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**上海實業控股有限公司**

**SHANGHAI INDUSTRIAL HOLDINGS LIMITED**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code : 363)

**CONTINUING CONNECTED TRANSACTIONS**

**(1) CIGARETTE PACKAGING AGREEMENT**

**(2) TRASH PAPER AGREEMENT AND PORT AGENCY AGREEMENT**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**

**CIMB**

**CIMB-GK Securities (HK) Limited**

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A letter from the board of directors of Shanghai Industrial Holdings Limited is set out on pages 4 to 10 of this circular and a letter from the Independent Board Committee (as defined herein) is set out on page 11 of this circular. A letter from CIMB-GK Securities (HK) Limited containing its advice to the Independent Board Committee and the independent Shareholders is set out on pages 12 to 18 of this circular.

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

<b>Term</b>	<b>Meaning</b>
“Agreements”	the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement
“Board”	the board of Directors
“Cigarette Packaging Agreement”	the agreement dated 1st September 2005 between Xuchang Cigarette Factory and Xuchang Yongchang JV for the sale and purchase of cigarette paper materials and cigarette box packaging materials, further details of which are set out in the Letter from the Board in this circular
“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
“Continuing Connected Transactions”	the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement and the transactions contemplated thereunder
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hebei Yongxin JV”	河北永新紙業有限公司 (Hebei Yongxin Paper Co. Ltd.*), a limited liability company incorporated in the PRC, the equity interest of which is indirectly owned by the Company as to 66% and which carries on the business of paper printing and packaging materials
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the board of Directors comprising Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis
“Independent Financial Adviser”	CIMB-GK Securities (HK) Limited (formerly named G.K. Goh Securities (HK) Limited), a licensed corporation under the SFO for types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed to advise on the Continuing Connected Transactions
“Independent Third Parties”	parties independent of and not connected with the Directors, chief executive and substantial shareholders of the Group and their respective associates
“Latest Practicable Date”	20th September 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Port Agency Agreement”	the agreement dated 1st September 2005 between Xinan Tianjin and Hebei Yongxin JV for the provision of cargo management services, further details of which are set out in the Letter from the Board in this circular
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	shares of HK\$0.10 each in the capital of the Company
“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, whose shares are listed on the A-share market of the Shanghai Stock Exchange (stock code: 600607)
“SIH”	Shanghai Investment Holdings Limited, a limited liability company established under the laws of the British Virgin Islands
“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability
“SIIC Capital”	SIIC Capital (B.V.I.) Limited, a limited liability company established under the laws of the British Virgin Islands
“SIIC CM Development”	SIIC CM Development Limited, a limited liability company established under the laws of the British Virgin Islands
“STC”	Shanghai Industrial Investment Treasury Company Limited, a limited liability company established under the laws of the British Virgin Islands
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Tianan”	天津市天南工貿有限公司 (Tianjin Tianan Trading Co. Ltd.*), a limited liability company incorporated in the PRC
“Trash Paper Agreement”	the agreement dated 1st September 2005 between Xinan Tianjin and Hebei Yongxin JV for the sale and purchase of trash paper materials, further details of which are set out in the Letter from the Board in this circular
“Xinan Tianjin”	新南(天津)紙業有限公司 (Xinan (Tianjin) Paper Co. Ltd.*), a limited liability company incorporated in the PRC

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## DEFINITIONS

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“Xuchang Cigarette Factory”	許昌捲煙總廠 (Xuchang Cigarette Factory*), a State-owned enterprise incorporated in the PRC
“Xuchang Yongchang JV”	許昌永昌印務有限公司 (Xuchang Yongchang Printing Co. Ltd.*), a limited liability company incorporated in the PRC, the equity interest of which is indirectly owned by the Company as to 51% and which carries on the business of printing and packaging materials
“Wing Fat Printing”	The Wing Fat Printing Company Limited, a company incorporated in Hong Kong and owned by the Company as to 93.44%
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

*For the purposes of this circular, the exchange rate of HK\$1 = RMB1.04 has been used where applicable (except for historical figures for transaction amounts for which the exchange rate of HK\$1 = RMB1.06 has been used), 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.*

*\* The English name is an informal English translation of the official Chinese name.*



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

**Executive Directors:**

Mr. Cai Lai Xing (*Chairman*)  
Mr. Qu Ding (*Vice Chairman*)  
Mr. Lu Ming Fang (*Chief Executive Officer*)  
Mr. Lu Da Yong (*Executive Deputy CEO*)  
Mr. Ding Zhong De  
Mr. Lu Shen  
Mr. Qian Shi Zheng  
Mr. Yao Fang  
Mr. Tang Jun

**Registered office:**

26th Floor  
Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

**Independent Non-executive Directors:**

Dr. Lo Ka Shui  
Prof. Woo Chia-Wei  
Mr. Leung Pak To, Francis

23rd September 2005

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**(1) CIGARETTE PACKAGING AGREEMENT**

**(2) TRASH PAPER AGREEMENT AND PORT AGENCY AGREEMENT**

**1. INTRODUCTION**

On 1st September 2005, the Directors announced that:

- (a) Xuchang Yongchang JV, a subsidiary of the Company, entered into the Cigarette Packaging Agreement with Xuchang Cigarette Factory for the sale and purchase of cigarette paper materials and cigarette box packaging materials; and
- (b) Hebei Yongxin JV, a subsidiary of the Company, entered into the Trash Paper Agreement and the Port Agency Agreement with Xinan Tianjin for the sale and purchase of trash paper materials and for the provision of cargo management services.

The purpose of this circular is (i) to provide the Shareholders with further information on the Continuing Connected Transactions, (ii) to set out the letter from the Independent Board Committee and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders in respect of the Continuing Connected Transactions, and (iii) to give other information as required by the Listing Rules.

