained from the State-owned Assets Supervision and Administration Commission, the Ministry of Commerce and the State Development and Reform Commission and no objection to the Acquisitions having been received from the CSRC;
- approval for the transactions contemplated under the Acquisition Agreement having been obtained at a shareholders meeting of SI United;
- approval for the transactions contemplated under the Reorganization Agreements having been obtained at a shareholders meeting of SI United and approval for the Reorganization Agreement having been obtained from the relevant approval authority (if necessary); and
- all other necessary approval as may be required to be obtained in relation to the Acquisition Agreement pursuant to the requirements or provisions of the laws of the PRC having been obtained.

Termination

If all of the Conditions have not been fulfilled within 12 months after the date of signing of the Acquisition Agreement, any party to the Acquisition Agreement may at any time after the expiry of the said 12-month period, by written notice to the other parties, terminate the Acquisition Agreement whereupon neither of the parties shall have any obligation towards the others (save and except for antecedent breaches).

The rights and obligations of the parties under the Acquisition Agreement shall take effect at the same time and be fulfilled simultaneously. If any of the Vendors fails to transfer its SI United Shares to Shanghai Industrial YKB in accordance with the Acquisition Agreement, Shanghai Industrial YKB has the right to terminate the Acquisition Agreement by giving written notice to the other parties, whereupon it shall have no obligation towards the other parties but without prejudice to its right to claim against the breaching party.

INFORMATION ON SI UNITED

Place of establishment and business

SI United became a joint stock company incorporated under the laws of the PRC in December 1991. The SI United Group is principally engaged in bio-medicine related operations and commercial network operations.

Share capital

The RMB-denominated domestic A Shares of SI United were listed on the Shanghai Stock Exchange on 27th March 1992. As at the Latest Practicable Date, SI United had an issued share capital of approximately RMB306.5 million (equivalent to approximately HK\$289.2 million) and its publicly traded shares accounted for approximately 43.37% of its issued share capital, the balance of approximately 56.63% SI United Shares were held by the Vendors.

Financial information

The pro forma consolidated profit before taxation and profit after taxation and minority interests of the Reorganized SI United Group for the two years ended 31st December 2002 (which were prepared in accordance with the generally accepted accounting principles in Hong Kong) were as follows:

	Year ended 31st December	
	2002 RMB'000	2001 RMB'000
Profit before taxation	146,190	163,482
Profit after taxation and minority interests	94,166	106,499

The pro forma consolidated net asset value of the Reorganized SI United Group as at 31st December 2002 amounted to approximately RMB1,435.73 million (equivalent to approximately HK\$1,354.46 million), which were prepared in accordance with the generally accepted accounting principles in Hong Kong.

SI United currently holds approximately 31.37% equity interest in, and is the second largest shareholder of, Lianhua Supermarket Holdings Company Limited which has made an application for listing of its shares on the Stock Exchange.

Reorganization of SI United Group

SI United currently directly and indirectly owns interests in the Excluded Companies which carry on spinning, weaving and other operations which are non-core businesses of the SI United Group. The net asset value of the Excluded Companies accounted for less than 10% of the consolidated net asset value of SI United Group as at 31st December 2002, and they are currently operating at a minor loss. SI United will undergo a restructuring whereby the entire interests of the SI United Group in the Excluded Companies will be disposed to three affiliated companies of SIIC. For the purpose of such restructuring, SI United and Shanghai United as vendors and the three affiliated companies of SIIC as purchasers entered into the Reorganization Agreements on 21st May 2003. Details of the Reorganization Agreements are set out below:

Consideration

The aggregate consideration for the disposal of the Excluded Companies amounted to approximately RMB61.94 million (equivalent to approximately HK\$58.43 million). The relevant part of such consideration will be paid to SI United and Shanghai United (as appropriate) in cash within 10 business days after the relevant Reorganization Agreement becomes effective.

