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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 TRANSACTION SHARE REFORM PLAN OF BRIGHT DAIRY & FOOD CO., LTD.

A letter from the board of directors of Shanghai Industrial Holdings Limited on the share reform plan of Bright Dairy & Food Co., Ltd. is set out on pages 4 to 12 of this circular.

4th May 2006

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DEFINITIONS

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

Term	Meaning
“A Shares”	freely transferable shares of Bright Dairy
“Board”	the board of Directors
“Bright Dairy”	Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司), a joint stock limited company established under the laws of the PRC owned as to approximately 30.78% by SIFP, whose A Shares are listed and traded on the Shanghai Stock Exchange (Stock code: 600597)
“Company”	Shanghai Industrial Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Consideration”	the consideration for the consent by the holders of A Shares to the conversion of all Non-Tradable Shares into tradable A Shares under the Share Reform Plan
“Conversion Date”	the date all Non-Tradable Shares have been converted into A Shares pursuant to the Share Reform Plan
“Converted A Shares”	the A Shares arising on conversion of the Non-Tradable Shares
“Danone”	Danone Asia PTE Ltd., a holder of Non-Tradable Shares
“Da Zhong Transport”	大眾交通(集團)股份有限公司 (Da Zhong Transport (Group) Company Limited*), a former holder of Non-Tradable Shares
“Directors”	directors of the Company
“East Hope”	東方希望集團有限公司 (East Hope Group Co. Ltd.*), a holder of Non-Tradable Shares
“Group”	the Company and its subsidiaries
“Latest Practicable Date”	28th April 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein.

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

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“Non-Tradable Shares”	non-freely transferable shares of Bright Dairy
“PRC”	the People’s Republic of China
“SIFP”	S.I. Food Products Holdings Ltd. (上實食品控股有限公司), a limited liability company established under the laws of the British Virgin Islands wholly-owned by the Company
“Shanghai Dairy”	上海牛奶(集團)有限公司 (Shanghai Dairy (Group) Co. Ltd.*), a holder of Non-Tradable Shares
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholders”	holder(s) of the share(s) in the capital of the Company
“Share Reform Plan”	the plan for conversion of all Non-Tradable Shares into tradable A Shares in exchange for an offer of Non-Tradable Shares and cash to holders of A Shares proposed by the holders of Non-Tradable Shares, with further details as described in this circular
“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
“SI United”	Shanghai Industrial United Holdings Co. Ltd., a joint stock limited company established under the laws of the PRC which is a subsidiary of the Company listed on the A Shares market of the Shanghai Stock Exchange (stock code: 600607)

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

DEFINITIONS

“STC”	Shanghai Industrial Investment Treasury Co. Ltd., a limited liability company established under the laws of the British Virgin Islands
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

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. Cai Yu Tian (Vice Chairman, Chief Executive Officer)
Mr. Qu Ding (Vice Chairman, Executive Deputy CEO)
Mr. Lu Ming Fang
Mr. Ding Zhong De
Mr. Qian Shi Zheng (Deputy CEO)
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

4th May 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION
SHARE REFORM PLAN
OF
BRIGHT DAIRY & FOOD CO., LTD.

1. INTRODUCTION

On 12th April 2006, the Directors announced that the Share Reform Plan in respect of Bright Dairy for the conversion of all Non-Tradable Shares into tradable A Shares had been proposed among the holders of the Non-Tradable Shares, one of which is SIFP (a wholly-owned subsidiary of the Company). Following communications and consultations with the holders of A Shares, the Share Reform Plan was finalized with adjustments made to its terms as originally proposed.

Under the Share Reform Plan, the shareholding percentage of SIFP in Bright Dairy will be reduced from approximately 30.78% to 25.17%. The reduction of shareholding in Bright Dairy pursuant to the Share Reform Plan constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. The Company is required by the Listing Rules to issue this circular to provide the Shareholders with further information on such transaction and to give other information in relation to the Company.

