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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION**

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**If you have sold or transferred** all your shares in Shanghai Industrial Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Shanghai Industrial Holdings Limited.

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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)**

**ISSUE OF NEW A SHARES**

**BY**

**SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD.**

**DISCLOSEABLE TRANSACTION**

**TRANSFER OF ASSETS TO**

**SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD.**

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A letter from the board of directors of Shanghai Industrial Holdings Limited is set out on pages 4 to 15 of this circular.

27th June 2007

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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>
“Assets”	55% equity interest in CT Qingchunbao, 51.0069% equity interest in Huqingyutang Pharmaceutical, 61% equity interest in Xiamen TCM, 55% equity interest in Liaoning Herbapax and 29% equity interest (after a further capital injection increasing such percentage equity interest from 24% to 29%) in Huqingyutang Drugstore to be transferred to SI Pharmaceutical and/or its subsidiaries under the Agreement
“A Shares”	ordinary shares of RMB1.00 each in the capital of SI Pharmaceutical
“Agreement”	the agreement among the Company, SIIC MedTech and SI Pharmaceutical in relation to the Subscription and the Transfers dated 15th May 2007
“Board”	the board of directors of the Company
“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
“CSRC”	China Securities Regulatory Commission
“CT Qingchunbao”	Chia Tai Qingchunbao Pharmaceutical Co., Ltd.* (正大青春寶藥業有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 55% and a subsidiary of the Company
“Directors”	directors of the Company
“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
“Huqingyutang Drugstore”	Hangzhou Huqingyutang Drugstore Co., Ltd.* (杭州胡慶餘堂國藥號有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 29% (after a further capital injection) and a jointly controlled entity of the Company

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

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## DEFINITIONS

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“Huqingyutang Pharmaceutical”	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.* (杭州胡慶餘堂藥業有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 51.0069% and a subsidiary of the Company
“Issue of Remaining Shares”	the issue by SI Pharmaceutical of up to 60,450,000 new A Shares (under the total 107,220,000 new A Shares it proposes to issue) to institutional investors at a price of RMB14.13 per share, determined according to the Measures for the Administration of the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法)
“Latest Practicable Date”	22nd June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Liaoning Herbapex”	Liaoning Herbapex Pharmaceutical (Group) Co., Ltd.* (遼寧好護士藥業(集團)有限責任公司), a limited liability company established under the laws of the PRC and owned by the Group as to 55% and a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules
“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)
“Shares”	shares of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SIIC”	Shanghai Industrial Investment (Holdings) Co. Ltd., a company incorporated under the laws of Hong Kong with limited liability
“SIIC MedTech”	SIIC MedTech Health Products Limited, an investment holding company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company

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

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## DEFINITIONS

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“SI Pharmaceutical”	Shanghai Industrial Pharmaceutical Investment Co., Ltd., a limited liability 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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by SIIC MedTech for 46,770,000 A Shares under the Agreement
“Transfers”	the transfers of the Assets by relevant subsidiaries of the Group to SI Pharmaceutical and/or its subsidiaries pursuant to the Agreement
“World Honest”	World Honest Investments Limited, an investment holding company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Xiamen TCM”	Xiamen Traditional Chinese Medicine Co., Ltd.* (廈門中藥廠有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 61% and a subsidiary of the Company

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

*For the purposes of this circular, the exchange rate at HK\$1 = RMB1 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.*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Cai Lai Xing (*Chairman*)  
Mr. Cai Yu Tian (*Vice Chairman and  
Chief Executive Officer*)  
Mr. Qu Ding (*Vice Chairman and  
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

27th June 2007

*To the Shareholders*

Dear Sir or Madam,

**ISSUE OF NEW A SHARES  
BY  
SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD.  
  
DISCLOSEABLE TRANSACTION  
TRANSFER OF ASSETS TO  
SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD.**

### 1. INTRODUCTION

The Board announced on 15th May 2007 that SI Pharmaceutical, a subsidiary in which the Company through its another wholly-owned subsidiary owns approximately 43.62% of its total issued share capital, proposed to issue a total of up to 107,220,000 new A Shares. The Company, SIIC MedTech and SI Pharmaceutical entered into the Agreement on 15th May 2007 for the subscription by SIIC MedTech for 46,770,000 A Shares (out of the total 107,220,000 new A Shares to be issued by SI Pharmaceutical) at RMB14.13 per share and for the transfers of the Assets to SI Pharmaceutical and/or its subsidiaries.

