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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)

DISCLOSEABLE TRANSACTIONS

**(1) DISPOSAL OF 22.21% INTEREST IN SHANGHAI CENTURY LIANHUA
SUPERMARKET DEVELOPMENT CO. LTD.**

**(2) DISPOSAL OF 28.15% INTEREST IN SHANGHAI JAHWA
UNITED CO. LTD.**

A letter from the board of directors of Shanghai Industrial Holdings Limited on the disposal of 22.21% interest in Shanghai Century Lianhua Supermarket Development Co. Ltd. and the disposal of 28.15% interest in Shanghai Jahwa United Co. Ltd. is set out on pages 4 to 14 of this circular.

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DEFINITIONS

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

Term	Meaning
“Asset Swap Agreement”	the agreement dated 20th June 2005 entered into between the Company and SI United in relation to certain asset swap arrangement among various members of the Group whereby it was agreed that, inter alia, SI United shall procure that its subsidiary SIUC transfer to SI Commerce (1) a 21.17% shareholding in Lianhua Supermarket; and (2) an amount of RMB22,211,784.71 in the registered capital of Century Lianhua, representing 22.21% of the total equity interest in Century Lianhua
“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 owned by SIUC as to 22.21% as at the Latest Practicable Date, and the same interest of which will be owned by SI Commerce upon completion of a transfer pursuant to the Asset Swap Agreement
“Century Lianhua Transfer Agreement”	the agreement dated 22nd July 2005 entered into between SIUC and SI Commerce for the transfer by SIUC of a 22.21% equity interest in Century Lianhua to SI Commerce in pursuance of the Asset Swap Agreement
“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
“CSRC”	China Securities Regulatory Commission
“Directors”	directors of the Company
“Equity Interest Transfer”	the transfer of 22.21% equity interest in Century Lianhua from SI Commerce to Lianhua Supermarket pursuant to the terms of the Equity Interest Transfer Agreement
“Equity Interest Transfer Agreement”	the transfer agreement dated 27th October 2005 entered into between SI Commerce and Lianhua Supermarket in relation to the Equity Interest Transfer
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Latest Practicable Date”	14th November 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Lianhua Supermarket”	Lianhua Supermarket Holdings Co. Ltd. (聯華超市股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, and the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 980), and the total issued share capital of which was owned by SIUC as to 21.17% as at the Latest Practicable Date and will, upon completion of the relevant transfer pursuant to the Asset Swap Agreement, be owned by SI Commerce as to 21.17%
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China (for the purposes of this circular, excluding Hong Kong, Macau and Taiwan)
“Repurchase Shares”	76,000,000 Shares held by SI Daily Chemical to be repurchased by Shanghai Jahwa pursuant to the Share Repurchase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SAASC”	the State Assets Administration and Supervision Commission of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shanghai Jahwa”	上海家化聯合股份有限公司 (Shanghai Jahwa United Co. Ltd.), a joint stock limited company established under the laws of the PRC with limited liability listed on the A Shares Market of the Shanghai Stock Exchange (stock code: 600315)
“Shares”	shares of RMB1 each in the capital of Shanghai Jahwa
“Shareholder(s)”	holder(s) of the share(s) in the capital of the Company
“Share Repurchase”	the repurchase of 76,000,000 Shares by Shanghai Jahwa from SI Daily Chemical pursuant to the terms of the Share Repurchase Agreement
“Share Repurchase Agreement”	the agreement dated 27th October 2005 entered into between SI Daily Chemical and Shanghai Jahwa in relation to the Share Repurchase
“SI Commerce”	S.I. Commerce Holdings Limited, an investment holding company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“SI Daily Chemical”	S.I. Daily Chemical Holdings Ltd., an investment holding company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company

DEFINITIONS

“SIH”	Shanghai Investment Holdings Ltd., a limited liability company established under the laws of the British Virgin Islands
“SIIC”	Shanghai Industrial Investment (Holdings) Co. Ltd., a company incorporated in Hong Kong with limited liability
“SIIC Capital”	SIIC Capital (B.V.I.) Ltd., a limited liability company established under the laws of the British Virgin Islands
“SIIC CM Development”	SIIC CM Development Ltd., a limited liability company established under the laws of the British Virgin Islands
“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 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 company established under the laws of the PRC with limited liability which is a subsidiary of the Company listed on the A Shares Market of the Shanghai Stock Exchange (stock code: 600607)
“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

In this circular, for reference purpose only and unless otherwise stated, the exchange rate at HK\$1 = RMB1.04 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.