Events to take place prior to the Reorganization Agreements becoming effective

Each of the Reorganization Agreements will become effective after the occurrence of the following events:

- (other than in respect of the SU-SIIC BVI Reorganization Agreement), approval for the transactions contemplated under such agreement having been obtained at a shareholders meeting of SI United;
- (other than in respect of the SU-SIIC BVI Reorganization Agreement), approval by the respective boards of directors of the relevant Excluded Companies, and the consent and/or waiver of pre-emption rights of the other shareholders of the relevant Excluded Companies, in respect of the transfer of equity interest pursuant to such agreement having been obtained;
- the events set out in paragraphs (a) to (c) under section headed "Events to take place prior to completion of the Acquisition Agreement" above having taken place;
- approval for the transfer of equity interest in the relevant Excluded Companies (other than Broadway Finitex Factory Limited) having been obtained from the original approval authorities; and
- in respect of the SU-SIIC BVI Reorganization Agreement only, the decision making body of the parties to such agreement having approved the transactions contemplated under such agreement.

CONNECTED TRANSACTION

Both SIIC Shanghai and City Note are connected persons of the Company by virtue of their being ultimately controlled by SIIC, a substantial shareholder of the Company who was interested in approximately 59.05% of the issued share capital of the Company as at the Latest Practicable Date. In view of the Connected Vendors' interest in the Acquisitions, the entering into of the Acquisition Agreement constitutes a connected transaction of the Company and, pursuant to the Listing Rules, is subject to Independent Shareholders' approval at the Extraordinary General Meeting. SIIC and its associates will abstain from voting at the Extraordinary General Meeting. An independent board committee will be formed to advise the Independent Shareholders on the fairness and reasonableness of the Acquisition Agreement. An independent financial adviser will be appointed to advise the independent board committee in respect of the same.

REASONS FOR THE ACQUISITIONS

The Group has been actively seeking opportunities to capitalize on the results of the strong economic development in Shanghai and other parts of the PRC. With the increasing living standard of the residents in the PRC, the Board is particularly optimistic in the future prospect of the consumer-related sectors including medicine and pharmaceutical products and retail and distribution network operations. The Acquisitions are an important step towards the restructuring of the Group's business. It is the intention of the Board to acquire a controlling stake in SI United to plan and implement the strategic development of the relevant operations of the Group as a whole. At the same time, through the Acquisitions, the Group can access to the PRC domestic capital market to facilitate the Group's pursuit of its business strategy and obtain a better return for the Shareholders.

The Board considers the Acquisition Agreement is on normal commercial terms and the terms (including the consideration) are fair and reasonable so far as the Company and the Shareholders taken as a whole are concerned.

FURTHER INFORMATION

A circular containing, amongst other things, further information of the Acquisitions, letters from the independent board committee of the Company and from the independent financial adviser respectively regarding the Acquisition Agreement and a notice to convene the Extraordinary General Meeting will be despatched to Shareholders as soon as practicable.

GENERAL

The principal business of the Group covers infrastructure and modern logistics, information technology, medicine and bio-technology, consumer products and automobile and parts.