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## LETTER FROM THE BOARD

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The Transfers constitute a discloseable transaction for the Company under the Listing Rules, as the profits, revenue and consideration ratios under Chapter 14 of the Listing Rules exceed 5% but are less than 25%. 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.

### 2. THE AGREEMENT

#### Date

15th May 2007

#### Parties

1. The Company
2. SI Pharmaceutical, a subsidiary of the Company
3. SIIC MedTech, a subsidiary of the Company

### 3. THE SUBSCRIPTION

The Company through SIIC MedTech shall subscribe for 46,770,000 A Shares (out of the total 107,220,000 new A Shares to be issued by SI Pharmaceutical) at RMB14.13 per share. Such subscription price represents a 10% discount from the average closing price of the A Shares on the Shanghai Stock Exchange in the 20 trading days preceding the announcement of the resolution of the board of SI Pharmaceutical on the transactions under the Agreement.

According to the Measures for the Administration of the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法) promulgated by the CSRC, a non-public offer of new shares by publicly listed companies in the PRC shall be at a price not less than 90% of the average closing price in the 20 trading days preceding the date for price determination. In addition, the Company as the controlling shareholder of SI Pharmaceutical may not transfer such new A Shares within 36 months from the completion of the issue.

The Company currently through another wholly-owned subsidiary holds an approximately 43.62% shareholding in SI Pharmaceutical. Immediately upon completion of the Subscription alone, the Company will increase its indirect percentage shareholding in SI Pharmaceutical to approximately 49.98% of its enlarged issued share capital.

### 4. THE TRANSFERS

Pursuant to the Agreement, the following equity interests held by wholly-owned subsidiaries of the Company will be transferred to SI Pharmaceutical and/or its subsidiaries:—

- (a) an amount of RMB70,675,000 in the registered capital of CT Qingchunbao, representing 55% of the total equity interest in CT Qingchunbao;
- (b) an amount of RMB27,115,292 in the registered capital of Huqingyutang Pharmaceutical, representing 51.0069% of the total equity interest in Huqingyutang Pharmaceutical;

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## LETTER FROM THE BOARD

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- (c) an amount of RMB29,175,000 in the registered capital of Xiamen TCM, representing 61% of the total equity interest in Xiamen TCM;
- (d) an amount of RMB28,050,000 in the registered capital of Liaoning Herbapex, representing 55% of the total equity interest in Liaoning Herbapex; and
- (e) an amount of RMB3,157,900 in the registered capital of Huqingyutang Drugstore representing 24% of the total equity interest in Huqingyutang Drugstore (which will be increased to RMB4,084,500 representing 29% of the total equity interest in Huqingyutang Drugstore after approval of a further capital injection by World Honest to Huqingyutang Drugstore).

After completion of the Transfers, the above companies will continue to be consolidated as subsidiaries in the audited consolidated financial statements of the Group through SI Pharmaceutical and/or its subsidiaries (except for Huqingyutang Drugstore which is a jointly-controlled entity of the Group).

### **Consideration for the Transfers**

The consideration for the Transfers shall be determined by the valuation by an asset appraisal institution with securities business qualifications in accordance with the PRC legal and regulatory requirements, and shall be determined at RMB1,515,000,000 if the assessed value of the Assets is within a range of 5% of such amount. If the assessed value is beyond such range, the Company and SI Pharmaceutical shall negotiate to determine the final consideration for the Transfers.

