



(Stock Code: 363)

**MAJOR TRANSACTION
IN RELATION TO
AN ASSET SWAP AGREEMENT
WITH
SHANGHAI INDUSTRIAL UNITED HOLDINGS CO., LTD.
SUSPENSION AND RESUMPTION OF TRADING**

The Board announces that on 20th June 2005 the Company entered into the Asset Swap Agreement with SI United, a subsidiary in which the Company owns approximately 56.63% of its total issued share capital.

The Asset Swap

Pursuant to the Asset Swap Agreement, the Company will procure that its relevant subsidiaries/ associated company transfer the Pharmaceutical Assets to SI United and its subsidiary Shanghai United (owned by SI United as to 99.98%) respectively, and SI United will procure that its subsidiary SIUC transfer the Commercial Assets to SI Commerce, a wholly-owned subsidiary of the Company.

The consideration for the Disposal under the Asset Swap is based on the sum of the carrying value of investments in the Pharmaceutical Assets as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 and committed capital injection to the Pharmaceutical Assets before the Completion Date (which in aggregate amounts to approximately RMB445,000,000 (equivalent to approximately HK\$419,811,000)) as adjusted by any changes to such carrying value from 31st March 2005 up to the Completion Date.

The consideration for the Acquisition under the Asset Swap is based on the sum of the carrying value of investments in the Commercial Assets as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 and committed capital injection to the Commercial Assets before the Completion Date (which in aggregate amounts to approximately RMB433,180,000 (equivalent to approximately HK\$408,660,000)) as adjusted by any changes to such carrying value from 31st March 2005 up to the Completion Date.

Major Transaction

The Asset Swap constitutes a major transaction for the Company under the Listing Rules, as the revenue ratio under Chapter 14 of the Listing Rules exceeds 25%, and is subject to the approval by the Shareholders.

The Company has obtained from the companies controlled by Shanghai Industrial Investment (Holdings) Company Limited (which constitute a closely allied group of shareholders under Rule 14.45 of the Listing Rules) holding approximately 56.67% in nominal value of the securities giving the right to attend and vote at any general meeting of the Company written approvals of the Asset Swap. Pursuant to Rule 14.44 of the Listing Rules, the Asset Swap which constitutes a major transaction has been approved by way of written shareholders' approval in lieu of holding a general meeting of the Company.

A circular containing, among other things, further details of the Asset Swap will be despatched to the Shareholders as soon as practicable.

Suspension and Resumption of Trading

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 21st June 2005 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 22nd June 2005.

THE ASSET SWAP AGREEMENT

Date of the Asset Swap Agreement

20th June 2005

Parties

1. The Company
2. SI United, a subsidiary of the Company

THE DISPOSAL

Interests to be disposed of

Pursuant to the Asset Swap Agreement, the Company will procure the following transfers by its relevant subsidiaries/associated company to SI United or its subsidiary Shanghai United of the Pharmaceutical Assets comprising equity interests in the subsidiaries/associated company set out below:

- (a) the transfer by SIIC MedTech of an amount of RMB21,000,000 in the registered capital of Liaoning Herbapex, representing 41.1765% of the total equity interest in Liaoning Herbapex, to SI United;
- (b) the transfer by Medieval of an amount of RMB7,050,000 in the registered capital of Liaoning Herbapex, representing 13.8235% of the total equity interest in Liaoning Herbapex, to Shanghai United;
- (c) the transfer by SIIC MedTech of an amount of RMB27,115,292 in the registered capital of Huqingyutang Pharmaceutical, representing a 51% equity interest in Huqingyutang Pharmaceutical after a capital injection by SIIC MedTech to Shanghai United; and
- (d) the transfer by World Honest of an amount of RMB4,084,500 in the registered capital of Huqingyutang Drugstore, representing a 29% equity interest in Huqingyutang Drugstore after a capital injection by World Honest to Huqingyutang Drugstore, to Shanghai United; and
- (e) the transfer by SIIC MedTech of an amount of RMB29,175,000 in the registered capital of Xiamen TCM, representing 61% of the total equity interest in Xiamen TCM, to SI United.

Consideration for the Disposal

The Pharmaceutical Assets shall be transferred at a consideration based on the sum of the carrying value of investments in the Pharmaceutical Assets as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 and the committed capital injection to the Pharmaceutical Assets before the Completion Date (which in aggregate amounts to approximately RMB445,000,000 (equivalent to

approximately HK\$419,811,000)) as adjusted by any changes to such carrying value from 31st March 2005 up to the Completion Date (including those changes in the carrying value which arise as a result of profits or losses made by the companies under the Pharmaceutical Assets during such period).

The following are the respective carrying value of investments in the Pharmaceutical Assets as shown in the unaudited consolidated accounts of the Group as at 31st March 2005:

| Asset | Carrying value |
|--|--|
| 55% equity interest in Liaoning Herbapex | RMB94,950,000 (equivalent to approximately HK\$89,575,000) |
| 51% equity interest in Huqingyutang Pharmaceutical (<i>Note 1</i>) | RMB236,180,000 (equivalent to approximately HK\$222,811,000) |
| 29% equity interest in Huqingyutang Drugstore (<i>Note 2</i>) | RMB16,000,000 (equivalent to approximately HK\$15,095,000) |
| 61% equity interest in Xiamen TCM | RMB97,870,000 (equivalent to approximately HK\$92,330,000) |

Notes:

- (1) *This includes a committed capital contribution to Huqingyutang Pharmaceutical by SIIC MedTech in the amount of RMB132,800,000 (equivalent to approximately HK\$125,283,000), further details of which are set out in the sub-section headed “Huqingyutang Pharmaceutical” under the section “Information on the Pharmaceutical Assets”.*
- (2) *This includes a committed capital contribution to Huqingyutang Drugstore by World Honest in the amount of RMB2,500,000 (equivalent to approximately HK\$2,359,000), further details of which are set out in the sub-section headed “Huqingyutang Drugstore” under the section “Information on the Pharmaceutical Assets”.*

Assuming no adjustment to the carrying value of investments in the Pharmaceutical Assets from 31st March 2005 up to the Completion Date, the consideration for the Disposal would be approximately RMB445,000,000 (equivalent to approximately HK\$419,811,000). Such consideration is however subject to adjustment by any increase or decrease in the carrying value of investments by the Group in the Pharmaceutical Assets from 31st March 2005 up to the Completion Date.

