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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken in relation to this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other appropriate independent professional advisers to obtain independent professional advice.

**If you have sold or transferred** all your shares in Shanghai Industrial Holdings Limited, you should at once hand this circular and the accompanying form of proxy 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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**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 AND CONNECTED TRANSACTIONS**

### **ACQUISITIONS OF THE ENTIRE ISSUED SHARE CAPITAL OF GOOD CHEER ENTERPRISES LIMITED**

**AND**

### **THE ENTIRE ISSUED SHARE CAPITAL OF S.I. HU-HANG DEVELOPMENT LIMITED**

**AND**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee and the  
Independent Shareholders of the Company**

**COMMERZBANK**

**Commerzbank AG Hong Kong Branch**

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A letter from the board of directors of the Company is set out on pages 7 to 25 of this circular. A letter from the Independent Board Committee (as defined herein) to the Independent Shareholders (as defined herein) is set out on page 26 of this circular. A letter from Commerzbank AG Hong Kong Branch (as defined herein), containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 47 of this circular.

A notice convening the EGM (as defined herein) to be held at the Conference Room of the Company, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 8th September 2008 at 3:00 p.m., is set out on pages 98 to 100 of this circular. A form of proxy for the use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

15th August 2008



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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>Terms</b>	<b>Meaning</b>
“Acquisitions”	collectively the Hotel Acquisition and the Road Bridge Acquisition
“Acquisition Agreements”	the Amended Hotel Acquisition Agreement and the Amended Road Bridge Acquisition Agreement
“Amended Hotel Acquisition Agreement”	the Hotel Acquisition Agreement as amended by the Supplemental Hotel Acquisition Agreement
“Amended Road Bridge Acquisition Agreement”	the Road Bridge Acquisition Agreement as amended by the Supplemental Road Bridge Acquisition Agreement
“Announcement”	the announcement made by the Company dated 21st July 2008 in relation to the Acquisitions
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a day on which typhoon signal no. 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“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
“Concession”	the concession granted to the Project Company to operate and maintain, and to collect tolls from vehicles using, the Hu-Hang Expressway Shanghai Section during the Concession Period and to operate service facilities within the approved scope pursuant to and in accordance with the Concession Contract

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## DEFINITIONS

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“Concession Contract”	the concession contract, namely 滬杭高速公路(上海段)特許經營合同, dated 22nd March 2002 and made between the Project Company and 上海市市政工程管理局 which will expire on 31st August 2030, pursuant to which the Project Company has obtained, and is still holding, the Concession
“Concession Period”	the period from 22nd March 2002 to 31st August 2030
“Creative Gold”	Creative Gold Developments Limited, a company incorporated in the BVI with limited liability and is owned as to 89.69% by Good Cheer and as to 10.31% by FS Asia Investment Limited, a subsidiary of Four Seasons Hotels Inc.
“Director(s)”	the director(s) of the Company
“EBITDA”	earnings before interest, taxes, depreciation and amortization
“EGM”	the extraordinary general meeting of the Company to be convened and held at the Conference Room of the Company, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 8th September 2008 at 3:00 p.m. at which ordinary resolutions will be proposed to approve, if thought fit, the terms of the Acquisition Agreements and the transactions contemplated thereunder
“Equity Transfer Contract”	the conditional Shanghai assets and equity transfer contract made between SSG, HK Holdco and SIIC on 4th July 2008, whereby SSG has agreed to sell, and HK Holdco has agreed to purchase, 100% equity interest in the Project Company
“Good Cheer”	Good Cheer Enterprises Limited, a company incorporated in the BVI with limited liability and wholly-owned by South Pacific
“Good Cheer Consideration”	the aggregate consideration for the sale and purchase of the Good Cheer Sale Share and the assignment of the Good Cheer Sale Loans
“Good Cheer Group”	Good Cheer, Creative Gold, SPHCL, SPIIL and the Hotel Company, together with their subsidiaries (if any)

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## DEFINITIONS

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“Good Cheer Sale Loans”	the non-interest bearing inter-company loans due from certain members of the Good Cheer Group to SIIC and/or South Pacific as at the date of Hotel Acquisition Completion, which amounted to HK\$448,136,025.11 as at 30th June 2008
“Good Cheer Sale Share”	the one share of US\$1 beneficially owned by and registered in the name of South Pacific, representing the entire issued share capital of Good Cheer
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK Holdco”	S.I. Infrastructure (Hu-Hang) Limited (previously known as Lead Fast Holdings Limited), a company incorporated in Hong Kong and legally and beneficially wholly-owned by Hu-Hang
“Hotel Acquisition”	the acquisition by the Company of the Good Cheer Sale Share and the Good Cheer Sale Loans from South Pacific pursuant to the Amended Hotel Acquisition Agreement
“Hotel Acquisition Agreement”	the conditional sale and purchase agreement dated 21st July 2008 entered into between South Pacific, the Company and SIIC in relation to the Hotel Acquisition
“Hotel Acquisition Completion”	completion of the Hotel Acquisition pursuant to the Amended Hotel Acquisition Agreement
“Hotel Company”	Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司), a Sino-foreign equity joint venture established in the PRC and owned as to 68% by SPHCL, as to 29% by SPIIL and as to 3% by Shanghai JingAn Land Development Holding Co., Ltd. (上海市靜安區土地開發控股總公司)
“Hu-Hang”	S.I. Hu-Hang Development Limited (上實滬杭開發建設有限公司) (previously known as Dragon Win Enterprises Limited 凱鵬企業發展有限公司), a company incorporated in the BVI with limited liability and wholly-owned by SIIC CM
“Hu-Hang Consideration”	HK\$4,196,312,000

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## DEFINITIONS

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“Hu-Hang Expressway Shanghai Section”	Hu-Hang Expressway (Shanghai Section) (滬杭高速公路(上海段)), a 47.67 km expressway comprising (i) Xin-Song Section (莘松段), which runs between Xin Zhuang (莘莊) and Song Jiang (松江), and (ii) Song-Feng Section (松楓段), which runs between Song Jiang (松江) and Feng Jing (楓涇) with 9 toll plazas situated in the Shanghai Municipality of the PRC
“Hu-Hang Group”	Hu-Hang, HK Holdco and the Project Company together with their subsidiaries (if any)
“Hu-Hang Sale Loan”	the non-interest bearing shareholder’s loan due from Hu-Hang and/or HK Holdco to SIIC CM and/or SIIC as at the date of the Road Bridge Acquisition Completion plus such further amounts as may be necessary to fulfill the undertakings by SIIC CM and/or SIIC under the Road Bridge Acquisition Agreement, which is estimated to be in the sum of not more than HK\$4,196,311,992 as at the date upon which the Equity Transfer Contract has become effective and has been completed and the Transfer has been effected in accordance with the terms of the Equity Transfer Contract
“Hu-Hang Sale Share”	the one share of US\$1 beneficially owned by and registered in the name of SIIC CM, representing the entire issued share capital of Hu-Hang
“Independent Board Committee”	the independent committee of the Board comprising the three independent non-executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis appointed to advise the Independent Shareholders in respect of the Acquisition Agreements and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than SIIC and its associates
“Latest Practicable Date”	12th August 2008, being the latest practicable date for ascertaining certain information included herein before the printing of this circular
“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 as set out in Appendix 10 of the Listing Rules

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## DEFINITIONS

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“PRC”	the People’s Republic of China
“Project Company”	上海路橋發展有限公司 (Shanghai Road-Bridge Development Co., Ltd.*) (previously known as 上海路橋發展股份有限公司 (Shanghai Road-Bridge Development Joint Stock Co., Ltd.*)), a limited liability company established in the PRC and is currently owned by SSG
“Road Bridge Acquisition”	the acquisition by S.I. Infrastructure of the Hu-Hang Sale Share and the Hu-Hang Sale Loan from SIIC CM pursuant to the Amended Road Bridge Acquisition Agreement
“Road Bridge Acquisition Agreement”	the conditional sale and purchase agreement dated 21st July 2008 entered into between SIIC CM, S.I. Infrastructure and SIIC in relation to the Road Bridge Acquisition
“Road Bridge Acquisition Completion”	completion of the Road Bridge Acquisition pursuant to the Amended Road Bridge Acquisition Agreement
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company
“SIIC CM”	SIIC CM Development Limited (上海實業崇明開發建設有限公司), a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of SIIC
“S.I. Infrastructure”	S.I. Infrastructure Holdings Limited (上實基建控股有限公司), a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“South Pacific”	South Pacific Hotel Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SIIC

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## DEFINITIONS

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“SPHCL”	South Pacific Hotel (China) Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Creative Gold
“SPIIL”	South Pacific International Investment Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Creative Gold
“SSG”	上海上實(集團)有限公司 (SIIC Shanghai (Holdings) Co., Ltd.*), a wholly-owned subsidiary of SIIC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Hotel Acquisition Agreement”	the supplemental agreement dated 5th August 2008 entered into between South Pacific, the Company and SIIC
“Supplemental Road Bridge Acquisition Agreement”	the supplemental agreement dated 5th August 2008 entered into between SIIC CM, S.I. Infrastructure and SIIC
“Transfer”	the transfer of 100% of the equity interest in the Project Company from SSG to HK Holdco pursuant to the Equity Transfer Contract
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

*Unless otherwise stated, amounts in RMB and US\$ have been translated into HK\$ at exchange rates of HK\$1.00 to RMB0.8791 and HK\$7.80 to US\$1.00 for illustration purposes only. No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.*

*For the purposes of this circular, the English name with an asterisk (\*) is an informal English translation of the official Chinese name.*

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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. Teng Yi Long (Chairman)

Mr. Cai Yu Tian (Vice Chairman and Chief Executive Officer)

Mr. Lu Ming Fang

Mr. Ding Zhong De

Mr. Zhou Jie (Executive Deputy CEO)

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

15th August 2008

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

#### **ACQUISITIONS OF THE ENTIRE ISSUED SHARE CAPITAL OF GOOD CHEER ENTERPRISES LIMITED**

**AND**

#### **THE ENTIRE ISSUED SHARE CAPITAL OF S.I. HU-HANG DEVELOPMENT LIMITED**

**AND**

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### **1. INTRODUCTION**

Reference is made to the announcement made by the Company dated 21st July 2008 in relation to the Acquisitions and the announcement made by the Company dated 5th August 2008 in relation to the entering into of the Supplemental Hotel Acquisition Agreement and the Supplemental Road Bridge Acquisition Agreement.

On 21st July 2008, the Company entered into the Hotel Acquisition Agreement with South Pacific and SIIC pursuant to which the Company has conditionally agreed to acquire the Good Cheer Sale Share from South Pacific and to take assignments of the Good Cheer

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## LETTER FROM THE BOARD

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Sale Loans from SIIC and/or South Pacific. The Good Cheer Sale Share represents the entire issued share capital in Good Cheer which through its subsidiaries holds a majority interest in the Hotel Company, which in turn owns and operates the Four Seasons Hotel Shanghai.

On 21st July 2008, S.I Infrastructure, a wholly-owned subsidiary of the Company, entered into the Road Bridge Acquisition Agreement with SIIC CM and SIIC pursuant to which S.I. Infrastructure has conditionally agreed to acquire the Hu-Hang Sale Share from SIIC CM and to take an assignment of the Hu-Hang Sale Loan from SIIC CM. The Hu-Hang Sale Share represents the entire issued share capital in Hu-Hang which through its subsidiaries holds the entire equity interest in the Project Company, which in turn owns the Concession.

On 5th August 2008, the Company entered into the Supplemental Hotel Acquisition Agreement with South Pacific and SIIC principally to vary the timing of payment of the Good Cheer Consideration such that only half of the Good Cheer Consideration (as opposed to all of the Good Cheer Consideration as disclosed in the Announcement) less the amount of HK\$33,080,357 by way of set-off as mentioned in the section headed “Good Cheer Consideration” in the Announcement shall be payable upon the Hotel Acquisition Completion and the remaining Good Cheer Consideration shall be payable on or before the date falling six months after the date of the Hotel Acquisition Completion (or such other later date as the parties to the Hotel Acquisition Agreement may agree in writing).

On 5th August 2008, S.I Infrastructure entered into the Supplemental Road Bridge Acquisition Agreement with SIIC CM and SIIC principally to vary the manner and timing of payment of the Hu-Hang Consideration such that the entire amount of the Hu-Hang Consideration shall be payable in cash (instead of partly in cash and partly by the issue and allotment of 121,950,000 Shares as referred to in the Announcement), and that half of the Hu-Hang Consideration shall be payable upon the Road Bridge Acquisition Completion and the remaining half of the Hu-Hang Consideration shall be payable on or before the date falling six months after the date of the Road Bridge Acquisition Completion (or such other later date as the parties to the Road Bridge Acquisition Agreement may agree in writing).

The Hotel Acquisition constitutes a discloseable transaction of the Company under the Listing Rules as the consideration ratio exceeds 5% but is below 25%. The Road Bridge Acquisition also constitutes a discloseable transaction of the Company under the Listing Rules as all applicable percentage ratios exceed 5% but are below 25%. Further, as the transactions contemplated under the Acquisition Agreements constitute connected transactions of the Company for the purposes of Chapter 14A of the Listing Rules, the entering into of the Acquisition Agreements is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, inter alia, (i) further details of the Acquisitions; (ii) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (iii) a letter from Commerzbank AG Hong Kong Branch containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

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## LETTER FROM THE BOARD

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### 2. THE HOTEL ACQUISITION

#### **Date of the Hotel Acquisition Agreement**

21st July 2008

#### **Date of the Supplemental Hotel Acquisition Agreement**

5th August 2008

#### **Parties**

Vendor: South Pacific, a wholly-owned subsidiary of SIIC

Purchaser: the Company

Guarantor: SIIC

#### **Asset to be acquired**

Subject to the terms and conditions of the Amended Hotel Acquisition Agreement, the Company has conditionally agreed to:

1. acquire the Good Cheer Sale Share; and
2. take assignments of all the benefits and interest of and in the Good Cheer Sale Loans which are unsecured, non-interest bearing and repayable on demand due from the Good Cheer Group to SIIC and/or South Pacific

free from all lien, charges, security interests, encumbrances, adverse claims, third party rights, adverse interests and equities of any kind whatsoever.