LETTER FROM THE BOARD

2. THE SHARE REFORM PLAN

Bright Dairy has four holders of Non-Tradable Shares, one of which is SIFP. SIFP holds such number of Non-Tradable Shares which represents approximately 30.78% of the total issued share capital of Bright Dairy. As at the Latest Practicable Date, the total Non-Tradable Shares represented approximately 76.96% of the total issued share capital of Bright Dairy. The holders of Non-Tradable Shares and their respective shareholding interests in Bright Dairy as at the Latest Practicable Date were as follows:

Before completion of the Share Reform Plan

Type of shares	Number of shares in Bright Dairy held	Approximate percentage of total issued share capital of Bright Dairy
Non-Tradable Shares held by:		
Shanghai Dairy	320,757,026	30.78%
SIFP	320,757,026	30.78%
Danone	120,283,881	11.55%
East Hope	40,094,627	3.85%
Subtotal:	801,892,560	76.96%
A Shares held by other shareholders	240,000,000	23.04%
Total:	<u>1,041,892,560</u>	<u>100%</u>

To the best knowledge and belief of the Company, having made all reasonable enquiries, Shanghai Dairy, Danone and East Hope (save for their respective interests in Bright Dairy) as well as the current registered holders of A Shares are third parties independent of the directors, chief executive or substantial shareholders of the Group or any of their respective associates.

Under the Share Reform Plan, in consideration of the consent by the holders of A Shares to the conversion of all Non-Tradable Shares into tradable A Shares, the existing holders of the Non-Tradable Shares will offer to all holders of A Shares RMB8.46 in cash and 1.2 Non-Tradable Shares (which will be converted into A Shares on completion of the Share Reform Plan) for every ten A Shares held by each such holder upon completion of the Share Reform Plan.

LETTER FROM THE BOARD

Conditions of the Share Reform Plan

The Share Reform Plan is subject to the following:

1. the approvals of more than two-thirds of the voting rights of (i) all the shareholders of Bright Dairy and (ii) the holders of A Shares attending the general meeting; and
2. all other necessary approval as may be required to be obtained in relation to the Share Reform Plan pursuant to the applicable legal requirements or provisions.

If any of such approvals cannot be obtained, the Share Reform Plan will not be implemented. There is no long stop date for fulfillment of the above conditions. The Company will issue a further announcement if the Share Reform Plan will not be implemented.

Consideration

The Consideration (comprising cash and Non-Tradable Shares) will be contributed by the existing holders of Non-Tradable Shares as follow:

1. Danone will contribute RMB15,000,000 in cash towards the Consideration. Danone will also acquire from each of Shanghai Dairy and SIFP 44,099,410 Non-Tradable Shares, totaling 88,198,820 Non-Tradable Shares, at a price of RMB4.06 per Non-Tradable Share. The completion of the acquisitions are conditional upon the approval of the Share Reform Plan;
2. Each of Shanghai Dairy and SIFP will contribute RMB85,520,000 in cash and 14,400,000 Non-Tradable Shares towards the Consideration; and
3. East Hope will contribute RMB17,000,000 in cash towards the Consideration.

Contributions of cash and/or Non-Tradable Shares to the Consideration by the holders of Non-Tradable Shares will be made at the same time.

The amounts of cash and/or Non-Tradable Shares contributed by each of the above holders of Non-Tradable Shares were arrived at after arm's length negotiations among these holders, taking into account the percentage shareholding in Bright Dairy held (before and after the Share Reform Plan) as well as the number of Non-Tradable Shares to be offered by the corresponding holder of Non-Tradable Shares. SIFP and Shanghai Dairy being the holders of Non-Tradable Shares with a greater percentage shareholding than Danone and East Hope would contribute more cash and Non-Tradable Shares, with a view to lead the Share Reform Plan as the two largest controlling shareholders of Bright Dairy.

The contributions towards the Consideration by the holders of Non-Tradable Shares were pro rata to the percentage shareholding in Bright Dairy as between SIFP and Shanghai Dairy, but not pro rata to the percentage shareholding in Bright Dairy as

LETTER FROM THE BOARD

among SIFP, Danone and East Hope. This is because in the case of Danone it will also have to acquire Non-Tradable Shares from each of SIFP and Shanghai Dairy, and also due to the much smaller percentage shareholding of East Hope in Bright Dairy. Shanghai Dairy and SIFP have equal percentage shareholdings in Bright Dairy, and they will contribute equal amounts of cash and Non-Tradable Shares to be offered to the holders of A Shares. East Hope preferred not to offer Non-Tradable Shares to the holders of A Shares and had to contribute more cash in lieu of the amount of Non-Tradable Shares to be offered. Danone which also preferred not to offer Non-Tradable Shares to the holders of A Shares had to purchase Non-Tradable Shares from each of SIFP and Shanghai Dairy, at a price per Non-Tradable Share which is further described below, and from such transfer of Non-Tradable Shares to Danone, SIFP will receive proceeds of sale which is higher than the unaudited carrying value of such Non-Tradable Shares in the accounts of the Group as at 31st December 2005. The price per share of the transfer of Non-Tradable Shares by SIFP to Danone is lower than the value per share of the contribution of Non-Tradable Shares by SIFP to the Consideration, partly due to the amount of Non-Tradable Shares which Danone is acquiring from each of SIFP and Shanghai Dairy is much greater than that which each of the holders of A Shares would receive under the Share Reform Plan, and also in view of the contributions which have been made by Danone to the business of Bright Dairy.