The above consideration for the Transfers was determined after taking into account the following factors:

- (1) The sum of the carrying value and committed capital of the Assets as at 31st December 2006 was RMB862,788,000, and the above consideration for the Transfers represents a premium of approximately 75.6% over such carrying value and committed capital of the Assets.
- (2) The sum of the proportionate audited net asset value of the Assets as at 31st December 2006 (in accordance with the generally accepted accounting principles in the PRC) was RMB506,156,000, and the above consideration for the Transfers represents a premium of approximately 199.3% over such net asset value.
- (3) The subscription price per share of RMB14.13 under the Subscription represents a premium of approximately 190.7% over the audited net asset value per share of RMB4.86 of SI Pharmaceutical as at 31st December 2006.

If the assessed value of the Assets is beyond the range of 5% of RMB1,515,000,000 and the Company and SI Pharmaceutical negotiate to determine the final consideration for the Transfers, the Company will comply with applicable requirements of the Listing Rules, and make a further announcement if required and seek approval by the Shareholders for the Transfers if the applicable percentage ratios reach 25% or more.

As at the date of this circular, the valuations of the various subject companies under the Transfers have not been completed.



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## LETTER FROM THE BOARD

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### 5. CONSENTS AND APPROVALS

The Subscription and the Transfers shall only be implemented after the following approvals or consents have been obtained:–

1. approval by the shareholders of SI Pharmaceutical in general meeting;
2. consent by the Board and the board of directors of SIIC MedTech;
3. approval of the Subscription by the Department of Commerce of the PRC;
4. consent, approval and/or waiver by the CSRC, other administrative departments and organizations (if necessary).

Both the Subscription and the Transfers will be completed after the above consents, approvals and/or waivers have been obtained. As at the Latest Practicable Date, except the consents referred to in item no. 2 above, all the other consents, approvals and/or waivers had not yet been obtained.

### 6. COMPLETION

After all approvals and consents of the Subscription by the PRC administration departments or bodies have been obtained, the Company and SI Pharmaceutical and/or their respective subsidiaries shall execute agreements for the transfer of equity interest under the Assets, and shall attend to necessary formalities for the Transfers.

Completion of the Subscription shall take place on a date after all approvals and consents of the proposed issue of new A Shares by SI Pharmaceutical by the PRC administration departments or bodies have been obtained, as confirmed by negotiation among the parties to the Agreement. The date of completion of the Subscription shall be no later than the expiry of six months after the date of approval by CSRC of the new issue of A Shares by SI Pharmaceutical.

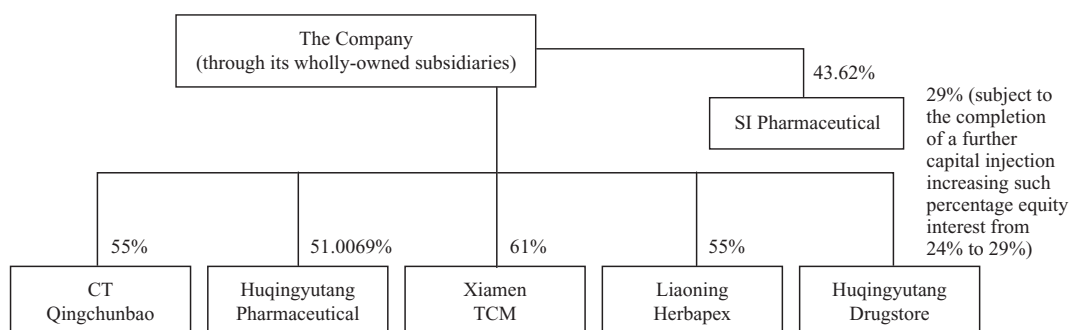
The amount payable for the Subscription of RMB660,860,100 shall be used to settle the portion of the consideration for the Transfers of equivalent amount. SI Pharmaceutical proposes to further issue up to 60,450,000 new A Shares (under the total 107,220,000 new A Shares it proposes to issue) to institutional investors at a price of RMB14.13 per share, determined according to the Measures for the Administration of the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法), the proceeds of which will be applied towards payment of the balance of the consideration for the Transfers of RMB854,139,900. If such proceeds are insufficient, any residual amount of the consideration shall be paid by SI Pharmaceutical by other methods acceptable to the Company in cash as negotiated between the Company and SI Pharmaceutical. If the Issue of Remaining Shares is materialised, the Company's shareholding percentage in SI Pharmaceutical will be maintained at 43.62% of its enlarged issued share capital.