### 2. THE CIGARETTE PACKAGING AGREEMENT

#### Xuchang Yongchang JV

The Company, through its 93.44% owned subsidiary Wing Fat Printing, holds a 51% equity interest in Xuchang Yongchang JV. Xuchang Yongchang JV is a subsidiary of the Company which carries on the business of printing and packaging materials. The other 49% equity interest in Xuchang Yongchang JV is owned by Xuchang Cigarette Factory. Xuchang Yongchang JV entered into the following agreement with Xuchang Cigarette Factory, its substantial shareholder:

#### The Cigarette Packaging Agreement

Date	:	1st September 2005
Parties	:	(i) Xuchang Cigarette Factory (ii) Xuchang Yongchang JV
Term	:	From 1st January 2005 to 31st December 2007
Nature of Transaction	:	Xuchang Cigarette Factory will purchase cigarette paper materials and cigarette box packaging materials supplied by Xuchang Yongchang JV in priority to other suppliers.
Pricing	:	The products shall be supplied at prices as negotiated by the parties on a fair basis with reference to the prevailing market prices of the products, and on terms no less favourable to Xuchang Yongchang JV than terms available to Independent Third Parties.
Payment Terms	:	The products shall be paid monthly and within 90 days from the end of each month.
Annual Cap	:	2005 RMB130,000,000 (about HK\$125,000,000) 2006 RMB145,000,000 (about HK\$139,423,000) 2007 RMB160,000,000 (about HK\$153,846,000)

with an increment of RMB15 million in the annual cap amount for each year during the term. Such increment was determined with reference to the anticipated packaging industry growth rate and the overall economic growth rate of Mainland, PRC.

Under the sales agreement of cigarette box packaging materials dated 28th September 2004 between Xuchang Yongchang JV and Xuchang Cigarette Factory for a term of 1 year from 1st October 2004, the maximum annual sales value was RMB72 million (about HK\$67.9 million). Details of such sales agreement are set out in the announcement of the Company dated 28th September 2004.

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## LETTER FROM THE BOARD

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- Basis of Annual Cap : (1) the historical figures of the sales transaction amount to Xuchang Cigarette Factory are set out as follows:

	Total amount
Year ended 31st December 2003	RMB2,237,000 (about HK\$2,110,000)
Year ended 31st December 2004	RMB27,530,000 (about HK\$25,972,000)
Six months ended 30th June 2005	RMB60,647,000 (about HK\$57,214,000)

Based on the unaudited amount of sales of products by Xuchang Yongchang JV to Xuchang Cigarette Factory for the six months ended 30th June 2005 of approximately RMB60.7 million, the annual cap amount for the whole year of 2005 is estimated to be around double of such half year amount.

The sales to Xuchang Cigarette Factory had a strong growth of about 12.3 times in 2004 and 4.7 times in 2005 due to Xuchang Cigarette Factory absorbing the sales network of other cigarette manufacturers in 2004 and further acquiring another cigarette business in July 2005, thus increasing its demand for products from Xuchang Yongchang JV in 2004 and 2005. However, it is not expected that the growth rate will be as strong as in those two years because Xuchang Cigarette Factory has no current plans to undertake future acquisitions in coming years.

- (2) discussion with Xuchang Cigarette Factory as to its expected demand in coming years, taking into account that Xuchang Yongchang JV's production capacity will be able to accommodate such demand by implementing additional equipment and manpower and the corresponding expected increase in sales; and
- (3) the anticipated growth in sales and cost of production/materials will match the growth of packaging industry and the overall economic growth in Mainland, PRC.

### 3. THE TRASH PAPER AGREEMENT AND THE PORT AGENCY AGREEMENT

#### Hebei Yongxin JV

The Company, through Wing Fat Printing, holds a 66% of equity interest in Hebei Yongxin JV. Hebei Yongxin JV which carries on the business of paper printing and packaging materials became a subsidiary of the Company in mid-August 2005. The remaining equity interest in Hebei Yongxin JV is owned by Xinan Tianjin as to 29% and by Tianjin Tianan (an Independent Third Party apart from being a shareholder of Hebei Yongxin JV) as to 5%. Hebei Yongxin JV entered into the following agreements with Xinan Tianjin, its substantial shareholder:



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# LETTER FROM THE BOARD

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## The Trash Paper Agreement and the Port Agency Agreement

- Date : 1st September 2005
- Parties : (i) Xinan Tianjin  
(ii) Hebei Yongxin JV
- Term : From 1st January 2005 to 31st December 2007
- Nature of Transaction : (1) Purchase of trash paper materials by Hebei Yongxin JV (for its production of recycled paper materials) from Xinan Tianjin.  
(2) Provision of cargo management services at Tianjin port by Xinan Tianjin to Hebei Yongxin JV to facilitate the taking delivery by Hebei Yongxin JV of, among others, products purchased under the Trash Paper Agreement and shipped to a port at Tianjin, such services shall be charged based on the quantity of products handled by Xinan Tianjin. The services provided include checking of shipment dates and notification to Hebei Yongxin JV, handling of customs and taxation formalities.
- Pricing : The products/services shall be supplied/provided at prices/fees as negotiated by the parties on a fair basis with reference to the prevailing market prices of the products and service charges, and on terms no less favourable to Hebei Yongxin JV than terms available from Independent Third Parties.
- Payment Terms : (1) The products purchased under the Trash Paper Agreement shall be payable within 90 days from the date on which Hebei Yongxin JV completes checking of the products and confirms proper delivery of the products.  
(2) The service charge under the Port Agency Agreement shall be payable upon taking delivery of the products.