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

LETTER FROM THE BOARD



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

18th November 2005

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTIONS

**(1) DISPOSAL OF 22.21% INTEREST IN SHANGHAI CENTURY LIANHUA
SUPERMARKET DEVELOPMENT CO. LTD.**

**(2) DISPOSAL OF 28.15% INTEREST IN SHANGHAI JAHWA
UNITED CO. LTD.**

1. INTRODUCTION

(i) Disposal of interest in Century Lianhua

On 27th October 2005, the Directors announced that SI Commerce (a wholly-owned subsidiary of the Company) entered into the conditional Equity Interest Transfer Agreement with Lianhua Supermarket. Under the Equity Interest Transfer Agreement, SI Commerce shall transfer the 22.21% equity interest in Century Lianhua agreed to be acquired by SI Commerce from SIUC under the Century Lianhua Transfer Agreement, representing the entire interest to be held by SI Commerce in Century Lianhua, to Lianhua Supermarket, upon the terms and subject to the conditions set out in the Equity Interest Transfer Agreement.

LETTER FROM THE BOARD

(ii) Disposal of interest in Shanghai Jahwa

On 28th October 2005, the Directors announced that SI Daily Chemical (a wholly-owned subsidiary of the Company) entered into the conditional Share Repurchase Agreement with Shanghai Jahwa. Under the Share Repurchase Agreement, Shanghai Jahwa shall repurchase from SI Daily Chemical the Repurchase Shares, representing approximately 28.15% of the total issued share capital of Shanghai Jahwa held by SI Daily Chemical, upon the terms and subject to the conditions set out in the Share Repurchase Agreement.

Each of the Equity Interest Transfer and the Share Repurchase constitutes a discloseable transaction of the Company under the Listing Rules. The Company is required by the Listing Rules to issue this circular (i) to provide the Shareholders with further information on the Equity Interest Transfer and the Share Repurchase and (ii) to give other information in relation to the Company.

2. THE EQUITY INTEREST TRANSFER AGREEMENT

Date

27th October 2005

Parties

Vendor : SI Commerce, a wholly-owned subsidiary of the Company

Purchaser : Lianhua Supermarket, a joint stock limited company incorporated in the PRC with limited liability, and the H shares of which are listed on the Main Board of the Stock Exchange, and the total issued share capital of which was owned by SIUC (a subsidiary of the Company held through SI United) as to 21.17% as at the Latest Practicable Date and will, upon completion of a transfer pursuant to the Asset Swap Agreement, be owned by SI Commerce as to 21.17%.

Asset to be disposed of

Century Lianhua is held by SIUC as to 22.21% of its equity interest. Pursuant to the Asset Swap Agreement, SI United agreed to procure that its subsidiary SIUC transfer to SI Commerce a 25.54% equity interest in Century Lianhua (subject to an increase in the registered capital of Century Lianhua) at a consideration equal to the carrying value of investment in Century Lianhua (including a committed capital injection which amounted to RMB31,410,000 (equivalent to approximately HK\$30,202,000)) of RMB57,020,000 (equivalent to approximately HK\$54,827,000) as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 as adjusted by any change to such value from 31st March 2005 up to completion of such transfer. SIUC and SI Commerce entered into the Century Lianhua Transfer Agreement in pursuance of the Asset Swap Agreement for the transfer of a 25.54% equity interest in Century Lianhua provided that if the proposed increase in registered capital in Century Lianhua is not completed, a 22.21% equity interest in Century Lianhua shall be transferred to SI Commerce. Further details of the Asset Swap Agreement are contained in the announcement by the Company dated 21st June 2005 and the circular to Shareholders dated 13th July 2005.