The issue of new A Shares under the Issue of Remaining Shares, if it proceeds, will take place simultaneously with issue of new A Shares under the Subscription so that the shareholding of the Company in SI Pharmaceutical will be maintained at not less than approximately 43.62%.

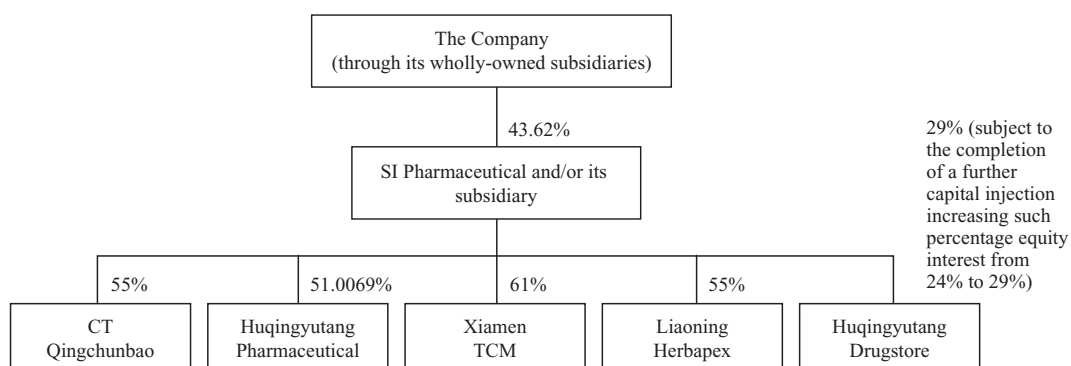
## LETTER FROM THE BOARD

### 7. SHAREHOLDING STRUCTURE OF THE ASSETS BEFORE AND AFTER COMPLETION OF THE TRANSFERS, THE SUBSCRIPTION AND THE ISSUE OF REMAINING SHARES

#### Before Completion



#### After Completion



### 8. INFORMATION ON SI PHARMACEUTICAL

SI Pharmaceutical is a subsidiary owned by the Company as to approximately 43.62%, the A Shares of which are listed on the A Shares market of the Shanghai Stock Exchange. As three out of the four directors of SI Pharmaceutical in charge of its management and administration are Directors or senior management personnel of the Company, the Company has the power to govern the daily operations and the financial and operating policies of SI Pharmaceutical and, in accordance with the Hong Kong Accounting Standard 27 paragraph 4, SI Pharmaceutical is consolidated into the audited consolidated financial statements of the Group. SI Pharmaceutical and its subsidiaries are principally engaged in the manufacture and sale of biomedicine and commercial network operations.

As at the Latest Practicable Date, Mr. Lu Ming Fang and Mr. Ding Zhong De (both being Directors) beneficially owned 23,400 A Shares and 23,400 A Shares respectively, representing approximately 0.01% and 0.01% of the total issued share capital of SI Pharmaceutical. To the best of the Director's knowledge, information and belief and having made all reasonable enquiries, the other holders of A Shares are third parties independent of and not connected with the Company and its connected persons.

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## LETTER FROM THE BOARD

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### 9. INFORMATION ON THE ASSETS

#### (a) CT Qingchunbao

CT Qingchunbao is principally engaged in the manufacture and sale of Chinese medicine and health food.