In view of the potential benefits of the conversion of Non-Tradable Shares into A Shares, and the cash flow to be generated from the transfer of Non-Tradable Shares to Danone, and that the contributions of SIFP and Shanghai Dairy to the Consideration are equal, the Directors consider from the perspective of SIFP the basis of the Consideration and the contribution by SIFP to the Consideration to be fair and reasonable.

The total Consideration to be offered to the holders of A Shares will amount to RMB203,040,000 in cash and 28,800,000 Non-Tradable Shares.

Transfer of Non-Tradable Shares by SIFP to Danone

As part of the Share Reform Plan, an agreement for sale and purchase of shares has been entered into between SIFP and Danone:

Date of Agreement	:	12th April 2006
Parties	:	SIFP (as the vendor) Danone (as the purchaser)
Subject Matter	:	transfer of 44,099,410 Non-Tradable Shares by SIFP to Danone
Consideration	:	RMB 179,043,604.60

The consideration for the transfer of Non-Tradable Shares from SIFP to Danone of RMB4.06 per share was determined based on the initial public offering price of RMB6.50 per share of Bright Dairy, and the bonus issue of shares of Bright Dairy in June 2004 on the basis of 6 new shares for every 10 existing shares held. Danone and

LETTER FROM THE BOARD

SIFP chose the initial offering price as the cost of acquiring tradable A-Shares, and represented a premium of 8.27% over the price per Non-Tradable Share in the sale of Non-Tradable Shares by Da Zhong Transport to Danone on 26th October 2005, a discount of 15.76% to the 120 day average closing price and a discount of 30.34% to the 30 day average closing price per A Share on the Shanghai Stock Exchange up to 7th April 2006 (the last day of trading of A Shares on the Shanghai Stock Exchange pending consultations on and finalisation of the terms of the Share Reform Plan). The Directors take the view that the discount to the 30 day average closing price is relatively high due to unusual increase in the share price of Bright Dairy before the suspension in trading of A Shares caused by market reaction to the anticipated Share Reform Plan. The Directors consider the price of transfer of Non-Transferable Shares to Danone to be fair and reasonable.

Completion of the transfer of 44,099,410 Non-Tradable Shares by SIFP to Danone is subject to, among others, the obtaining of written approval or no-objection letter from the Department of Commerce, the China Securities Regulatory Commission and other relevant government departments of the PRC of the transfer of Non-Tradable Shares by SIFP to Danone, and the obtaining of necessary shareholders' and government approvals for the Share Reform Plan. The convening of a shareholders' meeting of Bright Dairy for consideration and approval of the Share Reform Plan is subject to the approval from the relevant PRC government authorities of the transfer of shares to Danone. There is no long stop date for completion of the transfer of Non-Tradable Shares by SIFP to Danone.

The acquisitions of Non-Tradable Shares by Danone from SIFP and from Shanghai Dairy (as referred to under the section headed "Consideration" above) were negotiated as part of the Share Reform Plan, as Danone wishes to increase its shareholding in Bright Dairy under the Share Reform Plan. SIFP agreed to the transfer of Non-Tradable Shares to Danone under the Share Reform Plan because it will receive proceeds from the transfer, and the transfer together with the offer of Non-Tradable Shares and cash to holders of A-Shares by SIFP will result in an immaterial net loss to the Group under the Share Reform Plan. Such acquisitions by Danone were taken into account in the determination of the contributions by each of SIFP, Shanghai Dairy and Danone to the Consideration.

Undertakings

Under the Share Reform Plan, each of Shanghai Dairy, SIFP and Danone will undertake that (1) upon completion of the Share Reform Plan and conversion of the Non-Tradable Shares into tradable A Shares, the Converted A Shares may not be traded on the Shanghai Stock Exchange within 24 months from the Conversion Date; and (2) upon expiration of the said 24-month restriction period, Converted A Shares which amount to not more than 5% of the total issued share capital of Bright Dairy may be traded on the Shanghai Stock Exchange in the next 12 months, and Converted A Shares which amount to not more than 10% of the total issued share capital of Bright Dairy may be traded on the Shanghai Stock Exchange in the next 24 months.