The Good Cheer Sale Share represents the entire issued share capital of Good Cheer. The Good Cheer Sale Loans comprise certain inter-company loans due and owing from Good Cheer, Creative Gold, SPHCL and SPIIL to SIIC and/or South Pacific, in aggregate amounting to HK\$448,136,025.11 as at 30th June 2008.

Good Cheer was set-up by SIIC (through South Pacific which is its wholly-owned subsidiary) in February 1999 at the subscription cost of US\$1 for the holding of interest in the Hotel Company.

#### **Good Cheer Consideration**

The Good Cheer Consideration amounts to HK\$1,350,000,000. HK\$675,000,000 (being half of the Good Cheer Consideration), less the amount of HK\$33,080,357 by way of set-off as mentioned in the section headed “Good Cheer Consideration” in the Announcement, shall be payable by the Company to South Pacific in cash upon the Hotel Acquisition Completion. The remaining HK\$675,000,000 shall be payable by the

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## LETTER FROM THE BOARD

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Company to South Pacific in cash on or before the date falling six months after the date of the Hotel Acquisition Completion (or such other later date as the Company, South Pacific and SIIC may agree in writing).

The Good Cheer Consideration was determined following arm's length negotiations between SIIC and the Company by reference to the net asset value of Good Cheer after taking into account the valuation of the Four Seasons Hotel Shanghai and certain residential properties in Shanghai owned by the Hotel Company as at 30th June 2008 and the amount of the Good Cheer Sale Loans of HK\$448,136,025.11 as at 30th June 2008.

The valuation of the hotel building and the residential apartments as at 30th June 2008 are approximately HK\$2,210,000,000 and HK\$18,170,000 respectively as determined by DTZ Debenham Tie Leung Limited, an independent valuer, based on the direct comparison method. The net asset value of the Good Cheer Group as adjusted after taking into account the valuation plus the Good Cheer Sale Loans amounts to approximately HK\$1,418,062,000, and the Good Cheer Consideration represents a 4.8% discount to the sum of the adjusted net asset value and Good Cheer Sale Loans.

The Good Cheer Consideration has also taken into account an advance payment of HK\$33,080,357 by a purchaser principally engaged in the business of property investment (which to the best of the Directors' knowledge, information and belief is independent of the Company and has no shareholding interest in the Group) to SIIC for the transfer of a 5.15% shareholding in Creative Gold by Good Cheer pursuant to a legally binding agreement entered into in May 2006. Such transfer of shareholding in Creative Gold is conditional upon the acquisition by the Hotel Company of a 15% interest in another company which owns a landed property for service apartment development adjacent to the Four Seasons Hotel Shanghai with a land use term of 50 years (at cost of the 15% interest in the other company). Both the transfer of 5.15% shareholding in Creative Gold and the acquisition by the Hotel Company of a 15% interest in another company have not yet been completed. Subject to the Hotel Acquisition Completion, the Company will comply with the Listing Rules regarding the acquisition of 15% interest in another company by the Hotel Company.

At the Hotel Acquisition Completion, there shall be deducted from the Good Cheer Consideration to be paid by the Company the aforesaid amount of HK\$33,080,357 by way of set-off, after which neither SIIC nor South Pacific shall have any claim, right or entitlement in relation to the aforesaid transfer of 5.15% shareholding in Creative Gold.

To the best of the Directors' knowledge and information, there is no expected timetable or completion date for the transfer of 5.15% shareholding in Creative Gold and the acquisition by the Hotel Company of a 15% interest in another company as referred to above. If these two transactions fail to be completed, after the Hotel Acquisition Completion the Company will remain the indirect holder of approximately 89.69% in the total issued shares of Creative Gold and will still have an attributable interest of approximately 87% of the total equity interest in the Hotel Company, and the Directors are of the view that there will be no adverse consequence to the Group.

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## LETTER FROM THE BOARD

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### **Conditions of the Hotel Acquisition Completion**

The Hotel Acquisition Completion is conditional upon the fulfillment or (where relevant) waiver of the following conditions:

- (a) approval by the Independent Shareholders of the Hotel Acquisition Agreement and the transactions contemplated thereunder at the EGM in accordance with the requirements of the Listing Rules;
- (b) completion of a legal and financial due diligence investigation by the Company in respect of the Good Cheer Group, including without limitation, its state of affairs, assets and liabilities, financial position and business operations to the satisfaction of the Company;
- (c) the Company having obtained a PRC legal opinion on such issues and matters of laws and requirements in the PRC as the Company may consider to be relevant to the Hotel Company and the properties held by it, in such form and substance satisfactory to the Company;
- (d) there having been no breach of any of the representations, warranties and undertakings by SIIC and South Pacific to the Company in any respect under the Hotel Acquisition Agreement;
- (e) the obtaining of all consents, permits, approvals, authorizations and waivers necessary or appropriate for the entering into and consummation of the transactions contemplated by the Hotel Acquisition Agreement; and
- (f) the Road Bridge Acquisition Agreement having become unconditional in all respects save as regards any condition requiring the Hotel Acquisition Agreement to become unconditional.

If the conditions have not been fulfilled or waived by the parties to the Hotel Acquisition Agreement in accordance with the terms thereof (save that the condition set out in (a) cannot be waived) on or before 31st December 2008 or such later date as the parties to the Hotel Acquisition Agreement may agree, the Hotel Acquisition Agreement shall lapse and be of no further effect and thereafter all rights, obligations and liabilities of all parties therein shall cease and terminate except for antecedent breach.

As at the Latest Practicable Date, the conditions set out in (b) and (c) above have been fulfilled.

### **Hotel Acquisition Completion**

Subject to fulfillment of the conditions of the Hotel Acquisition, the Hotel Acquisition Completion shall take place simultaneously with the Road Bridge Acquisition Completion on such date as shall be mutually agreed by the Company and South Pacific.

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## LETTER FROM THE BOARD

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### Guarantee

SIIC also entered into the Hotel Acquisition Agreement to provide representations and warranties on a joint and several basis with South Pacific to the Company in respect of the Good Cheer Group, and to guarantee the performance by South Pacific of its obligations under the Hotel Acquisition Agreement.

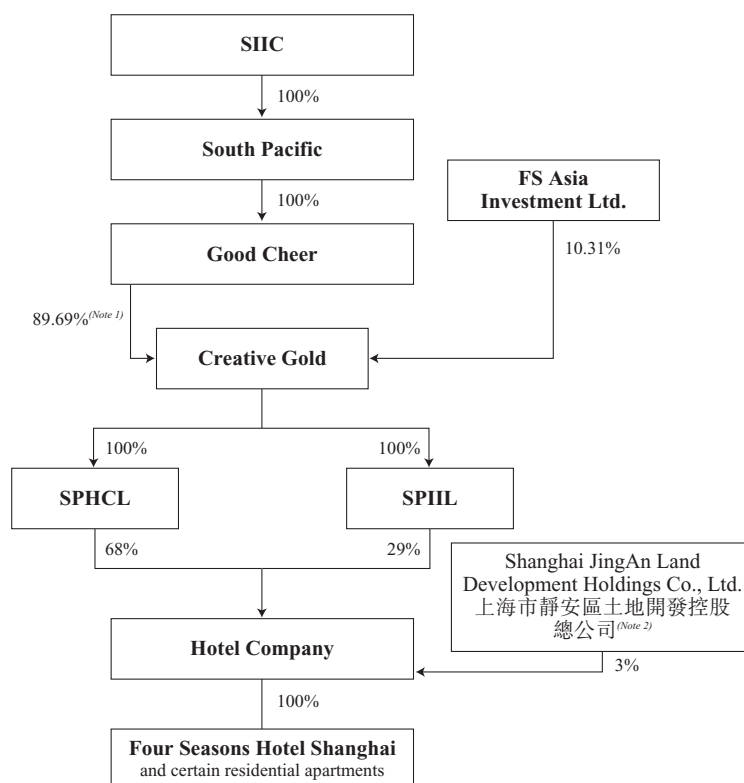
### Information on South Pacific

South Pacific is a company incorporated in Hong Kong and wholly owned by SIIC. The principal activity of South Pacific is the holding of the entire equity interest in Good Cheer.

### Shareholding Structure of Good Cheer immediately prior to and after the Hotel Acquisition Completion

The following charts set out the corporate structure of Good Cheer immediately prior to and after the Hotel Acquisition Completion:

#### *Immediately prior to the Hotel Acquisition Completion*

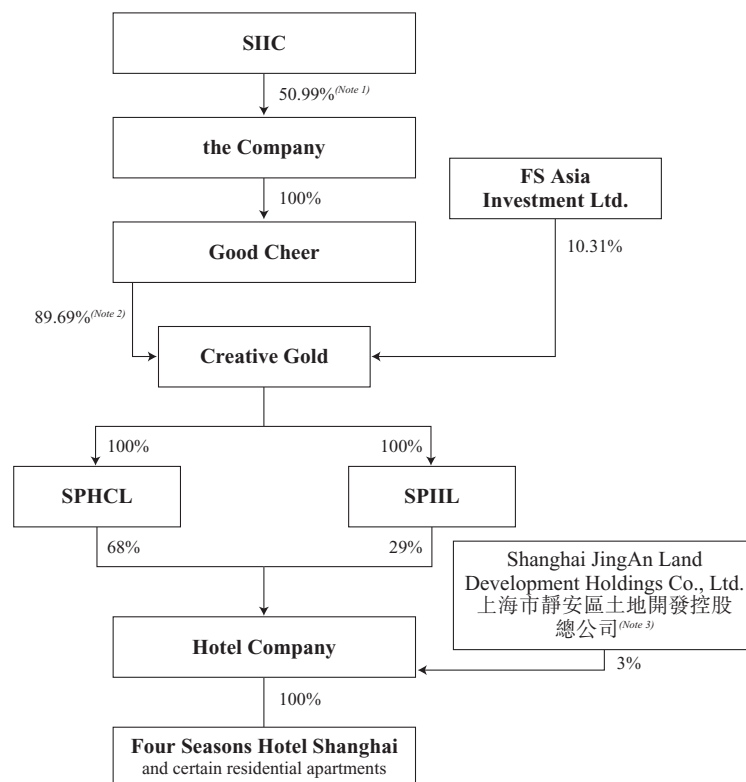


#### Notes:

1. Before the completion of the transfer of a 5.15% shareholding in Creative Gold by Good Cheer to an independent third party pursuant to a conditional agreement dated 31st May 2006.
2. To the best of the Directors' knowledge and belief, such party and its ultimate beneficial owners are independent of the Group apart from its holding of equity interest in the Hotel Company.

# LETTER FROM THE BOARD

*Immediately after the Hotel Acquisition Completion*



*Notes:*

1. Based on simultaneous completion of the Acquisitions. These shareholding interests are currently held indirectly by SIIC through its subsidiaries and it has been assumed that there will be no changes in SIIC's indirect interest in the Company.
2. Before the completion of the transfer of a 5.15% shareholding in Creative Gold by Good Cheer to an independent third party pursuant to a conditional agreement dated 31st May 2006.
3. To the best of the Directors' knowledge and belief, such party and its ultimate beneficial owners are independent of the Group apart from its holding of equity interest in the Hotel Company.

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## LETTER FROM THE BOARD

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### Information on Good Cheer and its subsidiaries

Good Cheer was incorporated in the BVI on 8th January 1999 and is wholly-owned by South Pacific. The principal activity of Good Cheer is the holding of an approximately 89.69% interest in Creative Gold.

Creative Gold is a company incorporated in the BVI on 28th October 1998. It is owned as to approximately 89.69% by Good Cheer and as to approximately 10.31% by Four Seasons Hotels Inc. through its wholly-owned subsidiary. The principal activity of Creative Gold is the holding of the entire issued share capital of SPHCL and SPIIL. SPHCL and SPIIL are companies incorporated in Hong Kong, the principal activities of which are the holding of the equity interest in the Hotel Company respectively.

The Hotel Company is a sino-foreign equity joint venture established in the PRC on 31st December 1994 with a registered share capital of US\$72,000,000 (equivalent to approximately HK\$561,600,000). The total equity interest in the Hotel Company is owned by SPHCL as to 68%, by SPIIL as to 29%, and by Shanghai JingAn Land Development Holdings Co., Ltd. as to 3%. The Hotel Company is principally engaged in the operation of hotel, hotel management consultation and property management and development. The Hotel Company owns and operates the Four Seasons Hotel Shanghai (上海四季酒店) which is situated at No. 500 Weihai Road, Jing'an District, Shanghai. The Hotel Company also owns nine residential apartments at 223 East Zhuanbang Road and at No. 3 Lane 777 Xinzha Road in Shanghai which are vacant units for own use and for sale.

The Hotel Company is owned by SIIC through its subsidiaries as to 97% of its total equity interest (the attributable interest of SIIC in the Hotel Company is approximately 87% – please refer to the structure chart before the Hotel Acquisition Completion above). The Four Seasons Hotel Shanghai was constructed by the Hotel Company with the funding from the shareholders and bank financing, and completed construction and commenced operation in March 2002. The total development cost including the land use rights, all expenditures incurred on a specific bank borrowing for the construction amounted to approximately RMB1,338,000,000.

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## LETTER FROM THE BOARD

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### Financial Information

The audited consolidated profit before taxation and minority interests, the audited consolidated profit after taxation and minority interests and the audited consolidated EBITDA of the Good Cheer Group for the two years ended 31st December 2007, which were prepared in accordance with the Hong Kong Financial Reporting Standards, were as follows:–

	<b>Year ended 31st December</b>	
	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consolidated profit before taxation and minority interests	78,063	98,179
Consolidated profit after taxation and minority interests	70,380	86,243
Consolidated EBITDA	173,263	177,907

The audited consolidated net liability value and the audited consolidated total asset value of the Good Cheer Group as at 31st December 2007 amounted to approximately HK\$18,807,000 and approximately HK\$919,146,000 respectively.

### 3. THE ROAD BRIDGE ACQUISITION

#### Date of the Road Bridge Acquisition Agreement

21st July 2008

#### Date of the Supplemental Road Bridge Acquisition Agreement

5th August 2008

#### Parties

Vendor: SIIC CM, a wholly-owned subsidiary of SIIC

Purchaser: S.I. Infrastructure

Guarantor: SIIC

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## LETTER FROM THE BOARD

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### **Asset to be acquired**

Subject to the terms and conditions of the Amended Road Bridge Acquisition Agreement, S.I. Infrastructure has conditionally agreed to:

1. acquire the Hu-Hang Sale Share; and
2. take an assignment of all the benefits and interest of and in the Hu-Hang Sale Loan

free from all lien, charges, security interests, encumbrances, adverse claims, third party rights, adverse interests and equities of any kind whatsoever.