#### Share capital

CT Qingchunbao has total registered capital of RMB128,500,000. The total equity interest in CT Qingchunbao are currently held by its shareholders in the following manner:—

Name of shareholder	Amount of registered capital RMB	Percentage shareholding
SIIC MedTech (wholly-owned subsidiary of the Company)	70,675,000	55%
China (Hangzhou) Qingchunbao Group Co., Ltd.* (中國(杭州)青春寶集團有限公司)	25,700,000	20%
Hangzhou Chia Tai Qingchunbao Shareholding Staff Union* (杭州市正大青春寶職工持股協會)	25,700,000	20%
An independent corporate shareholder	6,425,000	5%

The equity interest in CT Qingchunbao held by SIIC MedTech will be transferred to SI Pharmaceutical and/or its subsidiaries under the Transfers.

#### Financial information

The audited profit before taxation and the audited profit after taxation of CT Qingchunbao for the two years ended 31st December 2006, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:—

	Year ended 31st December	
	2006	2005
	RMB'000	RMB'000
Profit before taxation	189,508	209,160
Profit after taxation	138,772	152,616

The audited net asset value and the audited total asset value of CT Qingchunbao as at 31st December 2006 amounted to approximately RMB381,583,000 and approximately RMB735,251,000 respectively.

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

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## LETTER FROM THE BOARD

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### (b) Huqingyutang Pharmaceutical

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

#### Share capital

Huqingyutang Pharmaceutical has a total registered capital of RMB53,160,000. The total equity interest in Huqingyutang Pharmaceutical are currently held by its shareholders in the following manner:—

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

The equity interest in Huqingyutang Pharmaceutical held by SIIC MedTech will be transferred to SI Pharmaceutical and/or its subsidiaries under the Transfers.

#### Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Huqingyutang Pharmaceutical for the two years ended 31st December 2006, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:—

	Year ended 31st December	
	2006	2005
	RMB'000	RMB'000
Consolidated profit before taxation and minority interests	38,755	53,231
Consolidated profit after taxation and minority interests	33,728	45,335

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

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## LETTER FROM THE BOARD

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The audited consolidated net asset value and the audited consolidated total asset value of Huqingyutang Pharmaceutical as at 31st December 2006 amounted to approximately RMB268,506,000 and approximately RMB369,153,000 respectively.

### (c) Xiamen TCM

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

### Share capital

Xiamen TCM has a total registered capital of RMB47,830,000. The total equity interest in Xiamen TCM are currently held by its shareholders in the following manner:—

Name of shareholder	Amount of registered capital RMB	Percentage shareholding
SIIC MedTech (wholly-owned subsidiary of the Company)	29,175,000	61%
Xiamen Qinggong Group Co., Ltd.* (廈門輕工集團有限公司)	14,350,000	30%
Rocal Health Limited	4,305,000	9%

The equity interest in Xiamen TCM held by SIIC MedTech will be transferred to SI Pharmaceutical and/or its subsidiaries under the Transfers.

### Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Xiamen TCM for the two years ended 31st December 2006, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:—

	Year ended 31st December	
	2006	2005
	RMB'000	RMB'000
Consolidated profit before taxation and minority interests	28,461	35,062
Consolidated profit after taxation and minority interests	26,027	33,165

The audited consolidated net asset value and the audited consolidated total asset value of Xiamen TCM as at 31st December 2006 amounted to approximately RMB121,603,000 and approximately RMB133,553,000 respectively.