The proposed increase in the registered capital in Century Lianhua will not be completed and thus a 22.21% equity interest in Century Lianhua will be transferred by SIUC to SI Commerce under the Century Lianhua Transfer Agreement, and the pro forma carrying value of

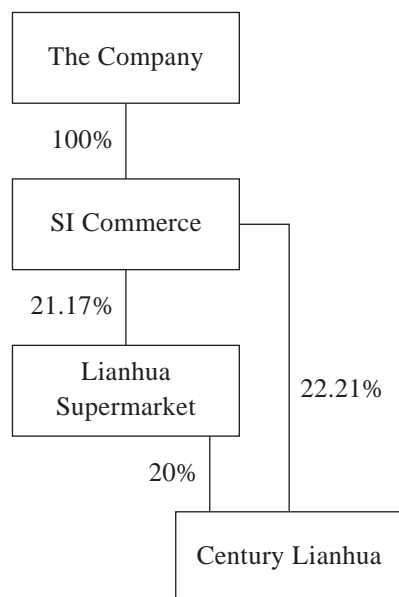
LETTER FROM THE BOARD

investment in Century Lianhua as shown in the unaudited consolidated accounts of SI United as at 31st March 2005 as adjusted is thus reduced to RMB25,610,000 (equivalent to approximately HK\$24,625,000). The consideration for such transfer will take into account the deduction of the proposed capital contribution by SIUC to Century Lianhua (being a change in the carrying value of investment in Century Lianhua).

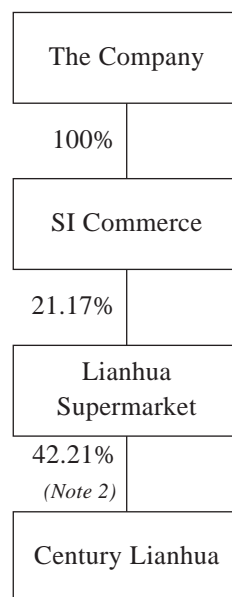
Under the Equity Interest Transfer Agreement, SI Commerce shall transfer to Lianhua Supermarket 22.21% equity interest in Century Lianhua, representing the entire interest in Century Lianhua agreed to be acquired by SI Commerce under the Century Lianhua Transfer Agreement.

Corporate Structure before and after completion of the Equity Interest Transfer Agreement

Corporate structure immediately before completion of the Equity Interest Transfer Agreement (*Note 1*)



Corporate structure immediately after completion of the Equity Interest Transfer Agreement



Notes:

- (1) Assuming the transfers pursuant to the Asset Swap Agreement have been completed.
- (2) According to the announcement by Lianhua Supermarket dated 27th October 2005, Lianhua Supermarket and its subsidiary have agreed to acquire from Century Lianhua's other shareholders another 35.7% and 22.09% equity interest in Century Lianhua. Such acquisitions together with the Equity Interest Transfer will make Century Lianhua a subsidiary of Lianhua Supermarket.

Consideration

The consideration for the Equity Interest Transfer payable by Lianhua Supermarket to SI Commerce, being RMB25,934,308.04 (equivalent to approximately HK\$24,937,000), is based on the unaudited net asset value of Century Lianhua as at 31st July 2005 in the amount of RMB116,768,608.92 (equivalent to approximately HK\$112,278,000).

LETTER FROM THE BOARD

The consideration shall be paid by Lianhua Supermarket to SI Commerce (or as it may direct) in cash in full on the completion of the Equity Interest Transfer Agreement.