The Hu-Hang Sale Share represents the entire issued share capital of Hu-Hang. The Hu-Hang Sale Loan comprises the entire amount owing by Hu-Hang and/or HK Holdco to SIIC CM and/or SIIC and outstanding as at the date of the Road Bridge Acquisition Completion plus such further amounts as may be necessary to fulfill the undertakings by SIIC CM and/or SIIC under the Road Bridge Acquisition Agreement, which is estimated to be in the sum of not more than HK\$4,196,311,992 as at the date upon which the Equity Transfer Contract has become effective and has been completed and the Transfer has been effected in accordance with the terms of Equity Transfer Contract.

Hu-Hang was set-up by SIIC (through SIIC CM which is its wholly-owned subsidiary) for the holding of interest in HK Holdco and does not have any direct relationship with the Hu-Hang Expressway Shanghai Section.

### **Hu-Hang Consideration**

The Hu-Hang Consideration amounts to HK\$4,196,312,000 comprising the following:

- (1) the consideration for the sale and purchase of the Hu-Hang Sale Loan which is unsecured, non-interest bearing and repayable on demand; and
- (2) the consideration for the sale and purchase of the Hu-Hang Sale Share, which shall be HK\$8.

The Hu-Hang Consideration shall be payable by cash as follows:

- (1) as to one half of the Hu-Hang Consideration (being HK\$2,098,156,000), upon the Road Bridge Acquisition Completion; and
- (2) as to the other half of the Hu-Hang Consideration, on or before the date falling six months after the date of the Road Bridge Acquisition Completion (or such other later date as SIIC CM, S.I. Infrastructure and SIIC may agree in writing).

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## LETTER FROM THE BOARD

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The Hu-Hang Consideration was determined following arm's length negotiations between SIIC and the Company by reference to the valuation of the Hu-Hang Expressway Shanghai Section as at 30th June 2008 of approximately RMB5,310,000,000 as determined by DTZ Debenham Tie Leung Limited, an independent valuer, based on the income method. The net asset value of the Project Company as adjusted after taking into account of the valuation amounts to RMB3,707,142,645 (equivalent to approximately HK\$4,216,975,000), and the Hu-Hang Consideration represents a discount of 0.5% to the adjusted net asset value.

Shareholders' attention is drawn to the fact that the income method has been used in the valuation of the Hu-Hang Expressway Shanghai Section as set out in Appendix II to this circular and is accordingly a deemed profit forecast under Rule 14.61 of the Listing Rules. The Directors consider that they have made due and careful enquiry in determining the value of the Hu-hang Expressway Shanghai Section as at 30th June 2008 as set out in Appendix II to this circular.

### **Conditions of the Road Bridge Acquisition Completion**

The Road Bridge Acquisition Completion is conditional upon the fulfillment or (where relevant) waiver of the following conditions:

- (a) approval by the Independent Shareholders of the Road Bridge Acquisition Agreement, and the transactions contemplated thereunder at the EGM in accordance with the requirements of the Listing Rules;
- (b) completion of a due diligence investigation by S.I. Infrastructure in respect of the Hu-Hang Group, including without limitation, its state of affairs, assets and liabilities, financial position and business operations to the satisfaction of S.I. Infrastructure;
- (c) S.I. Infrastructure having obtained PRC legal opinions on such issues and matters of laws and requirements in the PRC as S.I. Infrastructure may consider to be relevant to the Project Company, the Concession, the Transfer, the Road Bridge Acquisition Agreement, the Equity Transfer Contract and the transactions contemplated thereunder, in such form and substance satisfactory to S.I. Infrastructure;
- (d) there having been no breach of any of the representations, warranties and undertakings by SIIC and/or SIIC CM to S.I. Infrastructure in any respect under the Road Bridge Acquisition Agreement;
- (e) the obtaining of all consents, permits, approvals, authorizations and waivers necessary or appropriate for the entering into and consummation of the transactions contemplated by the Road Bridge Acquisition Agreement;
- (f) the Concession Contract remaining in full force and effect and not being terminated;

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## LETTER FROM THE BOARD

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- (g) the Hotel Acquisition Agreement having become unconditional in all respects save as regards any condition requiring the Road Bridge Acquisition Agreement to become unconditional; and
- (h) the Equity Transfer Contract having become effective and having been completed and the Transfer has been effected in accordance with the terms of the Equity Transfer Contract and S.I. Infrastructure having received all such documentation and proof evidencing such completion and Transfer to its satisfaction.

If the conditions have not been fulfilled or waived by the relevant parties to the Road Bridge Acquisition Agreement in accordance with the terms thereof (save that the condition set out in (a) cannot be waived) on or before 31st December 2008 or such later date as the parties to the Road Bridge Acquisition Agreement may agree (except the conditions set out in (d) and (f) which shall be fulfilled simultaneously upon the Road Bridge Acquisition Completion), the Road Bridge Acquisition Agreement shall lapse and be of no further effect and thereafter all rights, obligations and liabilities of all parties therein shall cease and terminate except for antecedent breach.

As at the Latest Practicable Date, the condition set out in (b) has been fulfilled.

### **Road Bridge Acquisition Completion**

The Road Bridge Acquisition Completion shall take place on the third Business Day after all the conditions of the Road Bridge Acquisition have been satisfied or waived (as the case may be) or such other date as may be agreed in writing between SIIC CM and S.I. Infrastructure.

### **Guarantee**

SIIC entered into the Road Bridge Acquisition Agreement also to, among other things, together with SIIC CM jointly and severally provide representations and warranties to S.I. Infrastructure in respect of the Hu-Hang Group, and to guarantee the performance by SIIC CM of its obligations under the Road Bridge Acquisition Agreement.

### **Information on SIIC CM**

SIIC CM is a company incorporated in the BVI and wholly-owned by SIIC. The principal activity of SIIC CM is, inter alia, the holding of the entire equity interest in Hu-Hang.

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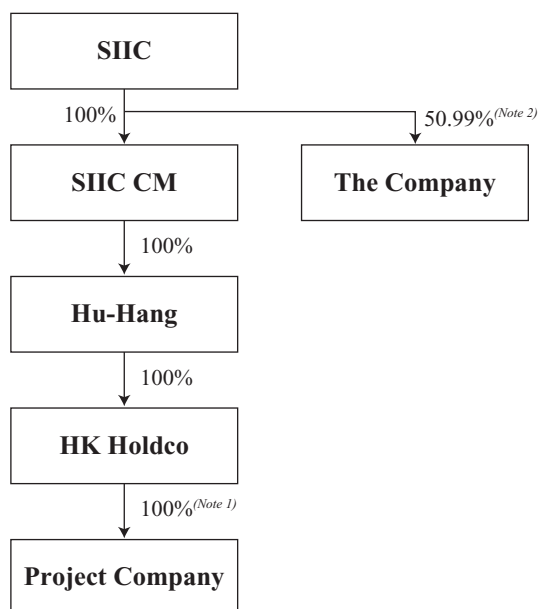
## LETTER FROM THE BOARD

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### Shareholding Structure of Hu-Hang immediately prior to and after the Road Bridge Acquisition Completion

The following charts set out the corporate structure of Hu-Hang (including SIIC's interest in the Company) immediately prior to and after the Road Bridge Acquisition Completion:

#### *Immediately prior to the Road Bridge Acquisition Completion*



#### *Notes:*

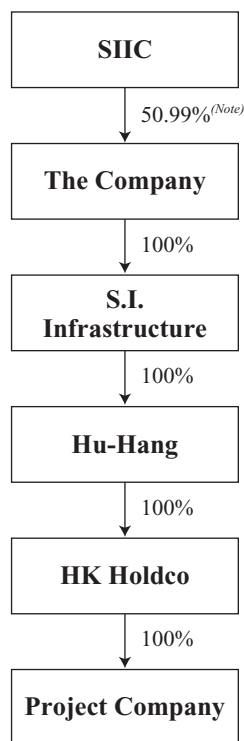
1. As at the Latest Practicable Date, the Project Company is wholly-owned by SSG. Following the Transfer, the Project Company will become wholly-owned by HK Holdco.
2. These shareholding interests are held by Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, SIIC Treasury (B.V.I.) Limited, SIIC Asset Management Company Limited, SIIC CM Development Funds Limited, SIIC Trading Company Limited, Billion More Investments Limited and SIIC CM, all being subsidiaries of SIIC.

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## LETTER FROM THE BOARD

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### *Immediately after the Road Bridge Acquisition Completion*



*Note: These shareholding interests are currently held indirectly by SIIC through its subsidiaries and it has been assumed that there will be no changes in SIIC's indirect interest in the Company.*

### **Information on Hu-Hang and the Project Company**

Hu-Hang was incorporated in the BVI on 11th April 2008 and is wholly-owned by SIIC CM. The principal activity of Hu-Hang is the holding of the entire interest in HK Holdco. According to the accounts of Hu-Hang, the original subscription costs of interests in Hu-Hang to SIIC CM were US\$1.

HK Holdco is a company incorporated in Hong Kong on 24th April 2008. It is wholly-owned by Hu-Hang. The principal activity of HK Holdco is the acquiring and holding of the entire issued share capital of the Project Company.

The Project Company is currently a 一人有限責任公司(法人獨資) (Single person limited liability company (wholly-owned by legal person)\*) established in the PRC on 31st August 1999 with a registered share capital of RMB1,600,000,000 (equivalent to approximately HK\$1,820,043,000). The entire equity interest in the Project Company is owned by SSG as at the Latest Practicable Date. The acquisition cost of the 100% equity interest in the Project Company to SSG was approximately RMB3,689,000,000 (equivalent to approximately HK\$4,196,312,000). SSG, HK Holdco and SIIC entered into the Equity Transfer Contract whereby SSG has agreed to sell, and HK Holdco has agreed to purchase, 100% of the equity interest in the Project Company at a consideration of RMB3,689,000,000 (equivalent to approximately HK\$4,196,312,000), of which RMB1,106,700,000 (equivalent to approximately HK\$1,258,894,000) is

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## LETTER FROM THE BOARD

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payable within 5 business days from the effective date of the Equity Transfer Contract, RMB1,106,700,000 (equivalent to approximately HK\$1,258,894,000) is payable within 6 months from the date on which the foreign investment enterprise business licence of the Project Company is issued and the remaining RMB1,475,600,000 (equivalent to approximately HK\$1,678,524,000) is payable within 1 year from the effective date of the Equity Transfer Contract. The Equity Transfer Contract will become effective upon all the relevant government approvals as provided therein and the relevant assets and equity transaction certificate have been obtained. As at the Latest Practicable Date, the application of approvals from the relevant PRC government authorities for the Equity Transfer Contract was in progress and the relevant assets and equity transaction certificate has been obtained. Upon the Transfer is effected and completed, the Project Company will become wholly-owned by HK Holdco and the Company. The Project Company is principally engaged in operating and maintaining, and collecting tolls from vehicles using, the Hu-Hang Expressway Shanghai Section during the Concession Period and in operating service facilities within the approved scope pursuant to and in accordance with the Concession.

### Financial Information

The audited profit before taxation, the audited profit after taxation and the audited EBITDA of the Project Company for the two years ended 31st December 2007, which were prepared in accordance with the general accepted accounting principles in the PRC, were as follows:—

	Year ended 31st December	
	2006	2007
	RMB'000	RMB'000
Profit before taxation	172,268	194,848
Profit after taxation	113,016	128,754
EBITDA	476,593	511,527

The audited net asset value and the audited total asset value of the Project Company as at 31st December 2007 amounted to approximately RMB1,052,254,000 and approximately RMB3,100,836,000 respectively.

#### 4. REASONS FOR AND BENEFITS OF THE HOTEL ACQUISITION AND THE ROAD BRIDGE ACQUISITION

The Hotel Acquisition and the Road Bridge Acquisition offer the Group an opportunity to acquire premier commercial property projects and toll road projects with strong profit potentials, thus enabling the Group in setting up its infrastructure business platform, and to further expand its toll road business and penetrate into the Shanghai real estate sector. The Acquisitions are in line with the overall business strategy of the Group with real estate, infrastructure and medicine as its core development sectors.

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## LETTER FROM THE BOARD

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Upon completion of the Acquisitions, the Group further strengthens its existing real estate and toll road investments which optimizes its profit contribution portfolio and enhances steady income growth and strong cash flow. The expansion of our core businesses will also benefit from the solid financial strength of the Company which is characterized by a low gearing ratio and a healthy and liquid position.

The Expo 2010 Shanghai also offers a golden opportunity for the Group. Shanghai as the host of the global event will be the world's attraction with visitors and participants all over the world taking part in the exposition. Hotel reservation and traffic flows are expected to be at a peak. The Group will benefit from the influx of opportunities brought by the event.

The Directors (including the independent non-executive Directors) consider that the terms of the Hotel Acquisition and the Road Bridge Acquisition are fair and reasonable and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### 5. FINANCIAL EFFECTS OF THE ACQUISITIONS

#### **Net assets value**

The Acquisitions will be paid for partly from internal resources and partly by borrowings. As no new shares will be issued upon completion of the Acquisitions, the issued share capital of the Company and SIIC's shareholding interest in the Company will not be increased as a result of the Acquisitions. Accordingly, on the Hotel Acquisition Completion and the Road Bridge Acquisition Completion, there will be no change in the net asset value of the Group and the net asset value per Share.

Based on the audited total assets and total liabilities (including minority interests) of the Group as at 31st December 2007 and the unaudited adjusted total assets and total liabilities of Good Cheer and the Project Company as at 30th June 2008 after taking into account the valuation of the Four Seasons Hotel Shanghai and certain residential properties in Shanghai owned by the Hotel Company and Hu-Hang Expressway Shanghai Section as at 30th June 2008 respectively, both the adjusted total assets and adjusted total liabilities (including minority interests) of the Group as enlarged by the Acquisitions will be increased by approximately HK\$6.7 billion respectively upon completion of the Acquisitions if 50% of the total consideration is paid by internal resources and 50% of the total consideration is paid by new borrowings.