As at 31st December 2004 according to the audited consolidated accounts of the Group, the carrying value of investments by the Group in the Pharmaceutical Assets amounted to HK\$274,953,000.

After the disposal of the Pharmaceutical Assets to SI United pursuant to the Disposal, the Company will still hold interests in other pharmaceutical business companies other than through SI United.

THE ACQUISITION

Interests to be acquired

Pursuant to the Asset Swap Agreement, SI United shall procure that the following transfers by its subsidiary SIUC to SI Commerce (a subsidiary of the Company) the Commercial Assets comprising shareholding and/or equity interests in the following associated companies set out below:

- (a) the transfer by SIUC of 131,683,000 domestic shares of RMB1 each in the capital of Lianhua Supermarket, representing 21.17% of the total issued share capital of Lianhua Supermarket, to SI Commerce; and
- (b) the transfer by SIUC to SI Commerce of an amount of RMB53,625,594.52 in the registered capital of Century Lianhua, representing 25.54% of the total equity interest in Century Lianhua.

Consideration for the Acquisition

The Commercial Assets shall be transferred at a consideration based on the sum of the carrying value of investments in the Commercial Assets as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 and the committed capital injection to the Commercial Assets before the Completion Date (which in aggregate amounts to approximately RMB433,180,000 (equivalent to approximately HK\$408,660,000)) as adjusted by any changes to such value from 31st March 2005 up to the Completion Date (including those changes in the carrying value which arise as a result of profits or losses made by the companies under the Commercial Assets during such period).

The following are the respective carrying value of investment in the Commercial Assets as shown in the unaudited consolidated accounts of SI United as at 31st March 2005:

| Asset | Carrying value |
|--|--|
| 21.17% shareholding in Lianhua Supermarket | RMB376,160,000 (equivalent to approximately HK\$354,868,000) |
| 25.54% equity interests in Century Lianhua (<i>Note</i>) | RMB57,020,000 (equivalent to approximately HK\$53,792,000) |

Note:

This includes a committed capital contribution to Century Lianhua by SIUC in the amount of RMB31,410,000 (equivalent to approximately HK\$29,632,000), further details of which are set out in the sub-section headed "Century Lianhua" under the section "Information on the Commercial Assets".

Assuming no adjustment to the carrying value of investments in the Commercial Assets from 31st March 2005 up to the Completion Date, the consideration for the Acquisition would be approximately RMB433,180,000 (equivalent to approximately HK\$408,660,000). Such consideration is however subject to adjustment by any increase or decrease in the carrying value of investments by SI United in the Commercial Assets from 31st March 2005 up to the Completion Date.

As at 31st December 2004 according to the audited consolidated accounts of SI United, the carrying value of investments in the Commercial Assets amounted to HK\$367,265,000.

CONDITIONS

The Asset Swap Agreement shall take effect subject to:

- (1) approval by the shareholders of each of the Company and SI United at a general meeting or, in the case of the Company, written approval being obtained from its shareholders holding more than 50% of the total nominal value of Shares giving the right to vote at a general meeting; and
- (2) the obtaining or wavier of all relevant approvals by the government administration departments or bodies with competent authority in respect of all transactions contemplated under the Asset Swap Agreement.

Upon the above shareholders' approvals being obtained, the following Share Transfer Agreements for the transfer of equity interest or shareholding comprising the Pharmaceutical Assets and the Commercial Assets as referred to above shall be entered into:

- (a) an agreement between SIIC MedTech and SI United for the transfer of equity interest in Liaoning Herbapex;
- (b) an agreement between Medieval and Shanghai United for the transfer of equity interest in Liaoning Herbapex;

- (c) an agreement between SIIC MedTech and Shanghai United for the transfer of equity interest in Huyingyutang Pharmaceutical;
- (d) an agreement between World Honest and Shanghai United for the transfer of equity interest in Huyingyutang Drugstore;
- (e) an agreement between SIIC MedTech and SI United for the transfer of equity interest in Xiamen TCM;
- (f) an agreement between SIUC and SI Commerce for the transfer of shares in Lianhua Supermarket; and
- (g) an agreement between SIUC and SI Commerce for the transfer of equity interest in Century Lianhua.

Each of the Share Transfer Agreements shall take effect subject to the obtaining or waiver of all relevant approvals by the government administration departments or bodies with competent authority and subject to the other Share Transfer Agreements taking effect. If the condition for any one of the Share Transfer Agreements is not fulfilled, then all other Share Transfer Agreements shall not take effect.

COMPLETION

Completion of each of the Share Transfer Agreements shall take place after all relevant approvals by the government administration departments or bodies with competent authority have been obtained or otherwise waived, on a date as agreed between the parties to the relevant Share Transfer Agreement. The Completion Date is expected to be within twelve (12) months after the approvals by the shareholders of both the Company and SI United of the Asset Swap have been obtained. The approval by the shareholders of the Company in respect of the Asset Swap has been obtained by way of written shareholders' approval in lieu of the holding of a general meeting of the Company pursuant to Rule 14.44 of the Listing Rules. SI United will convene a shareholders' meeting for the purpose of considering and approving the Asset Swap on 22nd July 2005.