Annual Cap	Trash Paper Agreement	Port Agency Agreement
2005	RMB200,000,000 (about HK\$192,308,000)	RMB13,000,000 (about HK\$12,500,000)
2006	RMB222,000,000 (about HK\$213,462,000)	RMB14,430,000 (about HK\$13,875,000)
2007	RMB246,420,000 (about HK\$236,942,000)	RMB16,017,000 (about HK\$15,401,000)

# LETTER FROM THE BOARD

Basis of Annual Cap : (1) the historical figures of the amounts of transactions with Xinan Tianjin are set out as follows:

	<b>Total amount of purchase of trash paper</b>	<b>Total amount of fees paid for port agency services</b>
Three months ended 31st December 2003	RMB8,051,000 (about HK\$7,595,000)	RMB228,000 (about HK\$215,000)
Year ended 31st December 2004	RMB153,250,000 (about HK\$144,575,000)	RMB8,346,000 (about HK\$7,874,000)
Six months ended 30th June 2005	RMB80,307,000 (about HK\$75,761,000)	RMB4,654,000 (about HK\$4,391,000)

with an increment of 11% in the annual cap amount of each year during the term. Such increment was determined with reference to the anticipated paper industry growth rate and the overall economic growth rate in Mainland, PRC.

Hebei Yongxin JV had only just commenced business in late 2003, while its equipment was not fully in place and its scale of business was not very large. Its business expanded in 2004 as its equipment became more fully utilized and thus its purchase from Xinan Tianjin had a strong growth in 2004.

According to the management of Hebei Yongxin JV, the packaging industry generally enjoys higher sales and requires more paper materials in the second half of the year than in the first half. Accordingly, it is expected that Hebei Yongxin JV will require more trash paper and thus more port agency services in the second half of 2005 than in the first half. The annual cap amount for 2005 is thus more than double the total amount of purchase and of the service fees for the six months ended 30th June 2005.

- (2) discussion with Xinan Tianjin as to their procurement resources which will be able to meet Hebei Yongxin JV's demand, and thus the expected increase in sales of trash paper materials and the provision of port agency services to Hebei Yongxin JV; and
- (3) the anticipated growth in sales and cost of production/materials will match the growth of the paper industry and the overall economic growth in Mainland, PRC.

The above transactions between Hebei Yongxin JV and Xinan Tianjin only constituted continuing connected transactions of the Company when Hebei Yongxin JV became a subsidiary of the Company in mid-August, 2005.

The Agreements are not inter-conditional and the two series of transactions referred to above are independent of each other.

#### **4. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

Xuchang Cigarette Factory has been a long-term customer of Xuchang Yongchang JV since 1999. For each of the two years ended 31st December 2004, the sales to Xuchang Cigarette Factory amounted to approximately 99.3% and 100% of the total sales of Xuchang Yongchang JV respectively. Currently, 100% of the products of Xuchang Yongchang JV are supplied to Xuchang Cigarette Factory. The entering into the Cigarette Packaging Agreement can help secure the relationship of the parties and will enable Xuchang Yongchang JV to ensure that Xuchang Cigarette Factory will in priority purchase goods from Xuchang Yongchang JV. The obligations of Xuchang Cigarette Factory to purchase products from Xuchang Yongchang JV will help maintain a stable source of sale from Xuchang Cigarette Factory. Accordingly, the Directors consider it is in the interests of the Company and the Shareholders as a whole to lock up the pricing basis with Xuchang Cigarette Factory (at prices no less favourable to the Group than terms available to Independent Third Parties).

Xinan Tianjin has been a long-term supplier and a port services provider of Hebei Yongxin JV since its incorporation in November 2003. For the year ended 31st December 2004, Xinan Tianjin supplied approximately 43% of the total purchases of Hebei Yongxin JV. As at 30th June 2005, Xinan Tianjin supplies about 47% of total purchase of Hebei Yongxin JV. The entering into of the Trash Paper Agreement and the Port Agency Agreement will ensure a stable but non-exclusive supply channel of trash paper materials and cargo management services as formally established by Hebei Yongxin JV. Accordingly, the Directors consider it is in the interests of the Company and the Shareholders as a whole to lock up the pricing basis with Xinan Tianjin (at prices no less favourable to the Group than terms available from Independent Third Parties).

Pursuant to the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement, the Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions will be conducted on normal commercial terms and in the usual and ordinary course of business of each of Xuchang Yongchang JV and Hebei Yongxin JV. The Directors (including the independent non-executive Directors) consider that the terms of the Continuing Connected Transactions are fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

#### **5. LISTING RULES REQUIREMENTS**

Xuchang Cigarette Factory holds a 49% equity interest in Xuchang Yongchang JV. Xinan Tianjin holds a 29% equity interest in Hebei Yongxin JV. Both Xuchang Cigarette Factory and Xinan Tianjin are substantial shareholders of a subsidiary of the Company and are connected persons of the Company pursuant to Rule 14A.11(1) of the Listing Rules. The transactions under the Agreements constitute continuing connected transactions of the Company under the Listing Rules.

Each of Xuchang Cigarette Factory and Xinan Tianjin has no other relationship with the Group apart from being a substantial shareholder of a subsidiary of the Company and having entered into the relevant Continuing Connected Transactions.

Xuchang Cigarette Factory and Xinan Tianjin and their respective ultimate beneficial owners are independent of and not connected with each other.

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## LETTER FROM THE BOARD

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The applicable percentage ratios for transactions under (1) the Cigarette Packaging Agreement and (2) the Trash Paper Agreement and the Port Agency Agreement on an annual basis exceed 2.5%. The transactions under the Cigarette Packaging Agreement and the Trash Paper Agreement and the Port Agency Agreement constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, and are subject to the disclosure requirements under Rule 14A.45 and 14A.47 of the Listing Rules and the approval of the independent Shareholders under Rule 14A.48 of the Listing Rules.