#### **Earnings**

After completion of the Acquisitions, the Hotel Company and the Project Company will become subsidiaries of the Group, their respective financial results will be consolidated and enhance revenue, earnings and EBITDA of the Group.

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## LETTER FROM THE BOARD

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The net profit of the Group will be increased by the Company's attributable profit in the Hotel Company and the Project Company, although interest expenses on the cash consideration may lessen the enhancement effect on the net profit of the Group. There will be immaterial effects on the earnings per Share. In addition, the Group is expected to record an immaterial amount of negative goodwill upon completion of the Acquisitions. In accordance with the Group's current accounting policies, such negative goodwill shall be recognized in profit and loss account.

### 6. GENERAL

The Group is principally engaged in the business of real estate, infrastructure facilities, medicine and consumer products. Each of South Pacific and SIIC CM is a wholly-owned subsidiary of SIIC. SIIC is beneficially owned by the Shanghai State-owned Assets Supervision and Administration Commission and is a conglomerate.

The Hotel Acquisition constitutes a discloseable transaction of the Company under the Listing Rules as the consideration ratio exceeds 5% but is below 25%. As South Pacific is a wholly-owned subsidiary of SIIC, the controlling shareholder and a connected person of the Company, the Hotel Acquisition also constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements. The Road Bridge Acquisition constitutes a discloseable transaction of the Company under the Listing Rules as all applicable percentage ratios exceed 5% but are below 25%. As SIIC CM is a wholly-owned subsidiary of SIIC, the controlling shareholder and a connected person of the Company, the Road Bridge Acquisition also constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The Independent Board Committee comprising Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis has been formed to advise the Independent Shareholders on the fairness and reasonableness of the Acquisitions. Commerzbank AG Hong Kong Branch has been appointed as an independent financial adviser to provide its opinion to the Independent Board Committee and the Independent Shareholders in connection with the Acquisitions.

### 7. EGM

The EGM is to be held for the purpose of considering and approving by the Independent Shareholders the Acquisition Agreements and the transactions contemplated thereunder. Votes for the resolutions at the EGM shall be taken by way of poll. Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, SIIC Treasury (B.V.I.) Limited, SIIC Asset Management Company Limited, SIIC CM Development Funds Limited, SIIC Trading Company Limited, Billion More Investments Limited and SIIC CM which are wholly-owned subsidiaries of SIIC and together holding approximately 50.99% of the total issued share capital of the Company as at the Latest Practicable Date will be required to abstain from voting in respect of the ordinary resolutions approving the Acquisition Agreements and the transactions contemplated thereunder. Save for the above, no Shareholder has any interests in the Acquisitions.

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## LETTER FROM THE BOARD

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Set out on pages 98 to 100 of this circular is a notice convening the EGM which will be held on Monday, 8th September 2008 at which the resolutions will be proposed to approve the Acquisition Agreements and the transactions contemplated thereunder. The EGM will be held at the Conference Room of the Company, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 8th September 2008 at 3:00 p.m.. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the registered office of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

Completion and return of a form of proxy shall not preclude you from attending and voting in person at the EGM or an adjournment thereof should you so desire.

### **8. RECOMMENDATIONS**

Based on the relevant information disclosed herein, the Directors, including the independent non-executive Directors, believe that the respective terms of the Acquisition Agreements are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

As mentioned above, Commerzbank AG Hong Kong Branch has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreements and the transactions contemplated thereunder. Having considered the advice given by Commerzbank AG Hong Kong Branch and the principal factors and reasons taken into consideration by them in arriving at their advice, the Independent Board Committee is of the opinion that the respective terms of the Acquisition Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole and are on normal commercial terms. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreements and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### 9. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 26, the letter from Commerzbank AG Hong Kong Branch set out on pages 27 to 47 and the additional information contained in the following appendices to this circular:

- (i) Appendix I – Valuation Report on the Four Seasons Hotel Shanghai and Certain Residential Properties in Shanghai issued by DTZ Debenham Tie Leung Limited;
- (ii) Appendix II – Valuation Report on the Hu-Hang Expressway Shanghai Section issued by DTZ Debenham Tie Leung Limited;
- (iii) Appendix III – Traffic and O&M Forecast Studies on the Hu-Hang Expressway Shanghai Section issued by Wilbur Smith Associates Limited;
- (iv) Appendix IV – Review Report on Cash Flow Forecast underlying the Valuation of the Operation Rights of Hu-Hang Expressway Shanghai Section issued by Deloitte Touche Tohmatsu; and
- (v) Appendix V – General Information.

Yours faithfully,  
For and on behalf of the Board  
**TENG YI LONG**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

15th August 2008

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

#### **ACQUISITIONS OF THE ENTIRE ISSUED SHARE CAPITAL OF GOOD CHEER ENTERPRISES LIMITED**

**AND**

#### **THE ENTIRE ISSUED SHARE CAPITAL OF S.I. HU-HANG DEVELOPMENT LIMITED**

We refer to the circular of the Company dated 15th August 2008 (the "Circular") to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether the terms of the Acquisition Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Commerzbank AG Hong Kong Branch has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreements and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Board set out on pages 7 to 25 of the Circular, the letter from Commerzbank AG Hong Kong Branch set out on pages 27 to 47 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Acquisition Agreements and the transactions contemplated thereunder and the advice given by Commerzbank AG Hong Kong Branch, we consider that the terms of the Acquisition Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions relating to the Acquisition Agreements and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,  
Independent Board Committee

**LO Ka Shui**  
*Independent Non-Executive  
Director*

**WOO Chia-Wei**  
*Independent Non-Executive  
Director*

**LEUNG Pak To, Francis**  
*Independent Non-Executive  
Director*

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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*The following is the text of a letter of advice from Commerzbank AG Hong Kong Branch to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreements and the transactions contemplated thereunder which has been prepared for incorporation into this circular.*

15 August 2008

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

### **ACQUISITIONS OF THE ENTIRE ISSUED SHARE CAPITAL OF GOOD CHEER ENTERPRISES LIMITED AND S.I. HU-HANG DEVELOPMENT LIMITED**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreements and the transactions contemplated thereunder. Details of which, amongst other things, are set out in the circular dated 15 August 2008 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 21 July 2008, the Company, South Pacific (a wholly-owned subsidiary of SIIC) and SIIC entered into the Hotel Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire the Good Cheer Sale Share from South Pacific and to take assignments of the Good Cheer Sale Loans from SIIC and/or South Pacific at an aggregate consideration of HK\$1,350,000,000 which will be satisfied in cash upon the Hotel Acquisition Completion. Since SIIC is the controlling Shareholder and South Pacific is a wholly-owned subsidiary of SIIC, the Hotel Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Hotel Acquisition are more than 5% but less than 25% and the Good Cheer Consideration is greater than HK\$10 million, the Hotel Acquisition constitutes a discloseable transaction and a non-exempted connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

On 21 July 2008, S.I Infrastructure (a wholly-owned subsidiary of the Company), SIIC CM (a wholly-owned subsidiary of SIIC) and SIIC entered into the Road Bridge Acquisition Agreement, pursuant to which S.I Infrastructure conditionally agreed to acquire the Hu-Hang Sale Share from SIIC CM and to take an assignment of the Hu-Hang Sale Loan from SIIC CM at an aggregate consideration of HK\$4,196,312,000 which will be satisfied as to HK\$1,250,000,000 in cash and as to HK\$2,946,312,000 by the issue and allotment of the 121,950,000 new Shares at the issue price of HK\$24.16 per Share. Since SIIC is the

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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controlling Shareholder and SIIC CM is a wholly-owned subsidiary of SIIC, the controlling Shareholder, SIIC CM is a connected person of the Company under the Listing Rules and the Road Bridge Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Road Bridge Acquisition are more than 5% but less than 25% and the Hu-Hang Consideration is greater than HK\$10 million, the Road Bridge Acquisition constitutes a discloseable transaction and a non-exempted connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 5 August 2008, the Company, South Pacific and SIIC entered into the Supplemental Hotel Acquisition Agreement, pursuant to which the payment schedule of the Good Cheer Consideration is revised such that HK\$675,000,000 (being half of the Good Cheer Consideration) shall be paid by the Company to South Pacific in cash upon the Hotel Acquisition Completion and the remaining HK\$675,000,000 shall be payable by the Company to South Pacific in cash on or before the date falling six months after the date of the Hotel Acquisition Completion (or such other later date as the Company, South Pacific and SIIC may agree in writing).

On 5 August 2008, S.I. Infrastructure, SIIC CM and SIIC entered into the Supplemental Road Bridge Acquisition Agreement, pursuant to which the manner and the payment schedule of the Hu-Hang Consideration is revised such that the entire amount of the Hu-Hang Consideration shall be payable in cash, half of which (being HK\$2,098,156,000) shall be paid upon the Road Bridge Acquisition Completion and the remaining HK\$2,098,156,000 shall be paid in cash on or before the date falling six months after the date of the Road Bridge Acquisition Completion (or such other later date as S.I. Infrastructure, SIIC CM and SIIC may agree in writing).

The Hotel Acquisition and the Road Bridge Acquisition are inter-conditional and the Hotel Acquisition Completion shall take place simultaneously with the Road Bridge Acquisition Completion. SIIC and its associates are required to abstain from voting in the ordinary resolutions in connection with the Acquisition Agreements and the transactions contemplated thereunder.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis, has been formed to advise the Independent Shareholders in respect of the terms of the Acquisition Agreements and the transactions contemplated thereunder. We, Commerzbank AG Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition Agreements and the transactions contemplated thereunder as to whether (i) the terms of the Acquisition Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) the entering into of the Acquisition Agreements is in the ordinary and usual course of business of the Company and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things, (i) the Circular; (ii) the Acquisition Agreements; (iii) the respective valuation reports in respect of (a) the Four Seasons Hotel Shanghai and the nine residential properties in Shanghai and (b) the Hu-Hang Expressway Shanghai Section as prepared by DTZ Debenham Tie Leung Limited (“DTZ”), an independent valuer, as set out in Appendices I and II to the Circular; (iv) the Traffic and O&M Forecast Studies (the “Traffic Report”) of the Hu-Hang Expressway Shanghai Section as prepared by Wilbur Smith Associates Limited (“Wilbur Smith”), an independent traffic consultant, a summary of which is set out in Appendix III to the Circular; (v) the annual reports of the Company covering the three years ended 31 December 2007 (“FY2005”, “FY2006” and “FY2007”, and the “2006 Annual Report” and the “2007 Annual Report”), respectively; (vi) the audited consolidated financial statements of Good Cheer and the audited financial statements of the Project Company for FY2007; and (vii) the unaudited consolidated management accounts of Good Cheer and the unaudited management accounts of the Project Company for the six months ended 30 June 2007 (“1H07”) and 2008 (“1H08”), respectively. We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Directors that having made all reasonable enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular. We have further assumed that all material governmental, regulatory or other consents, waivers, authorizations, clearances and approvals necessary for the effectiveness and implementation of the Acquisitions will be obtained without any adverse effect on the Group or the contemplated benefits of the Group as derived from the Acquisitions.

We consider that we have (i) taken reasonable steps as required under Rule 13.80 of the Listing Rules in obtaining all necessary information from the Company; and (ii) reviewed sufficient information to enable us to reach an informed view and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company and their respective associates.

# LETTER FROM COMMERZBANK AG HONG KONG BRANCH

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders in relation to the Acquisitions, we have taken into account the following principal factors:

### 1. Reasons for and benefits of the Acquisitions

#### (i) Business and corporate strategy of the Group

The Company, which has been listed on the Main Board of the Stock Exchange since May 1996, is the largest investment flagship of SIIC (which is ultimately controlled by the Shanghai Municipal Government) in Hong Kong. Currently, the business activities of the Group comprise real estate investment, infrastructure facilities (including toll roads and water services), medicine (including Chinese medicine and health food, biomedicine and medical equipment) and consumer products (including the manufacture and sale of cigarettes, manufacture and sale of dairy products and printing of packaging materials). Set out below is the summary of the Group's financial information for the three years ended 31 December 2007:

	<b>FY2005</b> <i>HK\$'000</i> <i>(Audited)</i>	<b>%</b>	<b>FY2006</b> <i>HK\$'000</i> <i>(Audited)</i>	<b>%</b>	<b>FY2007</b> <i>HK\$'000</i> <i>(Audited)</i>	<b>%</b>
<b>Turnover</b>						
– Infrastructure facilities	181,578	3.01	276,419	4.04	338,171	4.25
– Medicine	3,567,264	59.21	3,729,130	54.43	4,322,141	54.34
– Consumer products	2,276,443	37.78	2,845,474	41.53	3,293,486	41.41
<b>Total</b>	<b>6,025,285</b>	<b>100.00</b>	<b>6,851,023</b>	<b>100.00</b>	<b>7,953,798</b>	<b>100.00</b>
 Rental income from property, plant and equipment	 3,343		 6,229		 9,223	
 <b>Profit contribution from each business segment</b>						
– Infrastructure facilities	185,769	19.88	614,694	45.15	354,640	22.34
– Medicine	235,625	25.21	162,605 <i>Note 1</i>	11.94	174,505	10.99
– Consumer products	467,764	50.06	594,502 <i>Note 1</i>	43.67	966,150	60.85
– Information technology	45,336	4.85	(10,417)	(0.76)	88,141	5.55
– Real estate	–	–	–	–	4,375	0.27
<b>Total</b>	<b>934,494</b>	<b>100.00</b>	<b>1,361,384</b>	<b>100.00</b>	<b>1,587,811</b>	<b>100.00</b>

*Source:* The 2006 Annual Report and the 2007 Annual Report

*Note 1:* The figures excluded the losses resulted from the share reforms of Shanghai Industrial Pharmaceutical Investment Co., Ltd. and Bright Dairy and Food Co., Ltd.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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The infrastructure facilities business has been the core business of the Group in the past years. For each of the three years ended 31 December 2007, the infrastructure facilities business segment has been a main revenue and profit contributor to the Group with its percentage to total revenue having been increased from approximately 3.01% in FY2005 to approximately 4.25% in FY2007 and with its percentage to the Group's net business profit having been increased from approximately 19.88% in FY2005 to approximately 22.34% in FY2007. It has become the second largest profit contributor for the Group in FY2007. Profit contribution from infrastructure facilities business for each of the three years ended 31 December 2007 has been higher than the revenue due to the dividend income, one-off gain on disposal, government compensation and share of results of jointly controlled entities in the respective years. In regard to the real estate business of the Group, the rental income from property, plant and equipment also increased from approximately HK\$3.34 million for FY2005 to approximately HK\$9.22 million for FY2007, an increase of approximately 1.76 times. The carrying value of investment properties of the Group as at 31 December 2007 was approximately HK\$540.27 million, representing an increase of approximately 5.7 times from a year ago. In addition, the real estate business has become the core business of the Group in FY2007 after acquiring the controlling stakes in Shanghai Urban Development (Holdings) Co., Ltd. in December 2007, which has major residential and commercial property development projects in Shanghai, Kunshan, Changsha and Hefei, PRC.