At the Completion Date, the parties to each of the Share Transfer Agreements shall settle in full the amount of consideration payable for the equity interest or shares being transferred in cash, with the payments to be made out of internal resources of the Group.

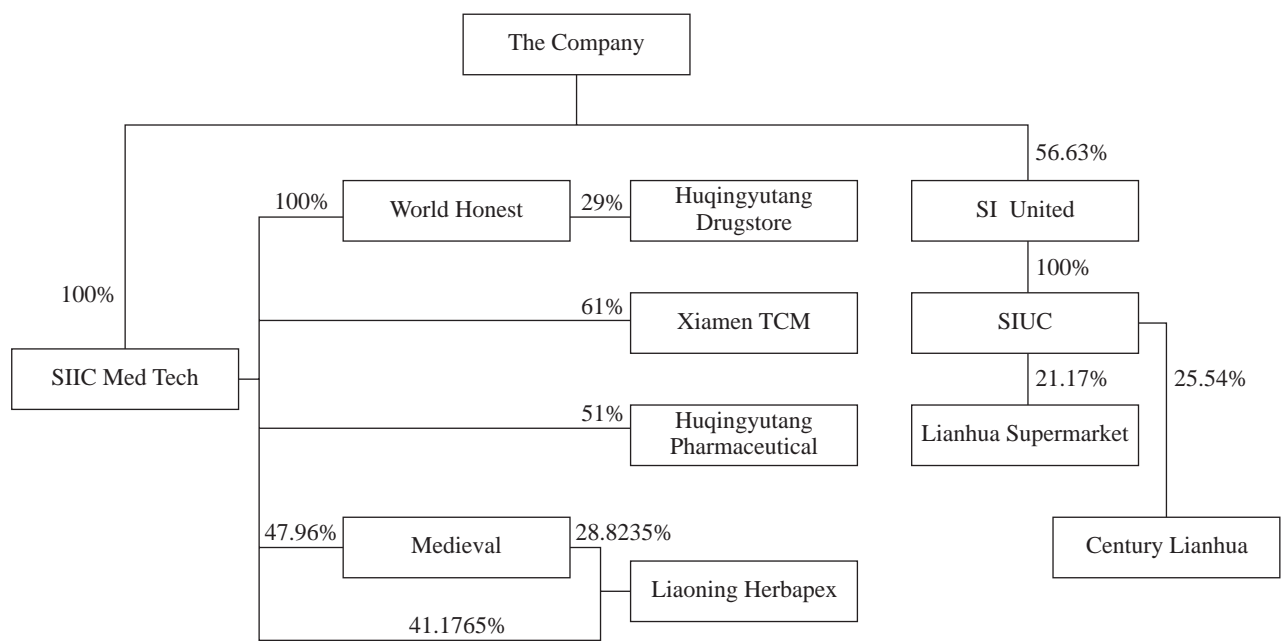
The proceeds from the disposal of the Pharmaceutical Assets are intended to be used to settle the payment for acquisition of the Commercial Assets.

TERMINATION

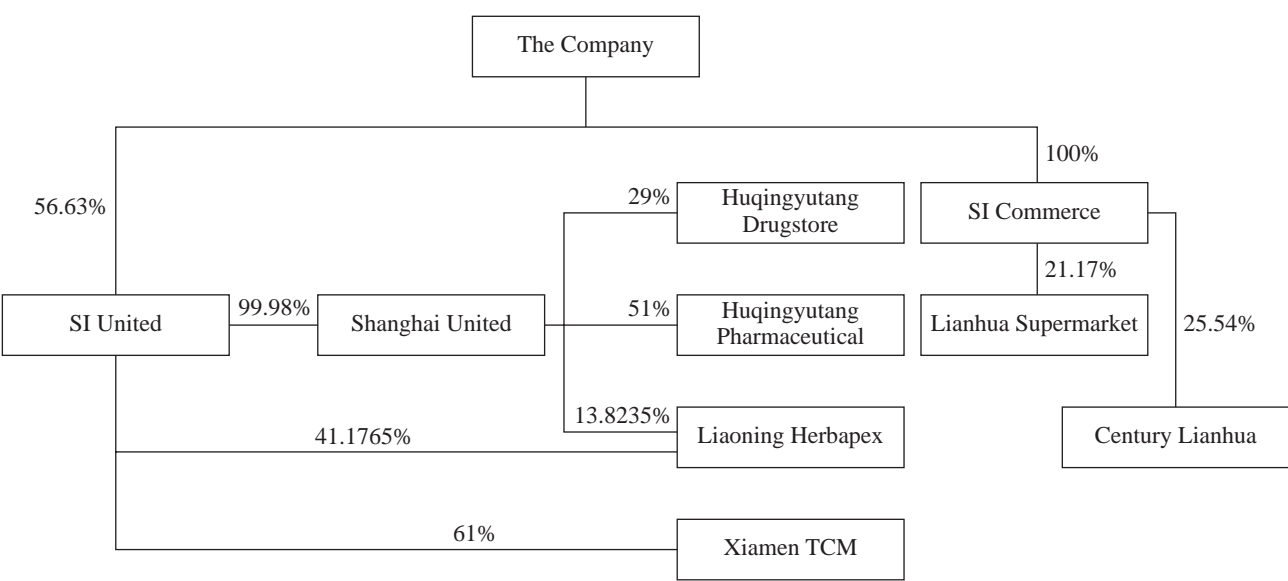
If the procedures for transfer of equity interest or shares and all the formalities for change in business registration in relation to the Asset Swap are not completed within twelve (12) months after the approval of the Asset Swap Agreement and the Share Transfer Agreements by the shareholders of the Company and SI United, the Asset Swap Agreement and the Share Transfer Agreements shall be terminated.