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

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## LETTER FROM THE BOARD

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### (d) Liaoning Herbapex

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

### Share capital

Liaoning Herbapex has a total registered capital of RMB51,000,000. The total equity interest in Liaoning Herbapex are currently held by its shareholders in the following manner:—

Name of shareholder	Amount of registered capital RMB	Percentage shareholding
SIIC MedTech (wholly-owned subsidiary of the Company)	28,050,000	55.0000%
Medieval International Limited	7,650,000	15.0000%
Hu Lu Dao Jing Xin Investment Group Co., Ltd.* (葫蘆島金鑫投資集團有限公司)	1,000,000	1.9608%
Zheng Ji Yu* (鄭繼宇)	8,400,000	16.4706%
Qu Wen Ge* (曲文閣)	4,100,000	8.0392%
Lu Xi Wei* (呂錫偉)	1,800,000	3.5294%

The equity interest in Liaoning Herbapex held by SIIC MedTech will be transferred to SI Pharmaceutical and/or its subsidiaries under the Transfers.

### Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Liaoning Herbapex for the two years ended 31st December 2006, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:—

	Year ended 31st December	
	2006 RMB'000	2005 RMB'000
Consolidated profit before taxation and minority interests	11,518	25,446
Consolidated profit after taxation and minority interests	9,400	25,033

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

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## LETTER FROM THE BOARD

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The audited consolidated net asset value and the audited consolidated total asset value of Liaoning Herbapex as at 31st December 2006 amounted to approximately RMB137,404,000 and approximately RMB251,371,000 respectively.

**(e) Huqingyutang Drugstore**

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

**Share capital**

Huqingyutang Drugstore has a total registered capital of RMB13,157,900 and is in the process of increasing its registered capital to RMB14,084,500 with the increased amount of registered capital contributed by World Honest. Such increase in registered capital will increase the percentage equity interest held by World Honest from 24% to 29% and is subject to the approval by the PRC administration department on foreign investment. On the condition that such increase in registered capital is completed before completion of the Transfers, the total equity interest in Huqingyutang Drugstore will be held by its shareholders in the following manner:–

<b>Name of shareholder</b>	<b>Amount of registered capital RMB</b>	<b>Percentage shareholding</b>
Hangzhou Huqingyutang Investment Co., Ltd.* (杭州胡慶餘堂投資有限公司)	5,100,000	36.21%
World Honest (wholly-owned subsidiary of the Company)	4,084,500	29.00%
39 Individual Shareholders	4,900,000	34.79%

The equity interest in Huqingyutang Drugstore held by World Honest will be transferred to SI Pharmaceutical and/or its subsidiaries under the Transfers.

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

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## LETTER FROM THE BOARD

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### Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Huqingyutang Drugstore for the two years ended 31st December 2006, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	<b>Year ended 31st December</b>	
	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Consolidated profit before taxation and minority interests	8,325	8,025
Consolidated profit after taxation and minority interests	6,285	6,611

The audited consolidated net asset value and the audited consolidated total asset value of Huqingyutang Drugstore as at 31st December 2006 amounted to approximately RMB33,096,000 and approximately RMB50,463,000 respectively.

### 10. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND THE TRANSFERS

Upon the completion of the Transfers, the Subscription and the Issue of Remaining Shares in full, the Company will maintain the same controlling stake of approximately 43.62% shareholding in SI Pharmaceutical, while the Chinese pharmaceutical business of the Group will be grouped together under a unified pharmaceutical platform. These will help to streamline the administration structure of the pharmaceutical assets of the Group, and further enhance the strengths and position of SI Pharmaceutical as the pharmaceutical business flagship of the Company, as well as realize the Group's measure of placing the entire Chinese pharmaceutical assets on the A Shares market. These transactions also present an opportunity for the Group to raise additional capital from the A Shares market.

Upon completion of the Transfers, the Subscription and the Issue of Remaining Shares in full, the Group will record a before-tax profit of approximately RMB164 million based on the carrying value of the Assets as at 31st December 2006. In consideration of a potential tax liability in the estimated amount ranging from approximately RMB117 million to approximately RMB234 million calculated based on a capital gain tax rate of 10% to 20% on the profit on disposal of the Assets, there will be potential after-tax profit of approximately RMB47 million to after-tax loss of approximately RMB70 million. The actual figures of profit and loss will be subject to the actual capital gain tax amount, the carrying value of the Assets at completion of the Transfers and the final number of A Shares placed under the Issue of Remaining Shares.