Based on the above, we concur with the Directors' view that the Acquisitions are in line with the overall business strategy of the Group with real estate and infrastructure facilities as two of its core development sectors.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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### (ii) *Information on Good Cheer Group*

Good Cheer was incorporated in the BVI on 8 January 1999 and is a wholly-owned subsidiary of South Pacific. Good Cheer owns 89.69% equity interest in Creative Gold, which through its wholly-owned subsidiaries (i.e. SPHCL and SPIIL), owns 97% equity interest in the Hotel Company. Accordingly, the attributable interest of SIIC in the Hotel Company is approximately 87%. The Hotel Company (i) owns and operates the Four Seasons Hotel Shanghai, which is situated at 500 Weihai Road, Jing'an District, Shanghai; and (ii) owns nine residential apartments at 223 East Zhuanbang Road, Changning District and No.3, Lane 777 Xinzha Road, Jing'an District, Shanghai, which are currently vacant units for own use and for sale. Set out below is the financial information of Good Cheer Group for the two years ended 31 December 2007 and 1H08:

	<b>FY2006</b>	<b>FY2007</b>	<b>1H08</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
Consolidated profit after taxation and minority interests (a)	70,380	86,243	47,656
Consolidated EBITDA	173,263	177,907	89,583
Consolidated net cash inflow from operating activities	107,909	140,240	N/A *
	<b>As at 31 December 2006</b>	<b>As at 31 December 2007</b>	<b>As at 30 June 2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
Consolidated total assets (b)	908,310	919,146	951,745
Return on total assets (a)/(b) × 100%	7.7%	9.4%	10.0%**

\* *No cashflow statement has been prepared based on the management account of Good Cheer Group*

\*\* *The return on total assets 1H08 is calculated on an annualized basis*

The Hotel Company has been consistently generating profit for the two years ended 31 December 2007 and 1H08 and its return on total assets increased from approximately 7.7% in FY2006 to approximately 9.4% in FY2007 and approximately 10.0% in 1H08. The net cash inflow from operating activities also increased from approximately HK\$107.9 million in FY2006 to approximately HK\$140.2 million in FY2007, an increase of approximately 29.9%. As such, we are of the view that the Hotel Acquisition will not only enhance the Group's profitability but also provide strong and growing cash flow to the Group.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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### *Prospects of the Hotel Company*

#### (a) Shanghai World Expo 2010

As stated in the section headed “Letter from the Board” of the Circular, the Shanghai World Expo 2010, being a global event, will offer a golden opportunity for Shanghai to attract visitors and participants all over the world and hotel reservation and traffic flows are expected to reach a new high. According to the official website of Shanghai World Expo, this world major event is scheduled from 1 May to 31 October 2010 and is expected to attract 70 million visitors from all over the world. As at the Latest Practicable Date, 174 countries and 37 international organizations have confirmed to participate in the exposition. The site of Shanghai World Expo 2010 is located at an area between Nanpu Bridge and Lupu Bridge along both sides of Huangpu River. The planning area covers 5.28 square kilometers in which 3.93 square kilometers are in Pudong section while 1.35 square kilometers are in Puxi section, where the Four Seasons Hotel Shanghai is located. According to the news release from the Ministry of Foreign Affairs of PRC in December 2002, the total investment for the site of the Shanghai World Expo 2010 is estimated to be at least US\$3 billion (equivalent to approximately HK\$23.4 billion). It is expected that the exposition will accelerate Shanghai to become an internationalized and modernized metropolis and promote the economic growth and development of various industries in PRC.

#### (b) Tourism industry in Shanghai

Set out below is a summary of certain statistics relating to the revenue generated from tourism industry in Shanghai and the number of foreign visitors to Shanghai from 2003 to 2007:

	2003	2004	2005	2006	2007
Revenue generated from tourism industry in Shanghai (US\$ million) (equivalent to approximately HK\$ million)	2,053 (HK\$16,013)	3,041 (HK\$23,720)	3,556 (HK\$27,737)	3,904 (HK\$30,451)	4,737* (HK\$36,949)

Source: National Bureau of Statistics of PRC

\* Data in 2007 from Shanghai Municipal Statistics Bureau

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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	2003	2004	2005	2006	2007
Number of foreign visitors (including people from Hong Kong and Taiwan) to Shanghai	3,198,700	4,919,200	5,713,500	6,056,700	6,655,900
Average number of foreign visitors (including people from Hong Kong and Taiwan) staying in Shanghai per day	8,764	13,440	15,654	16,594	18,235
Average number of days each foreign visitor (including people from Hong Kong and Taiwan) stay in Shanghai	3.61	3.50	3.50	3.60	3.69

*Source:* Shanghai Municipal Statistics Bureau

As shown in the above tables, the number of foreign visitors to Shanghai increased significantly from approximately 3.2 million in 2003 to approximately 6.6 million in 2007, representing an increase of approximately 1.06 times, whilst the average number of days each foreign visitor stays maintained above 3.6 days in the past two years. Corresponding with such increases, the revenue generated from tourism industry also substantially increased from approximately US\$2,053 million in 2003 to approximately US\$4,737 million in 2007, representing an increase of approximately 1.31 times.

Four Seasons Hotel Shanghai, a five-star luxury hotel, is the only hotel managed and operated by Four Seasons Hotels Inc., the world's leading hotel operator and renowned for its management and operations of fine and luxury hotels, in Shanghai. Four Seasons Hotels Inc. currently manages and operates 78 hotels under the "Four Seasons" brandname located in 32 countries. As advised by the management of the Company, the Hotel Company is one of the only few Four Seasons hotels which Four Seasons Hotels Inc. has equity interest. The management of the Company considered that the success and expertise of Four Seasons Hotels Inc. in providing luxurious hotel services is a key competitive edge of Four Seasons Hotel Shanghai and distinguished Four Seasons Hotel Shanghai from other hotels in Shanghai.

Given the above, we are of the view that the Four Seasons Hotel Shanghai will benefit from the continuously growing tourism (both for business and pleasure) in Shanghai and the Hotel Acquisition is in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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(c) The property market in Shanghai

The Four Seasons Hotel Shanghai and six of the nine residential apartments owned by the Hotel Company, are located in Jing'an District, which is a major shopping and commercial area of Shanghai. According to The People's Government of Shanghai Jing'an District, Jing'an District has an area of approximately 7.62 square kilometers with a population of approximately 3.10 million. The gross domestic product ("GDP") of Jing'an District was approximately RMB11.24 billion (equivalent to approximately HK\$12.79 billion) in 2007, representing an annual growth rate of approximately 12.02% from 2006. The other 3 residential apartments owned by the Hotel Company are located in Changning District, an area of approximately 37.2 square kilometers at the west of the central business district of Shanghai. The GDP of Changning District was approximately RMB23.10 billion (equivalent to approximately HK\$26.28 billion) in 2007, representing an annual growth rate of approximately 12.5% from 2006.

Set out below is a summary of certain statistics relating to property transactions in Shanghai from 2004 to 2007.

	2004	2005	2006	2007
<i>Sale (RMB' million)</i>				
<b>Shanghai</b>	226,384	216,130	217,708	308,935
Changning	6,995	7,458	6,289	5,988
Jing'an	8,365	7,622	3,141	4,053
<i>Area sold ('000 square meters)</i>				
<b>Shanghai</b>	34,888	31,589	30,254	36,950
Changning	538	896	478	542
Jing'an	719	1,033	273	373
<i>Average selling price (RMB per square metre)</i>				
<b>Shanghai</b>	6,489	6,842	7,196	8,361
Changning	13,002	8,324	13,157	11,048
Jing'an	11,634	7,379	11,505	10,866

*Source:* Shanghai Municipal Statistics Bureau

The overall property sales in Shanghai increased from approximately RMB226.38 billion (equivalent to approximately HK\$257.51 billion) in 2004 to approximately RMB308.9 billion (equivalent to approximately HK\$351.38 billion), representing a compound annual growth rate ("CAGR") of approximately 10.92%. The average selling price of real estate transactions in Shanghai increased from approximately RMB6,489 (equivalent to approximately HK\$7,381.41) per square meter in 2004 to approximately RMB8,361 (equivalent to approximately HK\$9,510.86) per square meter in 2007, representing a CAGR of approximately 8.82%. The average selling

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prices of real estate transactions in both Changning District and Jing'an District are higher than the average selling prices of Shanghai from 2004 to 2007, indicating that these two districts are premier locations in Shanghai.

**(iii) Information on the Project Company and the Hu-Hang Expressway Shanghai Section**

The Project Company was established in PRC on 31 August 1999 with a registered capital of RMB1.6 billion (equivalent to approximately HK\$1.8 billion). The Project Company is principally engaged in operating and maintaining, and collecting tolls from vehicles using the Hu-Hang Expressway Shanghai Section during the Concession Period and to operate service facilities within the approved scope pursuant to and in accordance with the Concession. The Hu-Hang Expressway Shanghai Section is part of the Hu-Hang Expressway commencing from Xinzhuang Town of Minhang District, passing through Minhang District, Songjiang District, Jinshan District, and ending at Fengjing Town of Jinshan District, Shanghai. The construction of the section from Xinzhuang Town to Songjiang District started at 1985, and was opened to traffic in 1990. This section has two lanes in each direction. The construction of another section from Songjiang District to Fengjing Town commenced in 1996 and was completed in 1998. In 2004, this section had been widened to 3 lanes in each direction. The total length of the Hu-Hang Expressway Shanghai Section is about 47.7 kilometers.

Set out below is the financial information of the Project Company for the two years ended 31 December 2007, 1H07 and 1H08:

	<b>FY2006</b>	<b>FY2007</b>	<b>1H07</b>	<b>1H08</b>	<b>1H08</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 2)</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Indicative)</i>
Profit before taxation	172,268	194,848	81,187	104,158	207,462
Profit after taxation (a)	113,016	128,754	56,977	83,813	161,291
EBITDA	476,593	511,527	235,034	262,550	262,550
Net operating cash inflow from operating activities	210,688	475,882	N/A*	N/A*	

*Note 1:* Based on the unaudited management accounts of the Project Company

*Note 2:* These are indicative results based on the assumption of the restructuring of the Project Company, details of which are set out under the subsection headed "Restructuring of the Project Company" in this letter

\* *No cashflow statement has been prepared based on the unaudited management accounts of the Project Company*

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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	As at 31 December		As at 30 June		As at 30
	2006	2007	2007	2008	June
			(Note 1)	(Note 1)	(Note 2)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Indicative)
Total asset value	3,187,133	3,100,836	3,238,458	3,911,912	
Total asset value (excluding cash and bank balances) (b)	3,169,997	2,996,202	3,084,604	2,919,825	2,919,825
Return on total assets (a)/(b) x 100%	3.6%	4.3%	3.7%	5.8%**	11.1%**

*Note 1:* Based on the unaudited management accounts of the Project Company

*Note 2:* These are indicative results based on the assumption of the restructuring of the Project Company, details of which are set out under the subsection headed “Restructuring of the Project Company” in this letter

**\*\***     *The return on total assets for 1H07 and 1H08 are calculated on an annualized basis*

The Project Company has been consistently generating profit and the return on total assets increased from approximately 3.6% in FY2006 to approximately 4.3% in FY2007 and approximately 5.8% in 1H08 based on the unaudited management accounts of the Project Company for 1H08 or approximately 11.1% based on the indicative results assuming the restructuring of the Project Company (as stated in the subsection headed “Restructuring of the Project Company” in this letter) is implemented. The net cash inflow from operating activities increased from approximately RMB210.7 million in FY2006 to approximately RMB475.9 million in FY2007, an increase of approximately 1.3 times. The profit before taxation for 1H08 was increased by approximately 47.1% as compared to that for 1H07 mainly due to the increase in average daily traffic by approximately 7.71% in 1H08 from 1H07, increase in ancillary services income and decrease in interest expenses. Having considered the above, we are of the view that the Road Bridge Acquisition will not only strengthen the infrastructure facilities business of the Group in Shanghai but also enhance the Group’s profitability and provide strong cash flow to the Group.

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Set out below are the historical traffic volume and the toll revenue of the Hu-Hang Expressway Shanghai Section for the three years ended 31 December 2007, 1H07, the six months ended 31 December 2007 (“2H07”) and 1H08:

	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>1H07</b>	<b>2H07</b>	<b>1H08</b>
Average daily traffic at exit gate (in vehicle)	61,870	68,315	78,633	74,427	82,816	80,168
Growth rate (%)		10.42%	15.10%			7.71%*
Toll revenue (RMB million)	488.3	541.6	604.6	288.5	316.1	292.8
Growth rate (%)		10.92%	11.63%			1.49%*

\* The growth rates for 1H08 are calculated with reference to the figures for 1H07

The average daily traffic volume of the Hu-Hang Expressway Shanghai Section has been increased from 61,870 vehicles in 2005 to 78,633 vehicles in 2007. The toll revenue increased significantly from approximately RMB488.3 million in 2005 to approximately RMB604.6 million in 2007, representing an increase of approximately 23.8%. The daily average traffic volume for 1H08 was 80,168 vehicles, representing an increase of approximately 7.71% from 1H07. We noted from the historical traffic volume figures in 2007 that there is a seasonal factor with relatively smaller traffic volume in 1H07 than 2H07 and concur with the view of the management of the Company that the whole year figure of traffic volume for 2008 is expected to be better than the annualized figure based on the actual traffic volume for 1H08.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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### *Prospects of the Project Company*

#### (a) Economic overview of Shanghai

Shanghai is one of the key cities in PRC. According to the Shanghai Municipal Statistics Bureau, the GDP of Shanghai in 2006 and 2007 was approximately RMB1,036.64 billion (equivalent to approximately HK\$1,179 billion) and RMB1,218.89 billion (equivalent to approximately HK\$1,387 billion), respectively. Set out below is the comparison between the national historical economic growth of PRC and the historical economic growth of Shanghai:

Year	GDP growth rate of PRC (%)	GDP growth rate of Shanghai (%)
2003	12.9	15.6
2004	17.7	19.2
2005	15.0	22.9
2006	14.7	13.2
2007	16.9 (Note 1)	17.6 (Note 2)

Source: National Bureau of Statistics of PRC

Note 1: Based on the China Industry Annual Report published in China Economic Information Network ([www.cei.gov.cn](http://www.cei.gov.cn)).