The consideration for the Equity Interest Transfer shall be adjusted by any change to the net asset value of the 22.21% equity interest in Century Lianhua due to any profits or losses or changes in the assets of Century Lianhua from 1st August 2005 up to the date of completion of the Equity Interest Transfer. The Equity Interest Transfer Agreement does not provide for a maximum amount of consideration for the Equity Interest Transfer.

If as a result of the adjustment of the consideration pursuant to the Equity Interest Transfer Agreement, Lianhua Supermarket would be required to obtain further independent shareholders' approval and to comply with other requirements under the Listing Rules for the Equity Interest Transfer, Lianhua Supermarket shall take all appropriate steps and arrangements to ensure compliance with such requirements under the Listing Rules. In such circumstances, the date of completion of the Equity Interest Transfer shall not be earlier than the date when Lianhua Supermarket has fully complied with those requirements under the Listing Rules.

While the consideration for the Equity Interest Transfer is subject to adjustment, the Directors expect that the adjustment to the consideration will not result in the consideration ratio for the Equity Interest Transfer reaching 25% or more and constituting the Equity Interest Transfer a major transaction for the Company under Chapter 14 of the Listing Rules. In the event the adjustment to the consideration for the Equity Interest Transfer results in the Equity Interest Transfer constituting a major transaction of the Company, the Company will take appropriate action as required under the Listing Rules.

The consideration for the Equity Interest Transfer will be equal to the book value of the 22.21% equity interest in Century Lianhua in the accounts of SI Commerce upon completion of the Century Lianhua Transfer Agreement.

The total amount of the consideration for the Equity Interest Transfer of RMB25,934,308.04 (equivalent to approximately HK\$24,937,000) (subject to adjustment) is intended to be used for payment of the consideration for the 22.21% equity interest in Century Lianhua to SIUC under the Century Lianhua Transfer Agreement.

Conditions

Completion of the Equity Interest Transfer Agreement shall take place on the third business day after the fulfilment (or waiver) of all of the following conditions:

- (i) the passing by the independent shareholders of Lianhua Supermarket of an ordinary resolution approving the Equity Interest Transfer Agreement and the transactions contemplated thereunder at a general meeting;
- (ii) the Century Lianhua Transfer Agreement has become unconditional;
- (iii) the Equity Interest Transfer being unanimously approved by the board of directors and the shareholders of Century Lianhua;
- (iv) execution of all documents (including but not limited to the joint venture contract and the amendment to the articles of association of Century Lianhua) which are necessary for the completion of the Equity Interest Transfer by SI Commerce and Lianhua Supermarket (as the case may be) and approvals, consents and authorizations being granted or obtained by the relevant government authorities in the PRC in respect of the Equity Interest Transfer;

LETTER FROM THE BOARD

- (v) all representation and warranties given by SI Commerce and Lianhua Supermarket under the Equity Interest Transfer Agreement on various matters including the capacity to enter into and perform the Equity Interest Transfer Agreement and the accuracy of information provided in connection with the transaction remain true, accurate and valid from the date of the Equity Transfer Agreement until the completion of the Equity Interest Transfer Agreement.

If completion of the Equity Interest Transfer Agreement does not take place on or before 21st July 2006, the Equity Interest Transfer Agreement shall be terminated.

Completion

Completion of the Equity Interest Transfer Agreement shall take place on the third business day (or such other date as the parties may agree in writing) after the fulfillment or waiver of all the conditions referred to above.

The procedures for the Equity Interest Transfer may be completed together with the procedures for the transfer of 22.21% equity interest in Century Lianhua under the Century Lianhua Transfer Agreement.

Each of SI Commerce and Lianhua Supermarket further agrees that Lianhua Supermarket shall be entitled to exercise the voting rights attached and attributable to the 22.21% equity interest in Century Lianhua upon the signing of the Equity Interest Transfer Agreement and the Equity Interest Transfer Agreement being approved by the shareholders of Lianhua Supermarket until completion or termination of the Equity Interest Transfer Agreement.