DEFINITIONS

Term	Meaning
"Acquisitions"	the proposed acquisition of 173,580,341 SI United Shares by Shanghai Industrial YKB pursuant to the Acquisition Agreement
"Acquisition Agreement"	the agreement between the Vendors and Shanghai Industrial YKB in relation to the Acquisition dated 21st May 2003
"Associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"City Note"	City Note Holdings Limited, a company incorporated in the British Virgin Islands, whose principal activity is investments holding and is wholly owned by SIIC
"Company"	Shanghai Industrial Holdings Limited
"Conditions"	the conditions which must be fulfilled before the Acquisition Agreement will become effective
"Connected Vendors"	SIIC Shanghai and City Note
"CSRC"	the China Securities Regulatory Commission
"Excluded Companies"	the companies in which the SI United Group has interests and which interests are to be disposed to three affiliated companies of SIIC pursuant to the Reorganization Agreements, namely, Shanghai United Weaving Co., Ltd.* (上海聯合毛紡織有限公司), Shanghai United Knitting Products Co., Ltd.* (上海聯合羊絨針織品有限公司), Shanghai Hugang International Trading Co., Ltd.* (上海滬港國際貿易有限公司), all being established in the PRC, and Broadway Finitex Factory Limited, being incorporated in Hong Kong with limited liabilities
"Extraordinary General Meeting"	the extraordinary general meeting to be held among Shareholders by the Company to consider and approve the Acquisition Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"HK\$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	Shareholders other than SIIC and its associates
"Independent Vendors"	Uni-Shanghai, Shanghai Weaving and Shanghai AJ
"Latest Practicable Date"	20th May 2003, being the latest practicable date prior to the publication of this announcement for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"Reorganization Agreements"	the three agreements dated 21st May 2003 entered into between SI United and Shanghai United respectively as vendors and SIIC International Investment (BVI) Company Limited, SIIC Investment (Shanghai) Co., Ltd (上海實業(上海)有限公司) and Shanghai Nanyang Industrial Development Limited* (上海南洋實業發展股份有限公司) respectively as purchasers on 21st May 2003 for the sale and purchase of the equity interests in the Excluded Companies owned by the SI United Group, details of which are more particularly set out under the section headed "Reorganization of SI United Group" above
"Reorganized SI United Group"	SI United Group after completion of all of the Reorganization Agreements
"RMB"	Renminbi, the lawful currency of the PRC
"Shanghai AJ"	Shanghai AJ Corporation* (上海愛建股份有限公司), a limited company incorporated in the PRC and an independent third party unconnected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any associate of any of them
"Shanghai Industrial YKB"	Shanghai Industrial YKB Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the British Virgin Islands
"SIIC Shanghai"	SIIC Shangshi (Holdings) Company Limited* (上海上實(集團)有限公司), a limited company established in the PRC and is wholly owned by SIIC
"Shanghai United"	Shanghai United International Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of SI United
"Shanghai Weaving"	Shanghai Weaving Development Co.* (上海紡織發展總公司), a state-owned enterprise established in the PRC and an independent third party unconnected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any associate of any of them
"Shareholder(s)"	holder(s) of the share(s) of HK\$0.10 each in the capital of the Company
"SIIC"	Shanghai Industrial Investment (Holdings) Company Limited, a substantial shareholder of the Company which held approximately 59.05% of the issued share capital of the Company as at the Latest Practicable Date
"SI United"	Shanghai Industrial United Holdings Co., Ltd. (上海實業聯合集團股份有限公司)
"SI United Group"	SI United its subsidiaries and companies the results of which are consolidated in the consolidated accounts of SI United
"SI United Share(s)"	share(s) in the capital of SI United
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SU-SIIC BVI Reorganization Agreement"	the agreement dated 21st May 2003 in relation to the sale by Shanghai United of its interests in Shanghai Hugang International Trading Co., Ltd.* (上海滬港國際貿易有限公司) and Broadway Finitex Factory Limited) to SIIC International Investment (BVI) Company Limited
"Uni-Shanghai"	Uni-Shanghai Woolltex Limited, a limited company incorporated in Hong Kong and an independent third party unconnected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any associate of any of them
"Vendors"	SIIC Shanghai, City Note, Uni-Shanghai, Shanghai Weaving and Shanghai AJ

Hong Kong, 21st May 2003

In this announcement, for information purpose only, certain amounts in RMB have been translated into HK dollars at a rate of RMB1.06 to HK\$1.00. Such translation should not be construed as a representation that the RMB has been, could have been or could be, converted into HK dollars, as the case may be, at those or any other rates or at all.

* The English name is an informal English translation of its official Chinese name

By Order of the Board
Roger L. C. Leung
Company Secretary