The Company has obtained from the companies controlled by SIIC which together hold approximately 56.66% in nominal value of the securities giving the right to attend and vote at any general meeting of the Company written approvals of the transactions under the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement and their annual caps. These companies, namely SIH (holding 468,066,000 Shares), SIIC Capital (holding 80,000,000 Shares) and SIIC CM Development (holding 10,000 Shares) are all wholly-owned subsidiaries of SIIC. None of the Shareholders is materially interested in the transactions under the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement 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 under the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement. Pursuant to Rule 14A.43 of the Listing Rules, the Stock Exchange has granted the Company a waiver from the requirement to hold a general meeting of the Shareholders and permission for the independent Shareholders' approval of the transactions under the Agreements and their annual caps to be given in writing.

The Board appointed the Independent Board Committee to consider and advise the independent Shareholders on the terms of the Agreements and the annual caps relating thereto, and the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders on whether the Continuing Connected Transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### 6. GENERAL

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

Xuchang Cigarette Factory is principally engaged in the manufacture and sale of cigarette products.

Xinan Tianjin is principally engaged in the trading of trash paper materials.

### 7. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, and additional information set out in the appendix to this circular.

Yours faithfully,  
for and on behalf of the Board  
**CAI LAI XING**  
*Chairman*



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

23rd September 2005

*To the independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**(1) CIGARETTE PACKAGING AGREEMENT**

**(2) TRASH PAPER AGREEMENT AND PORT AGENCY AGREEMENT**

We refer to the circular of the Company dated 23rd September 2005 (the “Circular”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement are fair and reasonable so far as the independent Shareholders are concerned.

CIMB-GK Securities (HK) Limited has been appointed by the Company as the independent financial adviser to advise us regarding the terms of the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 12 to 18 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 4 to 10 of the Circular and the additional information set out in the appendix to the Circular.

Having taken into account the terms of the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement, and the advice given by CIMB-GK Securities (HK) Limited, we consider that the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement are on normal commercial terms, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Yours faithfully,

**Dr. Lo Ka Shui**

**Prof. Woo Chia-Wei   Mr. Leung Pak To, Francis**  
*Independent Board Committee*

*The following is the text of a letter of advice from CIMB-GK Securities (HK) Limited to the Independent Board Committee and the Shareholders in relation to the Continuing Connected Transactions which has been prepared for incorporation into this circular.*

# **CIMB**

**CIMB-GK Securities (HK) Limited**

25/F Central Tower  
28 Queen's Road Central  
Central  
Hong Kong

23rd September 2005

*To the Independent Board Committee and the independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to our engagement by the Company as the independent financial adviser to the Independent Board Committee and the independent Shareholders in relation to the Continuing Connected Transactions and the annual caps relating thereto, details of which are contained in a circular (the "Circular") to the Shareholders dated 23rd September 2005, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An independent board committee comprising Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis being the independent non-executive Directors, has been formed to advise the independent Shareholders in relation to the Continuing Connected Transactions and the annual caps relating thereto. The Company has obtained from the companies controlled by SIIC which together hold approximately 56.66% in nominal value of the securities giving the right to attend and vote at any general meeting of the Company written approvals of the Continuing Connected Transactions and their annual caps. None of the Shareholders is materially interested in the Continuing Connected Transactions 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 under the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement. The Stock Exchange has granted the Company a waiver from the requirement to hold a general meeting of the Shareholders and permission for the independent Shareholders' approval of the Continuing Connected Transactions and their annual caps to be given in writing.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and senior management of the Company. The Directors have declared in a responsibility statement set out in the appendix to the Circular that they jointly and severally accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the Directors' representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the

dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained and the Directors' representations made in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or any of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion for the Continuing Connected Transactions and the annual caps relating thereto, we have considered the following principal factors and reasons:

#### **Background and Reasons**

The Group is principally engaged in the business of infrastructure facilities, medicine, consumer products and information technology. Xuchang Yongchang JV and Hebei Yongxin JV was set up in 1995 and 2003 respectively, and both of them are principally engaged in the manufacture and sale of packaging and printing materials. The Company indirectly holds a 51% equity interest in Xuchang Yongchang JV with the other 49% equity interest being owned by Xuchang Cigarette Factory. The Company also indirectly holds a 66% equity interest in Hebei Yongxin JV, with the remaining 34% equity interest being owned as to 29% by Xinan Tianjin and as to 5% by Tianjin Tianan (an Independent Third Party apart from being a shareholder of Hebei Yongxin JV). Xuchang Yongchang JV and Hebei Yongxin JV have, during their usual and ordinary course of business, engaged and will continue to engage in the Continuing Connected Transactions with their respective joint venture partners.

We note that Xuchang Cigarette Factory has been a long-term customer of Xuchang Yongchang JV since 1999 and as advised by the Directors, Xuchang Cigarette Factory has since July 2005 become the sole customer of Xuchang Yongchang JV. Based on the information provided by the Company, we note that for the two years ended 31st December 2004, sales to Xuchang Cigarette Factory amounted to approximately 99.3% and 100% of the total sales of Xuchang Yongchang JV respectively. Given this and the fact that the terms of the Cigarette Packaging Agreement are fair and reasonable as explained below, we concur with the views of the Directors that the entering into of the Cigarette Packaging Agreement can continue to secure the relationship of the two parties and will enable Xuchang Yongchang JV to ensure that Xuchang Cigarette Factory will in priority purchase goods from Xuchang Yongchang JV. As Xuchang Cigarette Factory is the existing sole customer of Xuchang Yongchang JV, we concur with the views of the Directors that the obligations of Xuchang Cigarette Factory to purchase products from Xuchang Yongchang JV will help maintain a stable source of sale from Xuchang Cigarette Factory, which is in the interests of Xuchang Yongchang JV.