Upon completion of the Subscription and the Transfers, the effective interest in the companies under the Assets held by the Company will decrease due to the transfer of the Assets by the Company from its wholly-owned subsidiaries to its non-wholly owned



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## LETTER FROM THE BOARD

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subsidiary, SI Pharmaceutical. The consolidated net profit of the Group will be decreased by the portion of the results contributed by the reduced effective shareholding in the Assets held by the Group. The effect on the net asset value and the earnings of the Group will be as follows:–

**(i) Effect on net asset value**

Upon completion of the Transfers and the Subscription and the Issue of Remaining Shares, the change in the net asset value of the Group will range from a decrease of approximately RMB70 million to an increase of approximately RMB47 million which principally reflects the result of the completion of the Transfers and the Subscription and the Issue of Remaining Shares and the potential accruing tax liability. The change in net asset value of the Group upon completion of the Transfers and the Subscription and the Issue of Remaining Shares represents approximately 0.3% to 0.4% of the net asset value of the Group as at 31st December 2006.

**(ii) Effect on earnings**

Upon completion of the Subscription and the Transfers, the effective interest in the companies under the Assets held by the Company will decrease due to the transfer of the Assets by the Company from its wholly-owned subsidiaries to its non-wholly owned subsidiary, SI Pharmaceutical and/or its subsidiaries. The consolidated net profit of the Group will be decreased by the portion of the results contributed by the reduced effective shareholding in the Assets held by the Group.

The Directors consider that the Agreement is on normal commercial terms and is fair and reasonable so far as the Company and the Shareholders are concerned.

### **11. USE OF PROCEEDS**

The Company intends to use the net proceeds in cash from the Transfers as general working capital, and may apply such proceeds towards potential acquisitions that may arise from time to time in the future.

### **12. GENERAL**

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

### **13. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information contained 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 were as follows:

### (i) Interests in shares and underlying shares of the Company

#### (a) Ordinary Shares of the Company

Name of Director	Capacity	Nature of interests	Number of issued shares held	Percentage of total issued share capital
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	3,280,000	0.34%
Ding Zhong De	Beneficial Owner	Personal	377,000	0.04%
Qian Shi Zheng	Beneficial Owner	Personal	459,000	0.05%
Yao Fang	Beneficial Owner	Personal	200,000	0.02%

All interests stated above represented long positions.

*(b) Share Options of the Company*

Name of Director	Capacity	Date of grant	Exercise price HK\$	Number of share options held	Percentage of total issued share capital
Cai Lai Xing	Beneficial Owner	2nd September 2005	14.89	800,000	0.08%
Cai Yu Tian	Beneficial Owner	2nd May 2006	17.10	1,300,000	0.13%
Qu Ding	Beneficial Owner	2nd September 2005	14.89	560,000	0.06%
Lu Ming Fang	Beneficial Owner	2nd September 2005	14.89	480,000	0.05%
Ding Zhong De	Beneficial Owner	2nd May 2006	17.10	1,000,000	0.10%
Qian Shi Zheng	Beneficial Owner	2nd September 2005	14.89	300,000	0.03%
Tang Jun	Beneficial Owner	2nd September 2005	14.89	300,000	0.03%

Share options granted on 2nd September 2005 under the Company's share option scheme are exercisable during the period from 2nd March 2006 to 1st March 2009 in three batches.

Share options granted on 2nd May 2006 under the Company's share option scheme are exercisable during the period from 2nd November 2006 to 1st November 2009 in three batches.