CORPORATE STRUCTURE OF THE PHARMACEUTICAL ASSETS AND THE COMMERCIAL ASSETS BEFORE AND AFTER THE COMPLETION

Simplified Corporate Structure immediately before the Completion



Simplified Corporate Structure immediately after the Completion



INFORMATION ON THE PHARMACEUTICAL ASSETS

Liaoning Herbapex

Liaoning Herbapex is principally engaged in the manufacture and sale of Chinese medicine.

Share capital

Liaoning Herbapex has a total registered capital of RMB51,000,000. The total equity interest in Liaoning Herbapex is held by the following shareholders before completion of the Disposal in the following manner:

| Name of shareholder | Amount of registered capital | Percentage shareholding |
|---|------------------------------|-------------------------|
| SIIC MedTech (wholly-owned subsidiary of the Company) | 21,000,000 | 41.1765% |
| Medieval (47.96% owned by the Company) | 14,700,000 | 28.8235% |
| Hu Lu Dao Jing Xin Investment Group Co., Ltd.* (葫蘆島金鑫投資集團有限公司) | 1,000,000 | 1.9608% |
| Zheng Ji Yu* (鄭繼宇) | 8,400,000 | 16.4706% |
| Qu Wen Ge* (曲文閣) | 4,100,000 | 8.0392% |
| Lu Xi Wei* (呂錫偉) | 1,800,000 | 3.5294% |

The shareholding structure of Liaoning Herbapex immediately after completion of the Disposal will be as follows:

| Name of shareholder | No. of shares held | Percentage shareholding |
|---|--------------------|-------------------------|
| SI United | 21,000,000 | 41.1765% |
| Medieval | 7,650,000 | 15.0000% |
| Shanghai United | 7,050,000 | 13.8235% |
| Hu Lu Dao Jing Xin Investment Group Co., Ltd.* (葫蘆島金鑫投資集團有限公司) | 1,000,000 | 1.9608% |
| Zheng Ji Yu* (鄭繼宇) | 8,400,000 | 16.4706% |
| Qu Wen Ge* (曲文閣) | 4,100,000 | 8.0392% |
| Lu Xi Wei* (呂錫偉) | 1,800,000 | 3.5294% |

The total issued share capital in Medieval is owned by SIIC MedTech as to 47.96% and by an individual (who is an Independent Third Party) as to 52.04%. Regarding the 13.8235% equity interest in Liaoning Herbapex held by Medieval, it has been agreed between SIIC MedTech and the other individual shareholder that he shall acquire from SIIC MedTech the 47.96% shareholding in Medieval held by SIIC MedTech at a consideration equal to the dividend he receives from Medieval to be distributed by Medieval out of the proceeds of sale of the 13.8235% equity interest in Liaoning Herbapex under the Disposal or out of its share premium in the event of insufficient distributable profits. Based on the carrying value of the Group's investment in 13.8235% equity interest in Liaoning Herbapex as shown in its unaudited consolidated accounts as at 31st March 2005, the amount of the consideration for the 47.96% shareholding in Medieval to be transferred by SIIC MedTech is estimated to be RMB12,422,000 (equivalent to approximately HK\$11,719,000).

Other than SIIC MedTech, Medieval and Zheng Ji Yu, Qu Wen Ge and Lu Xi Wei, who are the directors of Liaoning Herbapex, the other shareholder of Liaoning Herbapex is an Independent Third Party.

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Liaoning Herbapex for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

| | Year ended 31st December | |
|--|--------------------------|----------------|
| | 2004 | 2003 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Consolidated profit before taxation and minority interests | 23,952 | 12,003 |
| Consolidated profit after taxation and minority interests | 23,717 | 8,183 |

The audited consolidated net asset value and the audited consolidated total asset value of Liaoning Herbapex as at 31st December 2004 amounted to approximately RMB128,556,000 (equivalent to approximately HK\$121,279,000) and approximately RMB209,953,000 (equivalent to approximately HK\$198,069,000) respectively.

The audited consolidated turnover of Liaoning Herbapex for the year ended 31st December 2004 amounted to approximately RMB134,001,000 (equivalent to approximately HK\$126,416,000).

The carrying value of investment in Liaoning Herbapex as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB94,950,000 (equivalent to approximately HK\$89,575,000).

Huqingyutang Pharmaceutical

Huqingyutang Pharmaceutical is principally engaged in the manufacture and sale of Chinese medicine and health food.

Share capital

Huqingyutang Pharmaceutical has a total registered capital of RMB37,210,000. Huqingyutang Pharmaceutical is in the process of increasing its registered capital to RMB53,160,000 with the increased amount of registered capital contributed by SIIC MedTech. Such increase in registered capital is in the process of obtaining approval by the PRC administration department on foreign investment. The increase in registered capital of Huqingyutang Pharmaceutical is expected to be completed before the Completion Date. Upon completion of such increase in registered capital and before completion of the Disposal, the total equity interest in Huqingyutang Pharmaceutical will be held by the following shareholders in the following manner:

| Name of shareholder | Amount of registered capital | Percentage shareholding |
|--|------------------------------|-------------------------|
| SIIC MedTech (wholly-owned subsidiary of the Company) | 27,115,292 | 51.0069% |
| Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司) | 23,898,952 | 44.9566% |
| Enhanced Assets Management Limited | 1,594,800 | 3.0000% |
| China (Hangzhou) Qingchunbao Group Co., Ltd.* (中國(杭州)青春寶集團有限公司) | 550,956 | 1.0364% |