Note 2: Based on data extracted from Shanghai Municipal Statistics Bureau ([www.stats-sh.gov.cn](http://www.stats-sh.gov.cn))

We note from the above table that the GDP growth rate of Shanghai is higher than that of PRC from year 2003 to 2007 (save for 2006). According to the National Bureau of Statistics of PRC, the GDP per capita in Shanghai amounts to approximately RMB57,115 (equivalent to approximately HK\$64,970) in 2006 and is ranked as the highest in PRC in 2006. The strong economic growth of Shanghai is expected to have positive impact on the transportation network in Shanghai.

#### (b) Restructuring of the Project Company

We understand from the management of the Company that the current amortization policy of the Project Company will have the toll road operating right fully amortized long before the end of the Concession Period. Following the Road Bridge Acquisition Completion, the toll road operating right of the Hu-Hang Expressway Shanghai Section will be amortized over the Concession Period and in accordance with the traffic flow, which would give a more fair view of the toll road operating results through the years of operation under the Concession Period. Accordingly, the amortization expense is expected to be significantly decreased by approximately RMB91.9 million for the year ending 31 December 2008.

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In addition, we noted that the registered capital of the Project Company increased from RMB800 million to RMB1,600 million in May 2008. As at 30 June 2008, the Project Company had cash balance of approximately RMB992 million and a total debt of approximately RMB1.91 billion. We understand from the management of the Company that the Group intends to finance approximately RMB1.0 billion (equivalent to approximately HK\$1.14 billion) to the Project Company as shareholders' loan for the Project Company's repayment of its bank borrowings and will charge the Project Company an interest rate at the average borrowing rate of the Group in Hong Kong. Assuming the cash balance (including the shareholders' loan of RMB1.0 billion) of approximately RMB1.99 billion were fully applied to repay all of the bank borrowings of the Project Company, it is expected that the net interest expenses of the Project Company would be reduced significantly by approximately RMB108.1 million in 2008.

In accordance with the new Enterprise Income Tax Law of PRC, the Project Company's profit tax rate will be reduced from 33% to 25% commencing from FY2008. Based on the actual profit of the Project Company for FY2007, the reduction of enterprise income tax rate would have increased the profit after tax by approximately RMB17.4 million.

Based on the above positive factors without taking into account the improvement in management efficiency and the organic income growth of the Project Company, the net profit after tax of the Project Company would be increased by approximately RMB163 million for the year ending 31 December 2008 and in the subsequent years.

In addition, as represented by the management of the Company, following the Road Bridge Acquisition Completion, the Group will have interest in approximately 40% of the toll roads and bridges in Shanghai in terms of toll revenue. The Group currently owns 100% interest in the Shanghai-Nanjing Expressway Shanghai Section and 30% interest in the Yongjin Expressway Jinhua Section. The Hu-Ning Expressway Shanghai Section is directly managed and supervised by the Group. Upon the Road Bridge Acquisition Completion, the Hu-Hang Expressway Shanghai Section will become the second expressway of the Group in Shanghai and the Group's expertise in managing expressway is expected to improve the operating efficiency of the expressway, including the financial management of the Project Company, and thus its profitability.

The management of the Company also expects that the favourable economic outlook in Shanghai will have positive impact on its transportation network, thereby increasing the traffic flow in the Hu-Hang Expressway Shanghai Section. In addition, the Hangzhou Bay Bridge, a six-lane with cable-stayed bridge portion across Hangzhou Bay connecting Shanghai and Ningbo in Zhejiang Province has commenced operations in May 2008 and the management of the Company expects that such new toll road will induce more traffic flow in the Hu-Hang Expressway Shanghai Section.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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### 2. The Good Cheer Consideration and the Hu-Hang Consideration

#### (i) *Good Cheer Consideration*

As disclosed in the section headed “Letter from the Board” of the Circular, the Good Cheer Consideration of HK\$1,350,000,000 was determined after arm’s length negotiation between SIIC and the Company with reference to the consolidated net asset value of Good Cheer as at 30 June 2008 after taking into account the valuation of Four Seasons Hotel Shanghai and the nine residential properties in Shanghai owned by the Hotel Company as at 30 June 2008 (the valuation certificates of which are set out in Appendix I to the Circular) (the “Property Valuation”) and the amount of Good Cheer Sale Loans of approximately HK\$448,136,025 as at 30 June 2008. As the Good Cheer Consideration represents a discount of approximately 4.8% to the sum of adjusted consolidated net asset value and Good Cheer Sale Loans as at 30 June 2008, we are of the view that the Good Cheer Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

#### *The Property Valuation*

In assessing the fairness and reasonableness of the Property Valuation, we have reviewed and discussed with DTZ regarding the methodology of, and bases and assumptions adopted for, the valuation of Four Seasons Hotel Shanghai (“Property I”) and nine residential properties in Shanghai (“Properties II”) as contained in the independent valuation report. DTZ valued each of Property I and Properties II on a direct comparison approach in which reference to relevant sales comparables in the market has been made. The sales comparables obtained by DTZ in the market, in the opinion of DTZ, are comparables to the five-star hotel, high-end service apartments and residential units in terms of timing of transactions and location and usage of the underlying premises (as adjusted by other relevant factors subject to DTZ’s discretion). As advised by DTZ, the above-mentioned approach is a commonly adopted approach for valuation of hotel and residential properties and is in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors. Given the above, we are of the opinion that the valuation methodology adopted by DTZ is in line with the normal market practice and is fair and reasonable.

#### (ii) *The Hu-Hang Consideration*

The Hu-Hang Consideration amounts to HK\$4,196,312,000 of which (i) HK\$8 shall be paid as consideration for the Hu-Hang Sale Share; and (ii) the remaining balance as consideration for the Hu-Hang Sale Loan. As disclosed in the section headed “Letter from the Board” of the Circular, the Hu-Hang Consideration was determined after arm’s length negotiation between SIIC and the Company with reference to the valuation of the Hu-Hang Expressway Shanghai

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Section of approximately RMB5,310,000,000 as at 30 June 2008 (the “Expressway Valuation”) based on the valuation report prepared by DTZ, a valuation certificate of which is set out in Appendix II to the Circular.

With reference to the net asset value of the Project Company as at 30 June 2008 and after taking into account the Expressway Valuation as at 30 June 2008, the adjusted net asset value of the Project Company amounted to approximately RMB3,707,142,645. Given the Hu-Hang Consideration represents a discount of approximately 0.5% to the adjusted net asset value of the Project Company, we are of the view that the Hu-Hang Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### *Expressway Valuation*

In assessing the fairness and reasonableness of the Expressway Valuation, we have reviewed the methodology, bases, inputs and assumptions employed in the Traffic Report prepared by Wilbur Smith and the valuation report in respect of the Expressway Valuation prepared by DTZ and discussed with each of Wilbur Smith and DTZ.

#### (a) Methodologies

There are three internationally recognized valuation methodologies, namely, the market approach, the cost approach and the income approach. In determining the Expressway Valuation as at 30 June 2008, DTZ has adopted the discount cash flow method (the “DCF Method”) as under the class of income approach. Such method determines the value of a project through calculating the present value of net cash flows expected to be derived from the project based on a series of forecast of revenue and costs over the period from the date of valuation report (i.e. 30 June 2008) to the end of the Concession Period (i.e. 31 August 2030).

We concur with DTZ that the DCF Method (i.e. the income approach) is appropriate to evaluate the market value of the Hu-Hang Expressway Shanghai Section since (i) the DCF Method can accommodate the changes in the Group’s future profit entitlements from Hu-Hang Expressway Shanghai Section; and (ii) although the cost of infrastructure projects at different locations may be similar, the economic benefits that can be derived from such projects can vary significantly due to a number of local economic factors, such as growth of gross domestic product and traffic flow. As confirmed by DTZ, the Expressway Valuation is prepared under the international valuation standards issued by the International Valuation Standard Committee, which we consider appropriate.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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- (b) Traffic flow of the Hu-Hang Expressway Shanghai Section from years 2008 to 2030

For the purpose of preparing the Expressway Valuation, Wilbur Smith was commissioned to conduct the Traffic Report, a summary of which is set out in Appendix III to the Circular, on (i) forecasting the traffic volume and toll revenue from 2008 to 2030; and (ii) estimating the future operating and maintenance costs. We have reviewed the scope of work performed by Wilbur Smith and consider the scope of work is appropriate to the opinion required to be given and there are no limitations to the scope of work which might adversely impact the degree of assurance given by the Traffic Report.

Based on the Traffic Report with respect to traffic forecasting methodology, competition, bases and assumptions underlying the traffic flow, revenue forecasts and operation and maintenance expenses forecasts and discussing with Wilbur Smith, we were given to understand that the projection of future traffic demand is based on a number of factors, including (i) the historical traffic flow and existing traffic pattern of the Hu-Hang Expressway Shanghai Section based on routine investigation and traffic survey; (ii) existing and future highway network for Shanghai; (iii) macroeconomic indicators and growth in traffic demand; and (iv) projected operating and maintenance costs of the Hu-Hang Expressway Shanghai Section. The Traffic Report also examines the GDP growth rates in Shanghai and major cities in Zhejiang Province to estimate the future traffic growth rates of the Hu-Hang Expressway Shanghai Section. Wilbur Smith has also considered the government road network planning data to analyze the diversion impact from any future competitive expressways near or along the same corridor. Based on the projected traffic flow, Wilbur Smith further projected the toll revenue with reference to existing toll rates of different class of vehicles of the Hu-Hang Expressway Shanghai Section, the economic growth and related variance of the areas along the Hu-Hang Expressway Shanghai Section. We consider that Wilbur Smith has taken into account of major reasonable factors and assumptions in determining the cash flow of the Hu-Hang Expressway Shanghai Section from year 2008 to 2030. As confirmed by Wilbur Smith, the Traffic Report is prepared under the conventional forecasting procedures which are internationally recognized and similar procedures have been used previously for the toll road traffic forecast studies in PRC, which we consider appropriate.

(c) Bases and assumptions of the Expressway Valuation

We noted that DTZ, in performing the Expressway Valuation, has relied on the projection of traffic flow, toll revenues, operating costs and maintenance expenses for the period from year 2008 to 2030 as stated in the Traffic Report in determining the projected cash-flow of the Hu-Hang Expressway Shanghai Section. DTZ has also taken into account major relevant and significant factors affecting the operations of the Hu-Hang Expressway Shanghai Section including the nature and pattern of historical operating and maintenance expenditure, the amortization schedules of fixed assets, and other expenses as reflected in the audited financial statements of the Project Company prepared under the PRC Generally Accepted Accounting Principles for the 2 years ended 31 December 2007.

Given the above, we are of the view that the bases and assumptions in respect of the Expressway Valuation are fair and reasonable.

**3. The Supplemental Hotel Acquisition Agreement and the Supplemental Road Bridge Acquisition Agreement**

According to the Supplemental Hotel Acquisition Agreement dated 5 August 2008, the payment schedule of the Good Cheer Consideration is revised such that only half of the Good Cheer Consideration of HK\$675,000,000 shall be payable upon the Hotel Acquisition Completion (as opposed to all of the Good Cheer Consideration pursuant to the Hotel Acquisition Agreement) and the remaining Good Cheer Consideration of HK\$675,000,000 shall be payable on or before the date falling six months after the date of the Hotel Acquisition Completion (or such other later date as the parties to the Hotel Acquisition Agreement may agree in writing).

According to Supplemental Road Bridge Acquisition Agreement dated 5 August 2008, the manner and payment schedule of the Hu-Hang Consideration is revised such that the entire amount of the Hu-Hang Consideration shall be payable in cash (instead of partly in cash and partly in Consideration Shares as per the Road Bridge Acquisition Agreement). Half of the Hu-Hang Consideration (being HK\$2,098,156,000) shall be paid upon the Road Bridge Acquisition Completion and the remaining HK\$2,098,156,000 shall be paid on or before the date falling six months after the date of the Road Bridge Acquisition Completion (or such other later date as the parties to the Road Bridge Acquisition Agreement may agree in writing).

As disclosed in the announcement of the Company dated 5 August 2008, the change in payment means of the Hu-Hang Consideration from partially cash and partially Consideration Shares to wholly in cash provides a relatively simple and direct means of settlement for the Road Bridge Acquisition. The deferral of payment schedule of half of the Good Cheer Consideration and half of the Hu-Hang Consideration to six months after the respective Hotel Acquisition Completion and the Road Bridge Acquisition Completion will provide more flexibility funding arrangement for the Group. The aggregate amount of Good Cheer Consideration and the Hu-Hang Consideration, which amount to approximately HK\$5,546,312,000 (the "Total

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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Consideration”) will be financed by internal resources and borrowings of the Group. Based on the 2007 Annual Report, the Group’s bank balance and cash (excluding the pledged deposit) (the “Consolidated Cash Balance”) amounted to approximately HK\$6.71 billion as at 31 December 2007 including the cash balance at the Company’s discretion of approximately HK\$3.5 billion. As such, the Group has sufficient cash balance to settle the aggregate initial payments of the Good Cheer Consideration and the Hu-Hang Consideration, amounting to approximately HK\$2,773,156,000. The remaining balance of HK\$2,773,156,000 (the “Remaining Consideration Balance”) will be settled within six months after the Hotel Acquisition Completion and the Road Bridge Acquisition Completion either through borrowings and/or internal resources. According to the 2007 Annual Report, the Group had undrawn syndicated loan facility of approximately HK\$1.5 billion as at 31 December 2007.