3. THE SHARE REPURCHASE AGREEMENT

Date

27th October 2005

Parties

- (1) SI Daily Chemical, a wholly-owned subsidiary of the Company; and
- (2) Shanghai Jahwa, a joint stock limited company incorporated in the PRC with limited liability, the A shares of which are listed on the Shanghai Stock Exchange and the total issued share capital of which was owned by SI Daily Chemical as to approximately 28.15% as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, apart from holding of Shares by SI Daily Chemical, Shanghai Jahwa is a third party independent of the Company and connected persons of the Company.

Asset to be disposed of

Pursuant to the Share Repurchase Agreement, Shanghai Jahwa shall, subject to fulfillment of the conditions for completion of the Share Repurchase Agreement, repurchase from SI Daily Chemical the Repurchase Shares. The Repurchase Shares represent approximately 28.15% of the total issued share capital of Shanghai Jahwa held by SI Daily Chemical.

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Consideration

The consideration under the Share Repurchase Agreement payable by Shanghai Jahwa to SI Daily Chemical for the Share Repurchase, being RMB336,680,000 (equivalent to approximately HK\$323,731,000), was determined by reference to the audited consolidated net asset value of RMB4.43 per Share of Shanghai Jahwa as at 31st December 2004. The consideration is higher than the proportionate unaudited consolidated net asset value of Shanghai Jahwa corresponding to the Repurchase Shares as at 30th June 2005 of approximately RMB332,890,000 (equivalent to approximately HK\$320,087,000) and represents a 1.14% premium of RMB3,790,000 (equivalent to approximately HK\$3,644,000) over such net asset value as at 30th June 2005.

The consideration for the Share Repurchase shall be paid by Shanghai Jahwa by cash in a one-off payment within 5 working days after the latest of (1) the date of approval of the Share Repurchase by the shareholders of Shanghai Jahwa in general meeting, (2) approval of the Share Repurchase by the SAASC, (3) approval of the Share Repurchase by the Department of Commerce of the PRC and the reply of no objection to the Share Repurchase by the CSRC. If Shanghai Jahwa fails to make payment of the consideration in accordance with the Share Repurchase Agreement, it will be in breach of the Share Repurchase Agreement and liable to pay damages to SI Daily Chemical in the amount equal to 10% of the consideration for the Share Repurchase.

SI Daily Chemical shall remain entitled to all the dividends, bonuses and other distributions to shareholders of Shanghai Jahwa for the year ending 31st December 2005 which will be paid in 2006 after the publication of the financial results of Shanghai Jahwa for such financial year. Shanghai Jahwa has agreed under the Share Repurchase Agreement that such dividends, bonuses and other distributions shall not be lower than 50% of the profits of Shanghai Jahwa distributable to its shareholders for the year ending 31st December 2005.

If the number of Shares held by SI Daily Chemical in Shanghai Jahwa is adjusted as a result of a bonus issue of shares or a conversion and increase of share capital by Shanghai Jahwa, all the Shares held by SI Daily Chemical shall be repurchased by Shanghai Jahwa at the same amount of the consideration under the Share Repurchase Agreement.

The sales proceeds of RMB336,680,000 (equivalent to approximately HK\$323,731,000) after deduction of any applicable PRC taxation from the Share Repurchase, the exact amount of which is subject to assessment by the PRC tax authority, are intended to be used as general working capital for the Group and will be placed with financial institutions as interest bearing deposits. The Company may, however, use such proceeds for new investment projects related to the infrastructure facilities or medicine business of the Group in the event appropriate investment projects are identified. As at the Latest Practicable Date, the Company had not yet concluded any preliminary negotiations on new investment projects for the Group.

Conditions

The Share Repurchase Agreement shall take place subject to the fulfilment of all of the following conditions:

- (i) approval of the Share Repurchase by shareholders of Shanghai Jahwa in general meeting;

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- (ii) publication of an announcement and issue of a circular to shareholders by the Company in respect of the Share Repurchase in accordance with applicable requirements under the Listing Rules;
- (iii) approval of the Share Repurchase by the SAASC;
- (iv) approval of the Share Repurchase by the Department of Commerce of the PRC; and
- (v) filing of the Share Repurchase with the CSRC and reply of no objection by the CSRC.