We note that Xinan Tianjin has been a long-term supplier and a port service provider of Hebei Yongxin JV since its incorporation in November 2003 and that Xinan Tianjin is a major supplier of Hebei Yongxin JV supplying about 43.0% of the total purchases of Hebei Yongxin JV for the year ended 31st December 2004. Given this and the fact that the terms of the Trash Paper Agreement and the Port Agency Agreement are fair and reasonable as explained below, we concur with the views of

the Directors that the entering into of the Trash Paper Agreement and the Port Agency Agreement will continue to ensure a formal and stable but non-exclusive supply channel of trash paper materials and cargo management services to Hebei Yongxin JV, which is in the interests of Hebei Yongxin JV.

Having taken into account the above background and circumstances, we consider that the entering into of the Cigarette Packaging Agreement, the Trash Paper Agreement and the Port Agency Agreement is in the interests of the Company and the Shareholders as a whole.

### **Basis of the Continuing Connected Transactions**

#### *The Cigarette Packaging Agreement*

Pursuant to the Cigarette Packaging Agreement, Xuchang Cigarette Factory will purchase cigarette paper materials and cigarette box packaging materials from Xuchang Yongchang JV in priority to other suppliers. We note that the purchase price of the raw materials shall be determined after arms' length negotiations on a fair basis between the parties involved, with reference to the prevailing market prices of the products, and on terms no less favourable to Xuchang Yongchang JV than terms available to Independent Third Parties, which we consider is in the interests of the Company and the Shareholders as a whole. As a reference, we have obtained from the Company sample invoices issued by Xuchang Yongchang JV to an Independent Third Party and to Xuchang Cigarette Factory in 2005 and noted that the selling prices of products to Xuchang Cigarette Factory are no more favourable than those charged by Xuchang Yongchang JV to such Independent Third Party. This illustrates the fact that the Group is able to supply cigarette paper and packaging materials to Xuchang Cigarette Factory on prevailing market prices, and on terms no more favourable than those charged to other Independent Third Parties. Hence, it is reasonable to believe that the Group is able to conduct the Continuing Connected Transactions in accordance with the terms of the Cigarette Packaging Agreement.

#### *The Trash Paper Agreement and the Port Agency Agreement*

Pursuant to the Trash Paper Agreement and the Port Agency Agreement, Hebei Yongxin JV will purchase trash paper materials for its production of recycled paper materials from Xinan Tianjin at prices as negotiated by the parties on a fair basis with reference to the prevailing market prices of the products and on terms no less favourable to Hebei Yongxin JV than terms available from Independent Third Parties, which we consider is in the interests of the Company and the Shareholders as a whole. As a reference, we have obtained from the Company purchase terms as quoted by Independent Third Parties to Hebei Yongxin JV for trash paper materials and noted that the terms quoted by Xinan Tianjin are lower than the terms quoted by other Independent Third Parties.

We also note that Hebei Yongxin JV will appoint Xinan Tianjin to provide for cargo management services (including checking of shipment dates and notification to Hebei Yongxin JV, handling of customs and taxation formalities) at Tianjin port so as to facilitate Hebei Yongxin JV to take delivery of, among others, products purchased under the Trash Paper Agreement and shipped to a port at Tianjin. Pursuant to the Port Agency Agreement, such services shall be charged based on the quantity of products handled by Xinan Tianjin, and shall be provided at fees as negotiated by the parties on a fair basis with reference to the prevailing market charges for such services, and on terms no less favourable to Hebei Yongxin JV than terms available from Independent Third Parties, which we consider is in the interests of the Company and the Shareholders as a whole. As a reference, we have obtained from the Company sample cargo management services invoices issued



# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

by Xinan Tianjin to its other customers and to Hebei Yongxin JV in 2005 and noted that the cargo management service fees charged by Xinan Tianjin to Hebei Yongxin JV is lower than those charged by Xinan Tianjin to its other customers.

The above illustrates the fact that the Group is able to purchase trash paper materials and procure cargo management services from Xinan Tianjin on prevailing market prices, and on terms no less favourable than those quoted by Independent Third Parties to Hebei Yongxin JV or those charged by Xinan Tianjin to other Independent Third Parties. Accordingly, it is reasonable to believe that the Group is able to conduct the Continuing Connected Transactions in accordance with the terms of the Trash Paper Agreement and the Port Agency Agreement.

## Views

Having taking account of the above, we consider that the terms of the Cigarette Packaging Agreement and the Trash Paper Agreement and the Port Agency Agreement are fair and reasonable so far as the Company and the Shareholders are concerned.

## Annual Cap

The following is a summary of the historical transaction amounts for each type of Continuing Connected Transactions for the two financial years ended 31st December 2004 and the six months ended 30th June 2005:

	For the year ended 31st December		For the six months ended 30th June
	2003	2004	2005
	RMB'000	RMB'000	RMB'000
The Cigarette Packaging Agreement	2,237	27,530	60,647
The Trash Paper Agreement	8,051	153,250	80,307
The Port Agency Agreement	228	8,346	4,654

The following is a summary of the respective annual cap amount for each type of the Continuing Connected Transactions for each of the three financial years ending 31st December 2007 (collectively, hereinafter referred to as the “Cap Amounts”):

	For the year ending 31st December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
The Cigarette Packaging Agreement	130,000	145,000	160,000
The Trash Paper Agreement	200,000	222,000	246,420
The Port Agency Agreement	13,000	14,430	16,017

### *Cap Amounts under the Cigarette Packaging Agreement*

We note that in determining the Cap Amounts under the Cigarette Packaging Agreement, the Directors have taken into account the following principal factors:

- (1) The historical amounts of this type of Continuing Connected Transactions in recent years as set out in the table above;
- (2) discussion with Xuchang Cigarette Factory as to its expected demand in coming years, taking into account that Xuchang Yongchang JV's production capacity will be able to accommodate such demand by implementing additional equipment and manpower and the corresponding expected increase in sales; and
- (3) the anticipated growth in sales and cost of production/materials will match the growth of packaging industry and the overall economic growth in Mainland, PRC.