Based on the above, we are of the view that the terms of the Supplemental Hotel Acquisition Agreement and the Supplemental Road Bridge Acquisition Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

#### **4. Financial impacts of the Acquisitions**

Upon completion of the Acquisitions, the indirect attributable interest of the Company in the Hotel Company and the Project Company will be approximately 87% and 100%, respectively. Each of the Hotel Company and the Project Company will be accounted for as subsidiaries of the Company and their results will be consolidated into the accounts of the Company upon completion of the Acquisitions.

##### ***(i) Earnings***

In view of the historical profitable track record of the Hotel Company and the Project Company, the Acquisitions are expected to make a positive contribution to the revenue and profit of the Group in the future by riding on the economic development and tourism growth of Shanghai. In addition, as discussed above, the earnings per Share are expected to be enhanced due to change in amortization policy, debt repayment and the reduction in profit tax rate of the Project Company and the Hotel Company.

##### ***(ii) Net asset value***

As set out in the 2007 Annual Report, the audited net asset value of the Group as at 31 December 2007 was approximately HK\$22,694 million. Given that the Good Cheer Consideration and the Hu-Hang Consideration represent a discount of 4.8% and 0.5% to the respective consolidated net asset value of Good Cheer and the Project Company as at 30 June 2008, the Acquisitions are not expected to have any material impact on the net asset value of the Group immediately upon the completion of the Acquisitions.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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### *(iii) Cashflow and Gearing*

The Total Consideration is expected to be financed by internal resources and borrowings of the Group. Based on the 2007 Annual Report, the Consolidated Cash Balance amounted to approximately HK\$6.71 billion as at 31 December 2007 including the cash balance at the Company's discretion of approximately HK\$3.5 billion. Assuming all of the aggregate initial payment of the Total Consideration will be financed by internal resources of the Group, it represents approximately 41.33% and 79.23%, respectively, of the Consolidated Cash Balance and the cash balance at the Company's discretion.

We understand from the management of the Company that the Group has been continuously generating cash inflow from its ordinary business and recorded positive operating cash flows (excluding the increase in financial assets at fair value as reported in the income statement) of approximately HK\$1.75 billion for FY2007. In addition, according to the 2007 Annual Report, the Group had undrawn syndicated loan facility of approximately HK\$1.5 billion as at 31 December 2007. Based on the above, we consider the Group will have adequate financing to settle the Total Consideration as well as maintaining its operations in the ordinary course of business.

The total debt of the Group as at 31 December 2007 was approximately HK\$3.62 billion and the total capital (being the aggregate of the total debt and total equity) was approximately HK\$32.05 billion, giving a gearing ratio of approximately 11.3%. Taking into account the total debt of the Hotel Company and the Project Company of approximately RMB240 million (equivalent to approximately HK\$273 million) and approximately RMB1.91 billion (equivalent to approximately HK\$2.17 billion), respectively, as at 30 June 2008 and assuming the Remaining Consideration Balance will be financed by bank borrowings, it is expected that the Group's total debt would be increased by approximately HK\$5.216 billion. The gearing ratio after completion of the Acquisitions would be increased to approximately 23.71%. Although there will be an increase in the Group's gearing ratio, the future profit to be derived from the Hotel Company and the Project Company is expected to enhance the capital base of the Company. Given the strong existing capital base of the Company and the expected enhancement of the Group's capital base from the future earnings of the Hotel Company and the Project Company, we consider such increase in the Group's gearing ratio is acceptable and would not materially affect the overall financial position of the Group.

Having considered the above as a whole, we are of the view that the financial impacts of the Acquisitions on the Group are acceptable.

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## LETTER FROM COMMERZBANK AG HONG KONG BRANCH

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### CONCLUSION AND RECOMMENDATION

Having considered the principal factors referred to above, in particular:

- (i) the real estate and the infrastructure facilities business segments are two of the Group's core businesses and the Acquisitions which involve real estate and infrastructure facilities investments are in line with the corporate strategy of the Group;
- (ii) the favourable macroeconomic condition of Shanghai will have positive impact on the transportation network in Shanghai and the growing tourism industry (both business and pleasure) is expected to further drive the demand for hotel accommodations;
- (iii) both the Hotel Company and the Project Company have been operating profitably with growth prospects and are expected to have positive contributions to the profit of the Group;
- (iv) the terms of the Supplemental Hotel Acquisition Agreement and the Supplemental Road Bridge Acquisition Agreement are fair and reasonable; and
- (v) the Good Cheer Consideration and the Hu-Hang Consideration are fair and reasonable,

we are of the view that (i) the terms of the Acquisition Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) the entering into of the Acquisition Agreements is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisitions.

Yours faithfully,

For and on behalf of

**Commerzbank AG Hong Kong Branch**

**Kenneth Chan**

*Head of Corporate Finance – Asia Pacific*

**Andrew Yu**

*Corporate Finance – Asia Pacific*

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**APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL  
SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN  
SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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*The following is the text of the letter, summary of valuations and valuation certificates received from DTZ Debenham Tie Leung Limited in connection with its opinion of market values of the property interests of the Hotel Company held in the PRC as at 30th June 2008 prepared for the purpose of incorporation in this circular.*



16th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

15th August 2008

The Directors  
Shanghai Industrial Holdings Limited  
26/F, Harcourt House,  
39 Gloucester Road,  
Wanchai,  
Hong Kong

Dear Sirs,

**Instructions, Purpose & Date of Valuation**

In accordance with the instruction for us to carry out a market valuation of the property interests held by Shanghai SIIC South Pacific Hotel Co., Ltd. in the People's Republic of China (the "PRC"), in its existing state as at the date of valuation. We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing Shanghai Industrial Holdings Limited (the "Company") with our opinion of the values of those property interests as at 30th June 2008.

**Definition of Market Value**

Our valuation of each of the properties represents its market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) issued by The Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

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## **APPENDIX I                      VALUATION REPORT ON THE FOUR SEASONS HOTEL SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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### **Valuation Assumptions**

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

We have relied on the information given by Shanghai SIIC South Pacific Hotel Co., Ltd. and the opinion of the PRC legal adviser, Yuan Tai Law Offices, of the Company, regarding the title of the properties and the interests in the properties. The status of titles and grants of major approvals and licences, in accordance with the information provided by Shanghai SIIC South Pacific Hotel Co., Ltd. and the PRC legal opinion are set out in the notes in the valuation certificates.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

### **Method of Valuation**

In valuing the property in Group I, we have adopted Direct Comparison Approach by making reference to relevant sales evidences or offerings of comparable properties as available in the relevant market. Comparable properties are analysed and carefully weighted in respect of their size, character and location to arrive at the market value.

In valuing the properties in Group II, we have adopted Direct Comparison Approach by making reference to comparable sales evidences as available in the relevant market.

In valuing the property interests, we have complied with the requirements set in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

### **Source of Information**

In the course of our valuation, we have relied to a very considerable extent on the information given by Shanghai SIIC South Pacific Hotel Co., Ltd. and the opinion of the legal adviser to the Company as to PRC laws regarding the title to the property interests in the PRC. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupancy, numbers and category of guest room, food and beverage outlets, hotel facilities, site and floor areas and all other relevant matters.

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**APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL  
SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN  
SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by Shanghai SIIC South Pacific Hotel Co., Ltd. which are material to the valuation. We were also advised by Shanghai SIIC South Pacific Hotel Co., Ltd. that no material facts have been omitted from the information supplied.

**Title Investigation**

We have been provided with extracts of documents relating to the titles of the properties, but no searches have been made in respect of the properties. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us.

**Site Inspection**

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and no tests have been carried out on any of the services, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

**Currency**

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuations is HK\$1:RMB0.8791 which was the approximate prevailing exchange rate as at the date of valuation.

We enclose herewith a summary of valuations and valuation certificates.

Yours faithfully,  
for and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**Philip C. Y. Tsang**  
*Registered Professional Surveyor (GP)*  
*China Real Estate Appraiser*  
MSc., M.H.K.I.S., M.R.I.C.S.  
*Director*

*Note:* Mr. Philip C. Y. Tsang is a Registered Professional Surveyor who has over 16 years' of experience in the valuation of properties in the PRC.

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**APPENDIX I                      VALUATION REPORT ON THE FOUR SEASONS HOTEL  
SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN  
SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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**SUMMARY OF VALUATION**

**Property Interests** **Capital value in  
existing state as at  
30th June 2008**

**Group I – Property interest held for investment in the PRC**

- |   |   |
|---|---|
| <p>1.    The Four Seasons Hotel,<br/>      No. 500 Weihai Road,<br/>      Jing'an District,<br/>      Shanghai,<br/>      the PRC</p> | <p>HK\$2,210,000,000<br/>(equivalent to<br/>RMB1,943,000,000)</p> |
|---|---|

**Group II – Property interests held for owner-occupation / sale in the PRC**

- |   |   |
|---|---|
| <p>2.    Units 2301, 2302 and 2304,<br/>      Jinfeng Building,<br/>      No. 223 East Zhu'anbang Road,<br/>      Changning District,<br/>      Shanghai,<br/>      the PRC</p>                       | <p>HK\$5,570,000<br/>(equivalent to<br/>RMB4,900,000)</p>   |
| <p>3.    Units B, C and D on Level 26,<br/>      Units A, C and D on Level 27,<br/>      No. 3 Lane 777,<br/>      Xinzha Road,<br/>      Jing'an District,<br/>      Shanghai,<br/>      the PRC</p> | <p>HK\$12,600,000<br/>(equivalent to<br/>RMB11,080,000)</p> |

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<p>Grand Total:</p>	<p>HK\$2,228,170,000 (equivalent to <u>RMB1,958,980,000</u>)</p>
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<b>APPENDIX I</b>	<b>VALUATION REPORT ON THE FOUR SEASONS HOTEL SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED</b>
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**VALUATION CERTIFICATE**

**Group I – Property interest held for investment in the PRC**

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30th June 2008
1. The Four Seasons Hotel, No. 500 Weihai Road, Jing'an District, Shanghai, the PRC	<p>The property comprises a 38-storey plus 3 levels of basement 5-star hotel erected on a land with a site area of approximately 7,614 sq.m. (81,957 sq.ft.). The property was completed in 2002.</p> <p>The property has a total gross floor area of approximately 68,483.64 sq.m. (737,158 sq.ft.).</p> <p>As advised by Shanghai SIIC South Pacific Hotel Co., Ltd., the property provides totally 421 guestrooms, including 67 superior rooms (including 2 handicapped rooms), 216 deluxe rooms, 60 premier rooms, 51 executive suites, 19 centre suites, 6 deluxe suites, 1 premier suite and 1 president suite. The property also provides facilities such as conference and banquet facilities, fitness centre and spa, food and beverage hall etc.</p> <p>The property is currently operated as Four Seasons Hotel.</p> <p>The land use rights of the property have been granted for a term from 30th November 1998 to 11th January 2045 for composite use. The land uses are commercial, hotel, office and residential (The land use term is 40 years for hotel use).</p>	<p>The property is currently operated as Four Seasons Hotel.</p>	<p>HK\$2,210,000,000 (equivalent to RMB1,943,000,000)</p>

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# APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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Notes:–

- (1) According to Shanghai Certificate of Real Estate Ownership No. Hu Fang Di Jing Zi (2005) 008898 (滬房地靜字(2005)第008898號) issued by Shanghai Jingan District Real Estate Registration Office (上海市靜安區房地產登記處) on 19th August 2005, the land use rights of the property have been granted to Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) for a term from 30th November 1998 to 11th January 2045 for composite use. The land uses are commercial, hotel, office and residential (The land use term is 40 years for hotel use). In the course of our valuation, we have valued the property as a hotel with a land use rights for a term of 40 years.

The property has a site area of 7,614 sq.m. and a total gross floor area of 68,483.64 sq.m.

The investors are Shanghai Jing'an District Land Development Holdings Ltd. (上海市靜安區土地開發控股總公司), South Pacific Hotel (China) Ltd. (香港南洋酒店(中國)有限公司) and South Pacific International Investment Ltd. (香港南洋國際投資有限公司).

- (2) According to Certificate of Approval No. Sheng Wai Zi Hu He Zi Zi (1994)1663 (商外資滬合資字(1994)1663號) dated 19th February 2004, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) was approved to be established as a Sino-foreign joint venture enterprise by Shanghai Jingan District Land Development Holdings Ltd. (上海市靜安區土地開發控股總公司), South Pacific Hotel (China) Ltd. (香港南洋酒店(中國)有限公司) and South Pacific International Investment Ltd. (香港南洋國際投資有限公司) with a registered capital of US\$72,000,000 for a valid operation period of 30 years. The business scope is hotel operation.
- (3) According to Business Licence No. Qi He Hu Zong Zi 005398 (企合滬總字第005398號(市局)) dated 28th May 2007, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) was established as a foreign company on 31st December 1994, with a registered capital of US\$72,000,000 for a valid operation period from 31st December 1994 to 30th December 2024.

- (4) According to the Joint Venture Contract and the Article of Association:

- |  |  |
|--|--|
| (i) Name of joint venture                              | : Shanghai SIIC South Pacific Hotel Co., Ltd.<br>(上海上實南洋大酒店有限公司)               |
| (ii) Party A   | : Shanghai Jingan District Land Development Holdings Ltd.<br>(上海市靜安區土地開發控股總公司) |
| Party B  | : South Pacific Hotel (China) Ltd.<br>(香港南洋酒店(中國)有限公司)                         |
| Party C  | : South Pacific International Investment Ltd.<br>(香港南洋國際投資有限公司)                |
| (iii) Registered capital/ratio of capital contribution | : US\$72,000,000 (Party A 3%, Party B 68% and Party C 29%)                     |
| (iv) Scope of business                                 | : Hotel Operation  |
| (v) Joint venture period                               | : 30 years from issuance of the Business Licence                               |
| (vi) Profit sharing                                    | : According to the ratio of capital contribution of each party                 |

- (5) According to the PRC legal opinion prepared by Yuan Tai Law Offices:

- (i) According to Shanghai Certificate of Real Estate Ownership No. Hu Fang Di Jing Zi (2005) 008898 (滬房地靜字(2005)第008898號) issued by Shanghai Jingan District Real Estate Registration Office (上海市靜安區房地產登記處) on 19th August 2005, the land use rights of the property have been

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# APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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granted to Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) for a term from 30th November 1998 to 11th January 2045 for composite use. The land uses are commercial, hotel, office and residential (the land use term is 40 years for hotel use).