If all of the above conditions cannot be fulfilled by 31st December 2006, the Share Repurchase Agreement shall be terminated.

Completion

The date of completion of the Share Repurchase Agreement shall be the date the Repurchase Shares are transferred to Shanghai Jahwa, which shall be after the record dates of all dividends, bonuses and other distributions of Shanghai Jahwa for the year ending 31st December 2005.

SI Daily Chemical shall continue to enjoy all rights and entitlements as holder of the Repurchase Shares up to the date of completion of the Share Repurchase Agreement. Shanghai Jahwa shall complete the formalities for cancellation of the Repurchase Shares as soon as possible after the date of completion of the Share Repurchase Agreement. SI Daily Chemical will not hold any Shares after completion of the Share Repurchase Agreement.

4. INFORMATION ON 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”. Century Lianhua has a total registered capital of RMB100,000,000. The total equity interests in Century Lianhua were held by the following shareholders in the following manner as at the Latest Practicable Date:

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

Note: Upon completion of the transfer of interest in Century Lianhua under the Century Lianhua Transfer Agreement contemplated under the Asset Swap Agreement, SI Commerce shall hold 22.21% of the total equity interest in Century Lianhua.

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

LETTER FROM THE BOARD

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\$108,144,000) and approximately RMB579,443,000 (equivalent to approximately HK\$557,157,000) 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\$1,018,624,000).

5. INFORMATION ON SHANGHAI JAHWA

Shanghai Jahwa is principally engaged in the business of development, manufacture and sale of personal care products. Shanghai Jahwa has a total registered capital of RMB270,000,000. The shareholding structure of Shanghai Jahwa as at the Latest Practicable Date was as follows:

Shareholders of Shanghai Jahwa	Number of Shares	Percentage of the total issued Shares
<i>Non-publicly tradable Shares</i>		
Shanghai Jahwa (Group) Co. Ltd.* (上海家化(集團)有限公司)	76,000,000	28.15%
Shanghai Guanghong (Group) Co. Ltd.* (上海廣虹(集團)有限公司)	6,612,000	2.45%
Shanghai Huisheng Industrial Co. Ltd.* (上海惠盛實業有限公司)	4,940,000	1.83%
SI Daily Chemical	76,000,000	28.15%
Shanghai Industrial Investment (Group) Co. Ltd.* (上海工業投資(集團)有限公司)	13,965,000	5.17%
Fujian Hengan Group Co. Ltd.* (福建恒安集團有限公司)	12,483,000	4.62%
<i>Publicly tradable Shares</i>		
Public Shareholders	<u>80,000,000</u>	<u>29.63%</u>
	<u><u>270,000,000</u></u>	<u><u>100.00%</u></u>

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

LETTER FROM THE BOARD

Subject to completion of the Share Repurchase, the two directors recommended by the Company on the board of directors of Shanghai Jahwa will stay in office until the next election of directors of Shanghai Jahwa.

Financial Information

The consolidated profit before taxation and minority interests and the consolidated profit after taxation and minority interests of Shanghai Jahwa for the two years ended 31st December 2004 and the six months period ended 30th June 2005, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Year ended 31st December 2003 (Audited) RMB'000	Year ended 31st December 2004 (Audited) RMB'000	Six months ended 30th June 2005 (Unaudited) RMB'000
Consolidated profit before taxation and minority interests	96,965	67,594	41,428
Consolidated profit after taxation and minority interests	81,069	47,323	32,126

The audited consolidated net asset value and the audited consolidated total asset value of Shanghai Jahwa as at 31st December 2004 amounted to approximately RMB1,195,010,000 (equivalent to approximately HK\$1,149,048,000) and approximately RMB1,750,665,000 (equivalent to approximately HK\$1,683,332,000) respectively.