We note that the historical amount of sales to Xuchang Cigarette Factory recorded a strong growth of approximately 12.3 times in 2004 and 4.7 times in 2005. As noted from the Letter from the Board, this substantial increase in sales to Xuchang Cigarette Factory was due to Xuchang Cigarette Factory taking over the sales network of other cigarette manufacturers in 2004 and further acquiring another cigarette business in 2005, thus increasing its purchase of products from Xuchang Yongchang JV in recent years. Xuchang Yongchang JV has been advised by Xuchang Cigarette Factory that it expects its rate of growth in coming years will be in line with those of the industry and the overall economy in the PRC and will not be as strong as those recorded in those two years because Xuchang Cigarette Factory has no current plans to undertake further acquisitions in coming years. We note that the amount of sales to Xuchang Cigarette Factory for the six months ended 30th June 2005 represents approximately 46.7% of the Cap Amount for the year ending 31st December 2005. Having considered the above, we regard the Cap Amount for the year ending 31st December 2005 is fair and reasonable.

For each of the two years ending 31st December 2007, we note that the projected annual increment of RMB15 million to the Cap Amount in each year represents an annual growth rate of approximately 11.5% and 10.3% respectively. We note that such annual increment have been determined with reference to the anticipated packaging industry growth rate and the overall economic growth rate of the PRC. We note from the commentary published in recent months on the relevant packaging printing industry website in the PRC ([www.packchina.com](http://www.packchina.com)) that the packaging printing industry in the PRC recorded a double-digit growth rate of approximately 10–12% in recent years, and given this trend, and together with the continued growth in the overall economy of the PRC, the industry practitioners of the packaging printing industry in the PRC also expect such double-digit annual growth rate of the packaging printing industry in the PRC would be continued in the coming years. Furthermore, we have been advised by the Directors whom in turn have been advised by the management of Xuchang Yongchang JV that the current utilization rate of Xuchang Yongchang JV is about 80% and additional production equipment and manpower will be installed in the coming years, if required, to meet the increase in sales. We also consider it fair and reasonable for the Directors to have also taken into account the production capacity of Xuchang Yongchang JV in determining the relevant Cap Amount, as this would ensure Xuchang Yongchang JV to have the required capacity to meet the projected sales from Xuchang Cigarette Factory, such that the Cap Amount can be reasonably determined. Given the above, we consider that the basis of determining the annual increment of the Cap Amount for the two years ending 31st December 2007 is fair and reasonable.

*Cap Amounts under the Trash Paper Agreement and the Port Agency Agreement:*

We note that in determining the Cap Amounts under each of the Trash Paper Agreement and the Port Agency Agreement, the Directors have taken into account the following principal factors:

- (1) The historical amounts of this type of Continuing Connected Transactions in recent years as set out in the table above;
- (2) discussion with Xinan Tianjin as to their procurement resources which will be able to meet Hebei Yongxin JV's demand, and thus the expected increase in sales of trash paper materials and the provision of port agency services to Hebei Yongxin JV; and
- (3) the anticipated growth in sales and cost of production/materials will match the growth of the paper industry and the overall economic growth in Mainland, PRC.

We note that there is a significant increase in the Cap Amount for the purchase of trash paper and, consequentially, the port agency fees for the year ending 31st December 2005 as compared to those recorded in the year ended 31st December 2004. The amount of purchase of trash paper and the port agency fees recorded for the six months ended 30th June 2005 represents approximately 40.2% and 35.8% of the Cap Amount for purchase of trash paper and port agency fees for the year ending 31st December 2005 respectively. We have been advised by the Directors whom in turn has been advised by the management of Hebei Yongxin JV that the peak season of the packaging industry generally is in the second-half of the calendar year. We note from the information provided by the Company that the sales of Hebei Yongxin JV recorded in the first half of the year ended 31st December 2004 was higher than those recorded in the second half of 2004. We understand from the Company that given this sales pattern and based on the latest financial performance of Hebei Yongxin JV and the overall industry outlook, Hebei Yongxin JV projects that it will have higher sales in 2005 than in 2004, thus its demand for trash paper will increase accordingly, and more trash paper will be purchased from Xinan Tianjin in the second half of 2005 to meet such demand. Accordingly, we consider that the Cap Amount for the year ending 31st December 2005 is fair and reasonable.

We note that for each of the two years ending 31st December 2006, it is assumed an annual growth rate of 11% to the Cap Amount with reference to the anticipated paper industry growth rate and the overall economic growth rate of the PRC. As noted from the commentary published in July 2005 on the relevant paper industry website in the PRC ([www.chinapaper.net](http://www.chinapaper.net)), the market practitioners in the PRC paper industry expect that the annual growth rate of the paper industry in the PRC to be approximately 10% which is made with reference to the overall economic growth of the PRC. Given this, we consider that the basis of determining the annual increment of the Cap Amount is fair and reasonable. Furthermore, we also consider it is fair and reasonable for the Directors to have also taken into account the procurement resources of Xinan Tianjin in determining the relevant Cap Amount for the purchase of trash paper from Xinan Tianjin. We understand from the Directors which in turn have been advised by the management of Hebei Yongxin JV that based on the existing resources of Xinan Tianjin it is able to meet the purchase demand of Hebei Yongxin JV under the Cap Amount.