The shareholding structure of Huqingyutang Pharmaceutical immediately after completion of the Disposal will be as follows:

| Name of shareholder | No. of shares held | Percentage shareholding |
|--|---------------------------|--------------------------------|
| Shanghai United | 27,115,292 | 51.0069% |
| Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司) | 23,898,952 | 44.9566% |
| Enhanced Assets Management Limited | 1,594,800 | 3.0000% |
| China (Hangzhou) Qingchunbao Group Co., Ltd.* (中國(杭州)青春寶集團有限公司) | 550,956 | 1.0364% |

Other than SIIC MedTech and Hangzhou Huqingyutang Investment Co., Ltd., the other shareholders of Huqingyutang Pharmaceutical are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Huqingyutang Pharmaceutical for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

| | Year ended 31st December | |
|------------------------|---------------------------------|----------------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Profit before taxation | 43,183 | 40,755 |
| Profit after taxation | 43,183 | 36,644 |

The audited net asset value and the audited total asset value of Huqingyutang Pharmaceutical as at 31st December 2004 amounted to approximately RMB139,639,000 (equivalent to approximately HK\$131,735,000) and approximately RMB183,188,000 (equivalent to approximately HK\$172,819,000) respectively.

The audited turnover of Huqingyutang Pharmaceutical for the year ended 31st December 2004 amounted to approximately RMB196,979,000 (equivalent to approximately HK\$185,829,000).

The carrying value of investment in Huqingyutang Pharmaceutical as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB103,380,000 (equivalent to approximately HK\$97,528,000). The committed capital injection by SIIC MedTech to Huqingyutang Pharmaceutical up to the Completion Date amounts to RMB132,800,000 (equivalent to approximately HK\$125,283,000).

Huqingyutang Drugstore

Huqingyutang Drugstore is principally engaged in the operation of about 30 drugstores for sale of Chinese medicine and health food.

Share capital

Huqingyutang Drugstore has a total registered capital of RMB13,157,900 and is in the process of increasing its registered capital to RMB14,084,500 with the increased amount of registered capital contributed by World Honest. Such increase in registered capital is in the process of obtaining approval by the PRC administration department on foreign investment. The increase in registered capital of

Huqingyutang Pharmaceutical is expected to be completed before the Completed Date. Upon completion of such increase in registered capital and before completion of the Disposal, the total equity interest in Huqingyutang Drugstore will be held by the following shareholders in the following manner:

| Name of shareholder | Amount of registered capital | Percentage shareholding |
|---|-------------------------------------|--------------------------------|
| Huqingyutang Pharmaceutical | 5,100,000 | 36.21% |
| World Honest (wholly-owned subsidiary of the Company) | 4,084,500 | 29.00% |
| 39 Individual Shareholders | 4,900,000 | 34.79% |

The shareholding structure of Huqingyutang Drugstore immediately after completion of the Disposal will be as follows:

| Name of shareholder | No. of shares held | Percentage shareholding |
|-----------------------------|---------------------------|--------------------------------|
| Huqingyutang Pharmaceutical | 5,100,000 | 36.21% |
| Shanghai United | 4,084,500 | 29.00% |
| 39 Individual Shareholders | 4,900,000 | 34.79% |

Other than Huqingyutang Pharmaceutical, World Honest and 6 out of the 39 Individual Shareholders of Huqingyutang Drugstore, namely Feng Gen Sheng* (馮根生), Yang Zhong Ying* (楊仲英), Li Yu Hang* (黎豫杭), Feng He* (馮鶴), Fan Yun Hua* (范韻華) and Liu Jun* (劉俊), who are directors of certain subsidiaries of the Company, the other shareholders of Huqingyutang Drugstore are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Huqingyutang Drugstore for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

| | Year ended 31st December | |
|------------------------|---------------------------------|----------------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Profit before taxation | 5,985 | 5,016 |
| Profit after taxation | 3,783 | 3,419 |

The audited net asset value and the audited total asset value of Huqingyutang Drugstore as at 31st December 2004 amounted to approximately RMB27,564,000 (equivalent to approximately HK\$26,004,000) and approximately RMB42,274,000 (equivalent to approximately HK\$39,881,000) respectively.

The audited turnover of Huqingyutang Drugstore for the year ended 31st December 2004 amounted to approximately RMB51,063,000 (equivalent to approximately HK\$48,173,000).

The carrying value of investment in Huqingyutang Drugstore (including a committed capital injection) as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB16,000,000 (equivalent to approximately HK\$15,095,000). The committed capital injection by World Honest to Huqingyutang Drugstore up to the Completion Date amounts to RMB2,500,000 (equivalent to approximately HK\$2,359,000).

Xiamen TCM

Xiamen TCM is principally engaged in the manufacture and sale of Chinese medicine and health food.