The audited consolidated turnover of Shanghai Jahwa for each of the two years ended 31st December 2003 and 31st December 2004 amounted to approximately RMB1,486,376,000 (equivalent to approximately HK\$1,429,208,000) and RMB1,668,958,000 (equivalent to approximately HK\$1,604,767,000) respectively.

6. REASONS FOR AND BENEFITS OF THE EQUITY INTEREST TRANSFER

Pursuant to and upon completion of the relevant transfers under the Asset Swap Agreement, a 21.17% shareholding in Lianhua Supermarket and a 22.21% equity interest in Century Lianhua will be held by SI Commerce. As a result of the Equity Interest Transfer, the 22.21% equity interest in Century Lianhua will be held by Lianhua Supermarket and, together with the other portions of equity interest in Century Lianhua to be acquired by Lianhua Supermarket and its subsidiary (as disclosed in the announcement of Lianhua Supermarket dated 27th October 2005), will make Century Lianhua a non wholly-owned subsidiary of Lianhua Supermarket. By concentrating the Group's holding of equity interest in hypermarkets and supermarkets retail business under Lianhua Supermarket and (together with the other aforesaid acquisitions by Lianhua Supermarket and its subsidiary) enabling Century Lianhua to become a subsidiary of Lianhua Supermarket, the Board believes that the Equity Interest Transfer will allow the Group to streamline the corporate structure in operating the retail business in hypermarkets and supermarkets and enable the Company to better structure the overall business model and strategies of the Group.

LETTER FROM THE BOARD

Upon completion of the Equity Interest Transfer, the Group, by virtue of SI Commerce being a wholly-owned subsidiary of the Company which in turn is interested in a 21.17% shareholding in Lianhua Supermarket, will continue to share the investment returns in Century Lianhua. The Directors consider that there will be no material financial impact on the Group as a result of the Equity Interest Transfer.

As the consideration under the Equity Interest Transfer is based on the unaudited net asset value of Century Lianhua attributable to the 22.21% equity interest as at 31st July 2005, there will be no gain or loss expected to accrue to the Group under the Equity Interest Transfer.

Although the effective interest in Century Lianhua held by the Company will decrease (due to the Equity Interest Transfer to its 21.17% owned associated company Lianhua Supermarket), since the net profit attributable to and the net asset value of the 22.21% equity interest in Century Lianhua are small compared with the net profit and the net asset value of the Group, the Directors consider that there will be no material financial impact on the earnings, assets and liabilities of the Group as a result of the Equity Interest Transfer.

The Directors (including the independent non-executive Directors) consider that the terms of the Equity Interest Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Shareholders as a whole.

7. REASONS FOR AND BENEFITS OF THE SHARE REPURCHASE

The personal care products business conducted by Shanghai Jahwa is not part of the core business of the Group. After the Share Repurchase, SI Daily Chemical will not have to participate in the A Share reform proposal contemplated by Shanghai Jahwa. In addition, the performance of Shanghai Jahwa is not satisfactory. The return on equity for the first half of 2005 was 2.72%. The earnings per Share for such period was RMB0.12, representing a decrease of 29.47% over the same period last year. The consideration under the Share Repurchase Agreement to be received by the Group can be invested in other projects related to the business of the Group which may be identified from time to time to capture better return for the Group.