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Under the Share Reform Plan, Shanghai Dairy, SIFP and Danone will also undertake that:

1. they will jointly put forward proposals at the shareholders' general meeting of Bright Dairy for each of the three years ending 31st December 2008 that the dividend to be distributed in cash shall be not less than 50% of the distributable audited net profits for the year, and will vote in favour of such proposal; and
2. they will advocate that Bright Dairy will after completion of the Share Reform Plan establish a share incentive scheme for its management staff in accordance with relevant regulations.

After fulfillment of its obligations to contribute RMB17,000,000 to the Consideration, East Hope will not be bound by any restrictions on the trading of its Converted A Shares after completion of the Share Reform Plan.

3. CHANGES IN SHAREHOLDING STRUCTURE OF BRIGHT DAIRY

Under the Share Reform Plan, the percentage shareholding in Bright Dairy held by SIFP will be reduced from approximately 30.78% to approximately 25.17%. The following are the anticipated changes in the shareholding structure of Bright Dairy after completion of the Share Reform Plan.

After completion of the Share Reform Plan

Type of shares	Number of shares in Bright Dairy held	Approximate Percentage of total issued share capital of Bright Dairy
A Shares held by:		
Shanghai Dairy	262,257,616	25.17%
SIFP	262,257,616	25.17%
Danone	208,482,701	20.01%
East Hope	40,094,627	3.85%
Subtotal:	773,092,560	74.20%
A Shares held by other shareholders	268,800,000	25.80%
Total:	<u>1,041,892,560</u>	<u>100%</u>

LETTER FROM THE BOARD

After the completion of the Share Reform Plan, the total number of issued shares in the share capital of Bright Dairy will be unchanged, but SIFP will end up disposing of an approximate 5.61% shareholding in Bright Dairy (including its contribution of Non-Tradable Shares to the Consideration and transfer of Non-Tradable Shares to Danone).

4. INFORMATION ON BRIGHT DAIRY

Bright Dairy is engaged in the manufacture, distribution and sale of dairy and related products. It is owned by the Company as to approximately 30.78% of its total issued share capital.

The consolidated profit before taxation and minority interests and the consolidated profit after taxation and minority interests of Bright Dairy for the two years ended 31st December 2005, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Audited	Audited
	Year ended	Year ended
	31st December	31st December
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Consolidated profit before taxation and minority interests	381,961	236,670
Consolidated profit after taxation and minority interests	317,974	211,124

The consolidated total asset value and the consolidated net asset value of Bright Dairy for the two years ended 31st December 2005, which were prepared in accordance with the generally accepted accounting principles in the PRC, were as follows:

	Audited	Audited
	Year ended	Year ended
	31st December	31st December
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Consolidated total asset value	3,567,161	3,667,275
Consolidated net asset value	2,050,236	2,112,177

The audited consolidated turnover of Bright Dairy for each of the two years ended 31st December 2004 and 31st December 2005 amounted to approximately RMB6,785,679,000 and RMB6,903,863,000 respectively.

Bright Dairy is accounted for as an associate in the audited consolidated financial statements of the Group, and will continue to be so accounted for after completion of the Share Reform Plan.

LETTER FROM THE BOARD

5. REASONS FOR AND BENEFITS OF THE SHARE REFORM PLAN

The implementation of the Share Reform Plan is in line with the prevailing development of the securities market of the PRC and will render the Non-Tradable Shares held by SIFP becoming freely transferable on the Shanghai Stock Exchange.

The Directors (including the independent Non-Executive Directors) believe that that the terms of the Share Reform Plan (including the transfer of Non-Tradable Shares by SIFP to Danone) are fair and reasonable and in the interests of the shareholders of the Company as a whole.

6. FINANCIAL EFFECTS OF THE SHARE REFORM PLAN

Based on the audited net asset value of Bright Dairy as at 31st December 2005, the Share Reform Plan will have no material adverse effect on the financial position of the Group. After completion of the Share Reform Plan, the consolidated net profit of the Group will be reduced for the part of the results contributed by Bright Dairy due to the reduction of shareholding in Bright Dairy held by the Group of approximately 5.61%.

There will be an estimated net loss of approximately RMB18,000,000 to the Group (before taxation and expenses, based on the audited financial statements of Bright Dairy for the year ended 31st December 2005 and subject to the performance of Bright Dairy up to completion of the Share Reform Plan) as a result of the Share Reform Plan.