Share capital

Xiamen TCM has a total registered capital of RMB47,830,000. The total equity interest in Xiamen TCM is held by the following shareholders before completion of the Disposal in the following manner:

| Name of shareholder | Amount of registered capital | Percentage shareholding |
|---|------------------------------|-------------------------|
| SIIC MedTech (wholly-owned subsidiary of the Company) | 29,175,000 | 61% |
| Xiamen Dinglu Industrial Co.* (廈門鼎爐實業總公司) | 14,350,000 | 30% |
| Rocal Health Limited | 4,305,000 | 9% |

The shareholding structure of Xiamen TCM immediately after completion of the Disposal will be as follows:

| Name of shareholder | No. of shares held | Percentage shareholding |
|---|--------------------|-------------------------|
| SI United | 29,175,000 | 61% |
| Xiamen Dinglu Industrial Co.* (廈門鼎爐實業總公司) | 14,350,000 | 30% |
| Rocal Health Limited | 4,305,000 | 9% |

Other than SIIC MedTech, the other shareholders of Xiamen TCM are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Xiamen TCM for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

| | Year ended 31st December | |
|------------------------|--------------------------|---------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Profit before taxation | 48,229 | 22,571 |
| Profit after taxation | 48,229 | 22,571 |

The audited net asset value and the audited total asset value of Xiamen TCM as at 31st December 2004 amounted to approximately RMB108,807,000 (equivalent to approximately HK\$102,648,000) and approximately RMB120,305,000 (equivalent to approximately HK\$113,495,000) respectively.

The audited turnover of Xiamen TCM for the year ended 31st December 2004 amounted to approximately RMB124,301,000 (equivalent to approximately HK\$117,265,000).

The carrying value of investment by the Group in Xiamen TCM as shown in the unaudited consolidated accounts of the Group as at 31st March 2005 was RMB97,870,000 (equivalent to approximately HK\$92,330,000).

INFORMATION ON COMMERCIAL ASSETS

Lianhua Supermarket

Lianhua Supermarket, whose H Shares are listed on the Main Board of the Stock Exchange, is principally engaged in the operation of about 3,123 supermarkets and convenience stores in the PRC under the trade names of “世紀聯華”, “聯華超市” and “快客便利”.

Share capital

Lianhua Supermarket has a total issued share capital of RMB622,000,000. The shareholding structure of Lianhua Supermarket before completion of the Acquisition is as follows:

| Name of shareholder | No. of shares held | Percentage shareholding |
|--|--------------------|-------------------------|
| Shanghai Friendship Group Co., Ltd.* (上海友誼集團股份有限公司) | 211,640,000 | 34.03% |
| SIUC | 131,683,000 | 21.17% |
| Mitsubishi Corporation* (日本三菱商事株式會社) | 41,900,000 | 6.74% |
| Hong Kong Wong Sun Heng Investment Co., Ltd.* (香港王新興投資有限公司) | 17,557,000 | 2.82% |
| Shanghai Li Ding Investment Co., Ltd.* (上海立鼎投資有限公司) | 12,220,000 | 1.96% |
| Holders of H Shares | 207,000,000 | 33.28% |

The shareholding structure of Lianhua Supermarket immediately after completion of the Acquisition will be as follows:

| Name of shareholder | No. of shares held | Percentage shareholding |
|--|--------------------|-------------------------|
| Shanghai Friendship Group Co., Ltd.* (上海友誼集團股份有限公司) | 211,640,000 | 34.03% |
| SI Commerce (wholly-owned subsidiary of the Company) | 131,683,000 | 21.17% |
| Mitsubishi Corporation* (日本三菱商事株式會社) | 41,900,000 | 6.74% |
| Hong Kong Wong Sun Heng Investment Co., Ltd.* (香港王新興投資有限公司) | 17,557,000 | 2.82% |
| Shanghai Li Ding Investment Co., Ltd.* (上海立鼎投資有限公司) | 12,220,000 | 1.96% |
| Holders of H Shares | 207,000,000 | 33.28% |

Other than SIUC (and the holders of H Shares of Lianhua Supermarket who cannot be ascertained by the Company), the other shareholders of Lianhua Supermarket are Independent Third Parties.

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Lianhua Supermarket for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in Hong Kong, were as follows:

| | Year ended 31st December | |
|--|--------------------------|----------------|
| | 2004 | 2003 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Consolidated profit before taxation and minority interests | 348,809 | 294,097 |
| Consolidated profit after taxation and minority interests | 215,540 | 163,623 |

The audited consolidated net asset value and the audited consolidated total asset value of Lianhua Supermarket as at 31st December 2004 amounted to approximately RMB1,728,349,000 (equivalent to approximately HK\$1,630,518,000) and approximately RMB4,810,711,000 (equivalent to approximately HK\$4,538,407,000) respectively.

The audited consolidated turnover of Lianhua Supermarket for the year ended 31st December 2004 amounted to approximately RMB10,854,967,000 (equivalent to approximately HK\$10,240,535,000).

The carrying value of investment by SI United in Lianhua Supermarket as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 was RMB376,160,000 (equivalent to approximately HK\$354,868,000).

Century Lianhua

Century Lianhua is principally engaged in the operation of about 49 supermarkets in the PRC under the trade name of “世紀聯華”.

Share capital

Century Lianhua has a total registered capital of RMB100,000,000. The total equity interest in Century Lianhua are held by the following shareholders as at the date of this Announcement in the following manner:

| Name of shareholder | Amount of registered capital | Percentage shareholding |
|---|------------------------------|-------------------------|
| Shanghai Friendship Group Co., Ltd.* (上海友誼集團股份有限公司) | 35,700,000.00 | 35.70% |
| SIUC | 22,211,784.71 | 22.21% |
| Lianhua Supermarket | 20,000,000.00 | 20.00% |
| Shanghai Li Ding Investment Co., Ltd.* (上海立鼎投資有限公司) | 22,088,215.29 | 22.09% |

The shareholders of Century Lianhua are carrying out an increase in the registered capital of Century Lianhua and the amount of increase in registered capital contributed by SIUC is RMB31,410,000 (equivalent to approximately HK\$29,632,000). Upon completion of the increase in registered capital, SIUC will hold a 25.54% equity interest in Century Lianhua, which will be transferred to SI Commerce under the Acquisition.

Apart from SIUC, the other shareholders of Century Lianhua are Independent Third Parties.