As for the port agency fees, we note that they are payable to Xinan Tianjin based on the total quantity of trash paper purchased and it was based on the historical port agency fee per tonnage payable to Xinan Tianjin and the equivalent quantity of trash paper to be purchased from Xinan Tianjin each year under the relevant Cap Amount for purchase of trash paper in determining the Cap Amount of port agency fees.

### *Views*

Having taken into account the above analyses, we consider that the basis of determination of as well as the Cap Amounts is fair and reasonable so far as the Company and the Shareholders are concerned. However, the Shareholders should note that the Cap Amounts relate to future events and they do not represent forecasts of turnover to be generated and purchase cost to be incurred from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual turnover to be generated and the actual fee/purchase cost to be incurred under the Continuing Connected Transactions correspond with the Cap Amounts.

### **RECOMMENDATION**

Having considered the principal factors and reasons referred to the above, we consider that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and the terms thereof as well as the Cap Amounts are fair and reasonable so far as the Company and the Shareholders are concerned.

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

**Flavia Hung**

*Executive Vice President    Senior Vice President*

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**2. DISCLOSURE OF INTERESTS**

- (a) As at the Latest Practicable Date, the interest or short positions of the Directors and the chief executive of the Company in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**(i) Interests in Shares***(a) Ordinary Shares*

<b>Name of Director</b>	<b>Capacity</b>	<b>Nature of interest</b>	<b>Number of issued ordinary Shares held</b>	<b>Percentage of total issued share capital of the Company</b>
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%
Lu Da Yong	Beneficial Owner	Personal	2,700,000	0.28%
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.

(b) *Share options*

Name of Director	Capacity	Date of grant	Exercise price	Number of underlying Shares	Percentage of total issued share capital of the Company
Cai Lai Xing	Beneficial Owner	September 2005	HK\$14.89	800,000	0.08%
Qu Ding	Beneficial Owner	September 2005	HK\$14.89	560,000	0.06%
Lu Ming Fang	Beneficial Owner	September 2005	HK\$14.89	480,000	0.05%
Qian Shi Zheng	Beneficial Owner	September 2005	HK\$14.89	300,000	0.03%
Tang Jun	Beneficial Owner	September 2005	HK\$14.89	300,000	0.03%

(ii) **Interests in shares of associated corporation of the Company**

*SI United*

Name of Director	Capacity	Nature of interests	Number of issued publicly tradable shares of SI United held	Percentage of total issued share capital of SI United
Lu Ming Fang	Beneficial Owner	Personal	15,000	0.005%
Ding Zhong De	Beneficial Owner	Personal	15,000	0.005%
Lu Shen	Beneficial Owner	Personal	12,000	0.004%

All interests stated above represented long positions.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the interest of the persons (not being a Director or chief executive of the Company) in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Capacity	Nature of interests	Number of issued ordinary Shares beneficially held	Percentage of total issued share capital of the Company
(a) <i>Long Positions</i>				
SIIC	Interest held by controlled corporations	Corporate interest	548,076,000 (note (i))	56.66%
(b) <i>Short Positions</i>				
SIIC	Interest held by controlled corporations	Corporate interest	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 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 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.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors are also directors or employees of SIIC:

<b>Name of Director</b>	<b>Position held in SIIC</b>
Mr. Cai Lai Xing	Chairman
Mr. Qu Ding	Executive Director and Executive Vice President
Mr. Lu Ming Fang	Vice President
Mr. Lu Da Yong	Executive Director
Mr. Ding Zhong De	Executive Director
Mr. Lu Shen	Assistant President
Mr. Qian Shi Zheng	Chief Financial Officer

- (c) So far as was known to the Directors, as at the Latest Practicable Date, the following persons (other than members of the Group) were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company) and the amount of each of such person's interest in such securities were as follows:

<b>Name of member of the Group</b>	<b>Name of substantial shareholder</b>	<b>Interest in share capital/ equity interest</b>	<b>Percentage of shareholding</b>
Changzhou Pharmaceutical Co. Ltd.* (常州藥業股份有限公司)	Changzhou State-owned Assets Investment Co.* (常州國資產投資經營總公司)	equity interest	23.05%
Chia Tai Qingchunbao Pharmaceutical Co. Ltd.	China (Hangzhou) Qingchunbao Group Co. Ltd.* (中國(杭州)青春寶集團有限公司)	equity interest	20%
	Hangzhou Chia Tai Qingchunbao Staff Shareholding Association* (杭州市正大青春寶職工持股協會)	equity interest	20%
Chifeng Aike Pharmaceutical Technology Co. Ltd.* (赤峰艾克製藥科技股份有限公司)	Hainan Dalong International Investment Co. Ltd.* (海南大龍國際投資有限公司)	equity interest	14.67%
	Shenzhen Yigong Industrial Co. Ltd.* (深圳益公實業有限公司)	equity interest	14.67%

\* The English name is an informal English translation of the official Chinese name.