The net loss is calculated with reference to the gain on net of the sale proceeds to be received and the unaudited carrying value of 44,099,410 Non-Tradable Shares of Bright Dairy to be transferred to Danone in the accounts of the Group as at 31st December 2005 in the amount of approximately RMB96,000,000, and the estimated reduction in value of approximately RMB114,000,000 being the contribution of RMB85,520,000 in cash and the estimated unaudited carrying value as at the completion date of the Share Reform Plan of the 14,400,000 Non-Tradable Shares of Bright Dairy (to be offered to holders of A Shares). The Directors consider that such estimated net loss as a result of the Share Reform Plan will not have a material adverse effect on the financial position of the Group.

(i) Effect on net asset value

Net asset value of the Group will decrease by approximately RMB18,000,000 after completion of the Share Reform Plan, which principally reflects the estimated gain of approximately RMB96,000,000 from the transfer of Non-Tradable Shares to Danone and the estimated loss of approximately RMB114,000,000 from the contribution of cash and Non-Tradable Shares to the Consideration. Such change in net asset value of the Group represents approximately 1.08% of the audited consolidated net asset value of the Group as at 31st December 2005. The Directors consider that the exceptional loss will not have a material adverse financial effect on the Group.

LETTER FROM THE BOARD

(ii) Effect on earnings

After completion of the Share Reform Plan, the consolidated net profit of the Group will be reduced for the part of the results contributed by Bright Dairy due to the reduction of shareholding in Bright Dairy held by the Group of approximately 5.61%.

In view of the profits contributed by Bright Dairy to the Group, the Directors consider that there will be no material impact on the earnings of the Group as a result of the reduction of shareholding in Bright Dairy held by the Group.

While it is expected that the Group will have an immaterial estimated net loss as a result of the Share Reform Plan, SIFP will receive net proceeds of approximately RMB93,523,605 from the transfer of Non-Tradable Shares to Danone which is intended to be invested in projects related to the business of the Group which may be identified from time to time to capture better return for the Group. As at the Latest Practicable Date, the Company had not yet concluded any preliminary negotiations on potential investments in such projects.

7. GENERAL

The Group is principally engaged in the business of infrastructure facilities, medicine, consumer products and information technology. SIFP is an investment holding company.

Shanghai Dairy is principally engaged in the manufacture, processing and sale of dairy and rubber products, food and candies, beverages, rearing machinery, dairy food processing machines, plastic and paper containers, and related scientific research and investment.

Danone is principally engaged in manufacture, processing and sale of food and beverages.

East Hope is principally engaged in manufacture, processing and sale of feeds, additives for feeds and agriculture by-products.

As the revenue ratio under Chapter 14 of the Listing Rules for reduction of shareholding in Bright Dairy held by SIFP under the Share Reform Plan exceeds 5% but is less than 25%, such reduction constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

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 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%
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 in three batches.

(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%

All interests stated above represented long positions.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the interest and short positions 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
<i>(a) Long Positions</i>				
SIIC	Interest held by controlled corporations	Corporate	548,076,000 (note (i))	56.62%
Templeton Asset Management Limited	Investment manager	Corporate	58,316,253	6.02%
<i>(b) Short Positions</i>				
SIIC	Interest held by controlled corporations	Corporate	87,653,993 (note (ii))	9.06%

Notes:

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

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. Cai Yu Tian	Executive Director and President
Mr. Qu Ding	Executive Director and Executive Vice President
Mr. Lu Ming Fang	Executive Director
Mr. Ding Zhong De	Executive Director
Mr. Qian Shi Zheng	Vice President
Mr. Tang Jun	Deputy General Manager of Finance and Planning Department

- (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 Arker 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 Mysun Pharma 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	29.1785%
	Guangdong Province Technology Venture Investment Co.* (廣東省科技創業投資公司)	equity interest	10%
Hangzhou Huqingyutang Pharmaceutical Co. Ltd.	Hangzhou Huqingyutang Investment Co. Ltd. (杭州胡慶餘堂投資有限公司)	equity interest	44.9566%
Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.	Medieval International Limited	equity interest	28.8%
	Zheng Ji Yu	equity interest	16.5%

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

APPENDIX

GENERAL INFORMATION

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of shareholding
Mergen Biotech Limited	Excellent Hope Holdings Inc.	ordinary share	15%
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	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%

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

APPENDIX

GENERAL INFORMATION

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of shareholding
Chengdu Jiuxing Printing and Packing Co. Ltd.	Sichuan Quanxing Co. Ltd.	equity interest	20%
	Chengdu Jiang Shi 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 Jiang Shi 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	6.375%

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

(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 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.

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 2005, (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 registrar and transfer office of the Company is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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.