The consideration under the Share Repurchase Agreement represents a 6.9% premium of RMB21,873,000 (equivalent to approximately HK\$21,032,000) over the book value of the Repurchase Shares of RMB314,807,000 (equivalent to approximately HK\$302,699,000) in the accounts of SI Daily Chemical as at 30th June 2005, and represents a 4.4% discount of RMB15,488,000 (equivalent to approximately HK\$14,892,000) to the book value of the Repurchase Shares of RMB352,168,000 (equivalent to approximately HK\$338,623,000) in the consolidated accounts of the Group. The potential loss of RMB15,488,000 (equivalent to approximately HK\$14,892,000) represented by the discount of the consideration under the Share Repurchase Agreement to the book value of the Repurchase Shares in the consolidated accounts of the Group is subject to the dividend amount of Shanghai Jahwa to its shareholders for the year ending 31st December 2005 to be declared by it that will be payable on the Repurchase Shares and the performance of Shanghai Jahwa up to completion of the Share Repurchase Agreement. It is expected that no material gain or loss will be accrued to the Group under the Share Repurchase. In view of the relatively small amount of net profit attributable to the Repurchase Shares as compared with the net profit of the Group and a low return on equity of Shanghai Jahwa for the first half of 2005, the Directors consider that there will be no material financial impact on the earnings and assets and liabilities of the Group as a result of the Share Repurchase.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the terms of the Share Repurchase Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Shareholders as a whole.

8. GENERAL

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

Lianhua Supermarket, together with its subsidiaries, is a retail chain operator in the PRC and operates hypermarkets, supermarkets and convenience stores.

Shanghai Jahwa and its subsidiaries are principally engaged in the business of development, manufacture and sale of personal care products.

The Equity Interest Transfer constitutes a discloseable transaction for the Company under the Listing Rules as the revenue ratio under Chapter 14 of the Listing Rules exceeds 5% but is less than 25%.

The Share Repurchase constitutes a discloseable transaction for the Company under the Listing Rules, as the revenue ratio under Chapter 14 of the Listing Rules exceeds 5% but is less than 25%. The Directors expect that even if the consideration for the Share Repurchase included the amount of dividend that SI Daily Chemical might receive on the Repurchase Shares for the year ending 31st December 2005, the consideration ratio for the Share Repurchase would not reach 25% or more.

9. ADDITIONAL INFORMATION

Your attention is drawn to the information on the Company set out in the appendix to this circular.

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

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 and underlying shares of the Company

(a) Ordinary shares

Name of Director	Capacity	Nature of interests	Number of issued shares of the Company held	Percentage of total issued share capital of the Company
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 share options of the Company held	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%

The above share options are exercisable within a period of three years commencing from 2nd March 2006 to 1st March 2009.

(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 of the Company 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 ordinary shares of the Company beneficially held	Percentage of total issued share capital of the Company
(a) Long Positions				
SIIC	Interest held by controlled corporations	Corporate	548,076,000 (Note 1)	56.66%
Templeton Asset Management Limited	Beneficial owner	Corporate	48,436,253	5.01%
(b) Short Positions				
SIIC	Interest held by controlled corporations	Corporate	87,653,993 (Note 2)	9.06%

Notes:

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

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

Name of Director	Position held in SIIC
Mr. Cai Lai Xing	Chairman
Mr. Qu Ding	Executive Director and Executive Vice President
Mr. Lu Ming Fang	Executive Director
Mr. Lu Da Yong	Executive Director
Mr. Ding Zhong De	Executive Director
Mr. Lu Shen	Vice President
Mr. Qian Shi Zheng	Vice President

(c) As at the Latest Practicable Date, so far as was known to the Directors, 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:

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of shareholding
Changzhou Pharmaceutical Co. Ltd.* (常州藥業股份有限公司)	Changzhou State-owned Assets Investment Co.* (常州國有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%
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%

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

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of shareholding
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	16.33%
	Hong Ji De	equity interest	12.67%
Ningxia SHC 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%
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	14.09%

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

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of shareholding
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 Paper Co. Ltd.* (河北永新紙業有限公司)	Xinnan (Tianjin) Paper Co. Ltd.* (新南(天津)紙業有限公司)	equity interest	29%
Xuchang Yongchang Printing Co. Ltd.	Xuchang Cigarette Factory* (許昌捲煙總廠)	equity interest	49%
Zhejiang Rongfeng Paper Co. Ltd.* (浙江榮豐紙業有限公司)	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 of the Company 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 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.

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

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 which is not determinable by the Group 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. 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.

5. 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.

6. 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, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The company 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 Fellow 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.