Name of member of the Group	Name of substantial shareholder	Interest in share capital/ equity interest	Percentage of shareholding
Chifeng Mengxin Pharmaceutical Co. Ltd.* (赤峰蒙欣藥業有限公司)	Chifeng Pharmaceutical (Group) Co. Ltd* (赤峰製藥(集團)有限責任公司)	equity interest	17.91%
Guangdong Techpool Biochem. Pharma. Co. Ltd.* (廣東天普生化醫藥股份有限公司)	Guangzhou Bopu Biotechnology Co. Ltd.* (廣州市博普生物技術有限公司)	equity interest	32.75%
	Guangdong Province Technology Venture Investment Co.* (廣東省科技創業投資公司)	equity interest	10%
Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.	Medieval International Limited	equity interest	28.8%
	Zheng Ji Yu	equity interest	16.5%
Mergen Biotech Limited	Excellent Hope Holdings Inc.	ordinary shares	15%
Ningbo SDIF Medical Instruments Co.* (寧波斯迪夫醫療器械公司)	Chen Guo An	equity interest	16.3%
	Hong Ji De	equity interest	12.6%
Ningxia SIIC Viopes Nutraceuticals Co. Ltd.*	Ningxia Nonglin Scientific Academy (Barbary Wolfberry) Co. Ltd.* (寧夏農林科學院枸杞研究所(有限公司))	equity interest	21.66%
	Ningxia Nonglin Scientific Academy* (寧夏農林科學院)	equity interest	14.66%
Shanghai Qiyi Dental Equipment Co. Ltd.* (上海奇異牙科器材有限公司)	Shanghai Dental Materials Factory Qi Xin Operating Services Department* (上海齒科材料廠奇新綜合經營服務部)	equity interest	10%
Shanghai Sunway Biotech Co. Ltd.	Shanghai Alliance Investment Ltd.	equity interest	18.6%
Shanghai Tongjian Pharmacy Co. Ltd.* (上海同健藥房有限公司)	Shanghai Huajian Medical Technology Co.* (上海華健醫藥科技公司)	equity interest	40%
Shanghai Victor Medical Instrument Co. Ltd.	The Mansfield Corp. USA	equity interest	30%
Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co. Ltd.	Shanghai University of Traditional Chinese Medicine Technological Development Co.* (上海中醫大科技發展公司)	equity interest	45%
Shanghai Yuemin Pharmacy Co. Ltd.* (上海悅民大藥房有限公司)	Shanghai Yuanfeng Pharmacy* (上海源豐藥房)	equity interest	30%

\* The English name is an informal English translation of the official Chinese name.



Name of member of the Group	Name of substantial shareholder	Interest in share capital/ equity interest	Percentage of shareholding
Shanghai Yunhu Raw-pharmaceutical Co. Ltd.* (上海雲湖醫藥藥材股份有限公司)	Shanghai Yunhu Raw Pharmaceutical Co. Ltd. Staff Shareholding Association* (上海雲湖醫藥藥材股份有限公司職工持股會)	equity interest	15.45%
SI United Changcheng Pharmaceutical Co. Ltd.* (上海實業聯合集團長城藥業有限公司)	Jin Jiang International Holdings Co. Ltd.	equity interest	30%
SI United Pharmacy Co. Ltd.* (上海實業聯合集團大藥房有限公司)	Shanghai Zhenru Shangcheng Co. Ltd.* (上海真如商城股份有限公司)	equity interest	10%
Xiamen Traditional Chinese Medicine Co. Ltd.	Xiamen Dinglu Ind. Corp.* (廈門鼎爐實業總公司)	equity interest	30%
Chengdu Jiuxing Printing and Packing Co. Ltd.	Sichuan Quanxing Co. Ltd.	equity interest	20%
	Chengdu Jiangshi Investment Co. Ltd.* (成都江氏投資有限公司)	equity interest	29%
Chengdu Wingfat Printing Co. Ltd.* (成都永發印務有限公司)	Sichuan Quanxing Co. Ltd.	equity interest	20%
	Chengdu Jiangshi Investment Co. Ltd.* (成都江氏投資有限公司)	equity interest	29%
Hebei Yongxin JV	Xinan Tianjin*	equity interest	29%
Xuchang Yongchang JV	Xuchang Cigarette Factory*	equity interest	49%
Zhejiang Rongfeng Paper Co. Ltd.	Hui Kin Yip	equity interest	10%

(d) Save as disclosed above, as at the Latest Practicable Date:

- (i) so far as was known to the Directors, none of the Directors or chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.
- (ii) there was no person known to the Directors who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the

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SFO or, was, directly or indirectly, interested in 10% or more of the nominal valued of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

**3. DIRECTORS' INTERESTS IN CONTRACTS**

- (a) As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).
- (b) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31st December 2004 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (c) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

**4. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31st December 2004 (being the date to which the latest published audited accounts of the Company were made up).

**5. EXPERT**

- (a) The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
CIMB-GK Securities (HK) Limited	a licensed corporation under the SFO for types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO

- (b)
  - (i) As at the Latest Practicable Date, the Independent Financial Adviser was not interested beneficially or non-beneficially in any Shares or shares of any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.
  - (ii) As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which had been since 31st December 2004 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.

- (iii) The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 23rd September 2005 and the references to its name included herein in the form and context in which they respectively appear.

## **6. DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors, and their respective associates was considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group pursuant to the Listing Rules.

## **7. LITIGATION**

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong during normal business hours up to and including 7th October 2005:

- (a) the Cigarette Packaging Agreement;
- (b) the Trash Paper Agreement;
- (c) the Port Agency Agreement;
- (d) the letter from the Independent Board Committee the text of which is set out in this circular;
- (e) the letter from the Independent Financial Adviser the text of which is set out in this circular; and
- (f) the written consent referred to in the paragraph headed "Expert" of this appendix.

## **9. MISCELLANEOUS**

- (a) The registered office of the Company is at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (b) The share registrars and transfer office of the Company is Secretaries Limited at 28th Floor, Bank of East Asia Limited, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of the Company is Ms. Wong Mei Ling, Marina who is a Fellow of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

- (d) The qualified accountant of the Company is Mr. Lee Kim Fung, Edward who is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
  
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.