Financial information

The audited profit before taxation and the audited profit after taxation of Century Lianhua for the two years ended 31st December 2004, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

| | Year ended 31st December | |
|------------------------|---------------------------------|-----------------------|
| | 2004 | 2003 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before taxation | 6,855 | 538 |
| Profit after taxation | 6,747 | 483 |

The audited net asset value and the audited total asset value of Century Lianhua as at 31st December 2004 amounted to approximately RMB112,470,000 (equivalent to approximately HK\$106,104,000) and approximately RMB579,443,000 (equivalent to approximately HK\$546,644,000) respectively.

The audited turnover of Century Lianhua for the year ended 31st December 2004 amounted to approximately RMB1,059,369,000 (equivalent to approximately HK\$999,405,000).

The carrying value of investment in Century Lianhua (including a committed capital injection) as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 was RMB57,020,000 (equivalent to approximately HK\$53,792,000). The committed capital injection by SIUC to Century Lianhua up to the Completion Date amounts to RMB31,410,000 (equivalent to approximately HK\$29,632,000).

REASONS FOR AND THE BENEFITS OF THE DISPOSAL AND THE ACQUISITION

The Disposal and the Acquisition under the Asset Swap Agreement signify the implementation of the reorganisation of the pharmaceutical businesses of the Company and SI United across different regions. By exchanging non-controlling stakes in companies carrying on non-pharmaceutical businesses for controlling shareholdings in pharmaceutical business companies, SI United will become a specialist listed company in pharmaceutical products, thus enhancing its market niche, brand building capabilities and long term profitability. With the proposed restructuring, the future development of the Group's medicine business will benefit from the effective integration of its medicine business, leading to creation of greater shareholder value to the Shareholders.

Under the Disposal, the Company will transfer all the equity interests held in the companies under the Pharmaceutical Assets to SI United and its subsidiary. Each of Xiamen TCM, Liaoning Herbapex and Huqingyutang Pharmaceutical, being subsidiaries of the Company, will continue to be subsidiaries of the Group after completion of the Disposal as they will be held by SI United, another subsidiary of the Company. The Directors consider that there is no material financial impact on the Group as a result of the Asset Swap. After the Completion, the Company will hold interests in other pharmaceutical business companies other than through SI United.

As the considerations under the Disposal and the Acquisition are based on the carrying value as of the Completion Date of the Pharmaceutical Assets and of the Commercial Assets respectively as at the date of Completion, there will be no material gain or loss expected to accrue to the Group under the Asset Swap.

The Directors (including the independent non-executive Directors) consider that the Asset Swap Agreement together with the Share Transfer Agreements are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. With a reasonable basis for the considerations for the Acquisition and the Disposal, the value to holders of shares of both the Company and SI United will be enhanced.

GENERAL

The Company and its subsidiaries are principally engaged in the business of infrastructure facilities, medicine, consumer products and information technology.

SI United is a subsidiary of the Group owned by the Company as to approximately 56.63%, the A shares of which are listed on the Shanghai Stock Exchange. SI United and its subsidiaries are principally engaged in the manufacture and sale of biomedicine and commercial network operations. Mr. Lu Ming Fang, Mr. Ding Zhong De and Mr. Lu Shen, all being Directors, beneficially owns 15,000 shares, 15,000 shares and 12,000 shares respectively in the capital of SI United, representing 0.005%, 0.005% and 0.004% of the total issued share capital of SI United. To the best of the Directors' knowledge and information, there are no connected persons of the Company interested in 10% or more of the total issued share capital of SI United.

The Asset Swap constitutes a major transaction for the Company under the Listing Rules, as the revenue ratio under Chapter 14 of the Listing Rules exceeds 25%, and is subject to approval by the Shareholders. The Directors expect that the adjustment to the consideration for the Asset Swap as referred to above will not result in the consideration ratio exceeding the threshold for a very substantial acquisition under Chapter 14 of the Listing Rules. In the event the adjustment to the consideration for the Asset Swap results in such transaction constituting a very substantial acquisition for the Company, the Company will take appropriate action as required under the Listing Rules.

The Company has obtained from the companies controlled by Shanghai Industrial Investment (Holdings) Company Limited which together hold approximately 56.67% in nominal value of the securities giving the right to attend and vote at any general meeting of the Company written approvals of the Asset Swap. These companies, namely Shanghai Investment Holdings Limited (holding 468,066,000 Shares), SIIC Capital (B.V.I.) Limited (holding 80,000,000 Shares) and SIIC CM Development Limited (holding 10,000 Shares) are all wholly-owned subsidiaries of Shanghai Industrial Investment (Holdings) Company Limited and constitute a closely allied group of shareholders under Rule 14.45 of the Listing Rules. Apart from Shanghai Industrial Investment (Holdings) Company Limited, no connected person of the Company hold any shares in any of these three shareholding companies. None of the Shareholders is materially interested in the Asset Swap and, as such, none of them is required to abstain from voting if a general meeting of the Company is convened to approve the transactions contemplated under the Asset Swap Agreement. Pursuant to Rule 14.44 of the Listing Rules, the Acquisition which constitutes a major transaction has been approved by way of written shareholders' approval in lieu of holding a general meeting of the Company.

A circular containing, among other things, further details of the Acquisition and the Disposal, will be despatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 21st June 2005 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 22nd June 2005.

As at the date of this announcement, the board of directors of the Company comprises nine executive directors, namely, Mr. CAI Lai Xing, Mr. QU Ding, Mr. LU Ming Fang, Mr. LU Da Yong, Mr. DING Zhong De, Mr. LU Shen, Mr. QIAN Shi Zheng, Mr. YAO Fang and Mr. TANG Jun; three independent non-executive directors, namely, Dr. LO Ka Shui, Prof. WOO Chia-Wei and Mr. LEUNG Pak To, Francis.