**(ii) Interests in shares of SI Pharmaceutical**

Name of Director	Capacity	Nature of interests	Number of issued shares held	Percentage of total issued share capital
Lu Ming Fang	Beneficial Owner	Personal	23,400	0.01%
Ding Zhong De	Beneficial Owner	Personal	23,400	0.01%

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 beneficially held	Percentage of total issued share capital
<i>(a) Long Positions</i>				
SIIC	Interest held by controlled corporations	Corporate	548,076,000 (note (i))	56.53%
Templeton Asset Management Limited	Investment manager	Corporate	57,610,253	5.94%
<i>(b) Short Positions</i>				
SIIC	Interest held by controlled corporations	Corporate	87,653,993 (note (ii))	9.04%

*Notes:*

- (i) SIIC through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Ltd., SIIC Capital (B.V.I.) Ltd. and SIIC CM Development Ltd. held 468,066,000, 80,000,000 and 10,000 Shares respectively, and is accordingly deemed to be interested in the respective Shares held by the aforementioned companies.
- (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 Shanghai Industrial Investment Treasury Co. Ltd. due March 2009 unconditionally and irrevocably guaranteed by SIIC and exchangeable into ordinary shares of the Company.

- (c) 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 and General Manager of Finance and Planning Department
Mr. Tang Jun	General Manager of the Internal Audit Department and Deputy General Manager of Finance and Planning Department

- (d) 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 registered 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%
C T Qingchunbao	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)	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	23.06%
	Fu He Liang (傅和亮)	equity interest	11.98%
Techpool International Pharma Co. Ltd.* (廣州天普海外藥業有限公司)	Guangzhou Bopu Biotechnology Co. Ltd. (廣州市博普生物技術有限公司)	equity interest	27.62%

## APPENDIX

## GENERAL INFORMATION

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of registered shareholding
Changzhou Techpool Pharma Co. Ltd. (常州天普製藥有限公司)	Yaoheng Investment Co. Ltd. (耀恆投資股份有限公司)	equity interest	25.82%
Huqingyutang Pharmaceutical	Hangzhou Huqingyutang Investment Co. Ltd. (杭州胡慶餘堂投資有限公司)	equity interest	44.9566%
Liaoning Herbapex	Medieval International Limited	equity interest	15%
	Zheng Ji Yu (鄭繼宇)	equity interest	16.5%
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 Victor Medical Instrument Co. Ltd. (上海勝利醫療器械有限公司)	ACCS Products Inc. USA	equity interest	25%
Shanghai Yichuang Traditional Chinese Medicine Research & Development Center Co. Ltd. (上海醫創中醫藥科研開發中心有限公司)	Shanghai University of Traditional Chinese Medicine Technological Development Co.* (上海中醫大科技發展公司)	equity interest	45%
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%
Shanghai Yunhu Yuemin Pharmacy Co. Ltd.* (上海雲湖悅民大藥房有限公司)	Shanghai Yuanfeng Pharmacy* (上海源豐藥房)	equity interest	30%
SI United Pharmaceutical Co. Ltd. (上海實業聯合集團製藥有限公司)	Zhou Yi Ping (周一平)	equity interest	22%
	Hu Zheng (許政)	equity interest	17%
	Feng Wei (馮衛)	equity interest	10%
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. (錦江國際(集團)有限公司)	equity interest	30%
Xiamen TCM	Xiamen Qinggong Group Co. Ltd* (廈門輕工集團有限公司)	equity interest	30%

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of registered shareholding
Chengdu Wingfat Printing Co. Ltd.* (成都永發印務有限公司)	Sichuan Quanxing Co. Ltd.* (四川水井坊股份有限公司)	equity interest	20%
	Chengdu Jiangshi Investment Co. Ltd.* (成都江氏投資有限公司)	equity interest	19%
	Xichuen Huize Investment Co. Ltd.* (四川惠澤投資有限公司)	equity interest	10%
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.	Henan Cigarette Industrial Co.* (河南中煙工業公司)	equity interest	20.6%
	Shantou Bonded Area Jinguang Industrial Co., Ltd.* (汕頭保稅區金光實業有限公司)	equity interest	28.4%

(e) 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**

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.

**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.