DEFINITIONS

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|-------------------------------|--|
| “Acquisition” | the acquisition of the Commercial Assets by a subsidiary of the Company pursuant to the Asset Swap Agreement |
| “Asset Swap” | The Disposal and the Acquisition |
| “Asset Swap Agreement” | the agreement between the Company and SI United in relation to the Acquisition and the Disposal dated 20th June 2005 |
| “Associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of directors of the Company |
| “Century Lianhua” | 上海世紀聯華超市發展有限公司 (Shanghai Century Lianhua Supermarket Development Co., Ltd.), a limited liability company established under the laws of the PRC and owned by SI United as to 22.21% |
| “Company” | Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange |
| “Commercial Assets” | <p>(1) 131,683,000 domestic shares of RMB1 each in the capital of Lianhua Supermarket, representing 21.17% of the total issued share capital of Lianhua Supermarket; and</p> <p>(2) an amount of RMB53,625,594.52 in the registered capital of Century Lianhua, representing 25.54% of the total equity interest in Century Lianhua.</p> <p>to be acquired under the Acquisition</p> |
| “Completion” | Completion of the transfer of equity interest or shares under each of the Share Transfer Agreements |
| “Completion Date” | the date of Completion |
| “Directors” | directors of the Company |
| “Disposal” | the disposal of the Pharmaceutical Assets by subsidiaries/associated company of the Company pursuant to the Asset Swap Agreement |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Huqingyutang Drugstore” | Hangzhou Huqingyutang Drugstore Co., Ltd. (杭州胡慶餘堂國藥號有限公司), a limited liability company established under the laws of the PRC and owned by the Company as to 29% |
| “Huqingyutang Pharmaceutical” | Hangzhou Huqingyutang Pharmaceutical Company Limited (杭州胡慶餘堂藥業有限公司), a limited liability company established under the laws of the PRC and owned by the Company as to 51% |

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| “Independent Third Parties” | parties independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries and their respective associates |
| “Lianhua Supermarket” | Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Stock Exchange, and the total issued share capital of which is owned by SI United as to 21.17% |
| “Liaoning Herbapex” | Liaoning Herbapex Pharmaceutical Co., Ltd. (遼寧好護士藥業(集團)有限責任公司), a limited liability company established under the laws of the PRC and owned by the Company as to 55% |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Medieval” | Medieval International Limited, a company incorporated under the laws of the British Virgin Islands and owned by the Company as to 47.96% principally engaged in investment holding |
| “Pharmaceutical Assets” | <p>(1) an amount of RMB29,175,000 in the registered capital of Xiamen TCM, representing 61% of the total equity interest in Xiamen TCM;</p> <p>(2) an amount of RMB28,050,000 in the registered capital of Liaoning Herbapex, representing 55% of the total equity interest in Liaoning Herbapex;</p> <p>(3) an amount of RMB27,115,292 in the registered capital of Huqingyutang Pharmaceutical, representing a 51% equity interest in Huqingyutang Pharmaceutical; and</p> <p>(4) an amount of RMB4,084,500 in the registered capital of Huqingyutang Drugstore, representing a 29% equity interest in Huqingyutang Drugstore</p> <p>to be disposed of under the Disposal</p> |
| “PRC” | the People’s Republic of China (for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan) |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shares” | shares of HK\$0.10 each in the capital of the Company |
| “Shareholder(s)” | holder(s) of the share(s) in the capital of the Company |
| “Share Transfer Agreement” | The agreements for the transfer of equity interest or shares in companies under the Pharmaceutical Assets and the Commercial Assets in the form set out in the Appendix to the Assets Swap Agreement |
| “Shanghai United” | Shanghai United International Limited (香港上聯國際有限公司), a company incorporated under the laws of Hong Kong with limited liability and owned by SI United as to 99.98% which is engaged in trading and investment business |

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|------------------------|---|
| “SI Commerce” | S. I. Commerce Holdings Limited (上實商業控股有限公司), an investment holding company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company |
| “SIIC MedTech” | SIIC MedTech Health Products Limited (上實醫藥健康產品有限公司), an investment holding company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company |
| “SIUC” | 上海實業聯合集團商務網絡發展有限公司 (Shanghai Industrial United (Group) Commercial Network Development Company Limited), a limited liability company established under the laws of the PRC and an investment holding company owned by SI United as to 72.62% and by SI United’s subsidiary, Shanghai Hua Rui Investment Co., Ltd.* (上海華瑞投資有限公司) as to 27.38% |
| “SI United” | 上海實業聯合集團股份有限公司 (Shanghai Industrial United Holdings Co., Ltd.), a joint stock limited liability company established under the laws of the PRC which is a subsidiary of the Company listed on A Shares Market of the Shanghai Stock Exchange (stock code: 600607) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “World Honest” | World Honest Investments Limited (運誠投資有限公司), an investment holding company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company |
| “Xiamen TCM” | 廈門中藥廠有限公司 (Xiamen Traditional Chinese Medicine Co., Ltd.), a limited liability company established under the laws of the PRC and owned by the Company as to 61% |
| “HK\$” or “HK dollars” | Hong Kong dollars, the lawful currency of Hong Kong |

For the purposes of this announcement, the exchange rate at HK\$1 = RMB1.06 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at any particular rate on the date or dates in question or any other date.

By Order of the Board
Shanghai Industrial Holdings Limited
Wong Mei Ling, Marina
Company Secretary

Hong Kong, 21st June 2005

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

Please also refer to the published version of this announcement in the (South China Morning Post)