The property has a site area of 7,614 sq.m. and a total gross floor area of 68,483.64 sq.m.

The investors are Shanghai Jing'an District Land Development Holdings Ltd. (上海市靜安區土地開發控股總公司), South Pacific Hotel (China) Ltd. (香港南洋酒店(中國)有限公司) and South Pacific International Investment Ltd. (香港南洋國際投資有限公司).

- (ii) The land premiums under the said Shanghai Grant Contract for State-Owned Land Use Right have been fully settled.
- (iii) There is no mortgage on the property. Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) has lawfully obtained the land use right of, and has good title to the property, and can lawfully occupy, use, transfer, lease and mortgage the property (including the land use right to the land and buildings thereon). The title documents are valid and effective, subsisting and in compliance with and protected by the applicable PRC laws.
- (iv) According to the relevant provisions of the Joint Venture Contract of Shanghai SIIC South Pacific Hotel Co., Ltd. entered into among Shanghai Jingan District Land Development Holding Co., Ltd. (上海市靜安區土地開發控股總公司) (Party A), South Pacific Hotel (China) Limited (香港南洋酒店(中國)有限公司) (Party B) and South Pacific International Investment Limited (香港南洋國際投資有限公司) (Party C) on 21st March 2001, the registered capital of the Company is US\$72,000,000, where Party A holds 3% of equity interest, Party B holds 68% of equity interest and Party C holds 29% of equity interest.

The profits should be distributed to the shareholders according to each of their ratio of the capital contribution to the registered capital of the Company upon the annual decision of the board of directors.

The Joint Venture Contract of the Company is duly approved and legal, valid, binding and enforceable pursuant to the PRC laws and its terms.

- (6) The status of the title and grant of major approvals and licences in accordance with the PRC legal opinion and the information provided to us by Shanghai SIIC South Pacific Hotel Co., Ltd. is as follows:–

Certificate of Real Estate Ownership	Yes
Contract for Grant of State-owned Land	Yes
Red-line Drawing (site plan)	Yes
Certificate of Approval	Yes
Business Licence	Yes
Joint Venture Contract	Yes
Article of Association	Yes

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**APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL  
SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN  
SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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**VALUATION CERTIFICATE**

**Group II – Property interests held for owner-occupation / sale in the PRC**

Property	Description and tenure	Particulars of Occupancy	Capital value in existing state as at 30th June 2008																		
2. Units 2301, 2302 and 2304, Jinfeng Building, No. 223 East Zhu'anbang Road, Changning District, Shanghai, the PRC	<p>The property comprises 3 residential units of a 24-storey residential building completed in 1996.</p> <p>The property has the gross floor areas as follows:–</p> <table><tr><th>Units</th><th>Approximate Gross Floor Area</th><th></th></tr><tr><td></td><td><i>sq.m.</i></td><td><i>sq.ft.</i></td></tr><tr><td>2301</td><td>94.49</td><td>1,017</td></tr><tr><td>2302</td><td>134.48</td><td>1,448</td></tr><tr><td>2304</td><td>134.48</td><td>1,448</td></tr><tr><td>Total</td><td>363.45</td><td>3,913</td></tr></table>	Units	Approximate Gross Floor Area			<i>sq.m.</i>	<i>sq.ft.</i>	2301	94.49	1,017	2302	134.48	1,448	2304	134.48	1,448	Total	363.45	3,913	The property is currently vacant.	HK\$5,570,000 (equivalent to RMB4,900,000)
Units	Approximate Gross Floor Area																				
	<i>sq.m.</i>	<i>sq.ft.</i>																			
2301	94.49	1,017																			
2302	134.48	1,448																			
2304	134.48	1,448																			
Total	363.45	3,913																			
	The land use rights of the property has been allocated for an unspecified term for residential use.																				

**Notes:**

- (1) According to three Shanghai Certificate of Real Estate Ownership issued by Shanghai Changning District Real Estate Registration Office (上海市長寧區房地產登記處), the legal title of the property is vested in Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) for residential use with a total gross floor area of 363.45 sq.m. The land use rights of the property has been allocated for an unspecified term for residential use.
- (2) According to Commodity Housing Transfer Contract dated 20th November 2006 entered into between, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) and Shanghai Jingan District Land Development Holdings (Group) Ltd. (上海市靜安區土地開發控股(集團)公司), 3 units – Units 2303, 2304 and 2305, with a total gross floor area of 350.99 sq.m. have been agreed to be transferred to Shanghai Jingan District Land Development Holdings (Group) Ltd. (上海市靜安區土地開發控股(集團)公司) at a total consideration of RMB4,202,636. The transfer of Units 2303 and 2305 have been completed and are not included in our valuation.

As advised by Shanghai SIIC South Pacific Hotel Co., Ltd., the transfer of Unit 2304, with a gross floor area of 134.18 sq.m., has not been completed yet. The consideration for the said unit on pro-rata basis is approximately RMB1,610,000; in the course of our valuation, we have taken into account the said consideration.

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**APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL  
SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN  
SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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- (3) According to Certificate of Approval No. Shang Wai Zi Hu He Zi Zi (1994)1663 (商外資滬合資字(1994)1663號) dated 19th February 2004, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) was approved to be established as a Sino-foreign joint venture enterprise by Shanghai Jingan District Land Development Holdings Ltd. (上海市靜安區土地開發控股總公司), South Pacific Hotel (China) Ltd. (香港南洋酒店(中國)有限公司) and South Pacific International Investment Ltd. (香港南洋國際投資有限公司) with a registered capital of US\$72,000,000 for a valid operation period of 30 years. The business scope is hotel operation.
- (4) According to Business Licence No. Qi He Hu Zong Zi 005398 (企合滬總字第005398號(市局)) dated 28th May 2007, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) was established as a foreign company on 31st December 1994, with a registered capital of US\$72,000,000 for a valid operation period from 31st December 1994 to 30th December 2024.
- (5) According to the PRC legal opinion prepared by Yuan Tai Law Offices:
- (i) The legal title of the property is vested in Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) for residential use with a total gross floor area of 363.45 sq.m. The nature of the land use rights is allocation.
  - (ii) There is no mortgage on the property. Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) has good title to the property, and can lawfully occupy, use, transfer, lease and mortgage the property. The title documents are valid and effective, subsisting and in compliance with and protected by the applicable PRC laws.
  - (iii) 1 unit – Unit 2304, with a gross floor area of 134.48 sq.m. have been agreed to be transferred to Shanghai Jingan District Land Development Holdings (Group) Ltd. (上海市靜安區土地開發控股(集團)公司).
- (6) The status of the title and grant of major approvals and licences in accordance with the PRC legal opinion and the information provided to us by Shanghai SIIC South Pacific Hotel Co., Ltd. is as follows:–

Certificate of Real Estate Ownership	Yes
Commodity Housing Transfer Contract	Yes
Business Licence	Yes
Joint Venture Contract	Yes

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**APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL  
SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN  
SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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**VALUATION CERTIFICATE**

**Group II – Property interests held for owner-occupation / sale in the PRC**

Property		Description and tenure	Particulars of Occupancy	Capital value in existing state as at 30th June 2008																																							
3.	Units B, C and D on Level 26, Units A, C and D on Level 27, No. 3 Lane 777, Xinzha Road, Jing'an District, Shanghai, the PRC	<p>The property comprises 6 residential units of a 28-storey residential building completed in 1998.</p> <p>The property has the gross floor areas as follows:–</p> <table><tr><th>Units</th><th colspan="2">Approximate Gross Floor Area</th></tr><tr><td></td><th>sq.m.</th><th>sq.ft.</th></tr><tr><td colspan="3">Level 26</td></tr><tr><td>B</td><td>132.27</td><td>1,424</td></tr><tr><td>C</td><td>132.27</td><td>1,424</td></tr><tr><td>D</td><td>116.64</td><td>1,256</td></tr><tr><td>sub-total</td><td>381.18</td><td>4,104</td></tr><tr><td colspan="3">Level 27</td></tr><tr><td>A</td><td>116.64</td><td>1,256</td></tr><tr><td>C</td><td>132.27</td><td>1,424</td></tr><tr><td>D</td><td>116.64</td><td>1,256</td></tr><tr><td>sub-total</td><td>365.55</td><td>3,936</td></tr><tr><td>Total</td><td>746.73</td><td>8,040</td></tr></table>	Units	Approximate Gross Floor Area			sq.m.	sq.ft.	Level 26			B	132.27	1,424	C	132.27	1,424	D	116.64	1,256	sub-total	381.18	4,104	Level 27			A	116.64	1,256	C	132.27	1,424	D	116.64	1,256	sub-total	365.55	3,936	Total	746.73	8,040	The property is currently vacant.	HK\$12,600,000 (equivalent to RMB11,080,000)
Units	Approximate Gross Floor Area																																										
	sq.m.	sq.ft.																																									
Level 26																																											
B	132.27	1,424																																									
C	132.27	1,424																																									
D	116.64	1,256																																									
sub-total	381.18	4,104																																									
Level 27																																											
A	116.64	1,256																																									
C	132.27	1,424																																									
D	116.64	1,256																																									
sub-total	365.55	3,936																																									
Total	746.73	8,040																																									
The land use rights of the property has an unspecified term for residential use.																																											

*Notes:*

- (1) According to six Shanghai Certificate of Real Estate Ownership issued by Shanghai Jingan District Real Estate Registration Office (上海市靜安區房地產登記處), the legal title of the property is vested in Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) for residential use with a total gross floor area of 746.73 sq.m. The land use rights of the property has an unspecified term for residential use.

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# APPENDIX I VALUATION REPORT ON THE FOUR SEASONS HOTEL SHANGHAI AND CERTAIN RESIDENTIAL PROPERTIES IN SHANGHAI ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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- (2) According to Commodity Housing Transfer Contract dated 20th November 2006 entered into between, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) and Shanghai Jingan District Land Development Holdings (Group) Ltd. (上海市靜安區土地開發控股(集團)公司), 8 units – Units A, B, C and D on Level 26, Units A, B, C and D on Level 27, with a total gross floor area of 995.64 sq.m. have been agreed to be transferred to Shanghai Jingan District Land Development Holdings (Group) Ltd. (上海市靜安區土地開發控股(集團)公司) at a total of consideration of RMB14,771,304. The transfer of Unit A on Level 26 and Unit B on Level 27 have been completed and are not included in our valuation.

As advised by Shanghai SIIC South Pacific Hotel Co., Ltd., the transfer of Units B, C and D on Level 26, Units A, C and D on Level 27, with a total gross floor area of 746.73 sq.m., has not been completed yet. The consideration for the said 6 units on pro-rata basis is approximately RMB11,080,000; in the course of our valuation, we have taken into account the said consideration.

- (3) According to Certificate of Approval No. Shang Wai Zi Hu He Zi Zi (1994)1663 (商外資滬合資字(1994)1663號) dated 19th February 2004, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) was approved to be established as a Sino-foreign joint venture enterprise by Shanghai Jingan District Land Development Holdings Ltd. (上海市靜安區土地開發控股總公司), South Pacific Hotel (China) Ltd. (香港南洋酒店(中國)有限公司) and South Pacific International Investment Ltd. (香港南洋國際投資有限公司) with a registered capital of US\$72,000,000 for a valid operation period of 30 years. The business scope is hotel operation.
- (4) According to Business Licence No. Qi He Hu Zong Zi 005398 (企合滬總字第 005398 號(市局)) dated 28th May 2007, Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) was established as a foreign company on 31st December 1994, with a registered capital of US\$72,000,000 for a valid operation period from 31st December 1994 to 30th December 2024.
- (5) According to the PRC legal opinion prepared by Yuan Tai Law Offices:
- (i) The legal title of the property is vested in Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) for residential use with a total gross floor area of 746.73 sq.m. The nature of the land use rights is transfer.
  - (ii) There is no mortgage on the property. Shanghai SIIC South Pacific Hotel Co., Ltd. (上海上實南洋大酒店有限公司) has good title to the property, and can lawfully occupy, use, transfer, lease and mortgage the property. The title documents are valid and effective, subsisting and in compliance with and protected by the applicable PRC laws.
  - (iii) 6 units – Units B, C and D on Level 26, Units A, C and D on Level 27, with a total gross floor area of 746.73 sq.m., have been agreed to be transferred to Shanghai Jingan District Land Development Holdings (Group) Ltd. (上海市靜安區土地開發控股(集團)公司).
- (6) The status of the title and grant of major approvals and licences in accordance with the PRC legal opinion and the information provided to us by Shanghai SIIC South Pacific Hotel Co., Ltd. is as follows:-

Certificate of Real Estate Ownership	Yes
Commodity Housing Transfer Contract	Yes
Business Licence	Yes
Joint Venture Contract	Yes

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## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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*The following is the text of a letter and valuation certificate received from DTZ Debenham Tie Leung Limited in connection with its opinion of market value of the operation rights till 31st August 2030 of Hu-Hang Expressway Shanghai Section as at 30th June 2008 prepared for the purpose of incorporation in this circular.*



16th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

15th August 2008

The Directors  
Shanghai Industrial Holdings Limited  
26/F, Harcourt House,  
39 Gloucester Road,  
Wanchai,  
Hong Kong

Dear Sirs,

**Re: Operation rights till 31st August 2030 of Hu-Hang Expressway Shanghai Section, Shanghai, the People's Republic of China**

### **Instructions, Purpose & Date of Valuation**

In accordance with your instructions for us to value the market value of the whole operation rights till 31st August 2030 of Hu-Hang Expressway Shanghai Section, Shanghai (the "Expressway") held by Shanghai Road-Bridge Development Co., Ltd. (上海路橋發展有限公司) ("SRBDC") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing Shanghai Industrial Holdings Limited (the "Company") with our opinion of the value of such operation rights as at 30th June 2008 (the "Date of Valuation").

### **Basis of Valuation**

The valuation of the Expressway held by SRBDC in the PRC is on a market value basis in accordance with the international valuation standards issued by the International Valuation Standard Committee which is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

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## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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### Scope of Work and Limitations

In performing the valuation, we have relied to a considerable extent on the information provided by SRBDC and the Traffic and O&M Forecast Studies Report prepared by Wilbur Smith Associates Limited (“Wilbur Smith”), an independent traffic consultant. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, profit forecast, projection of traffic flow, toll revenue, administrative expenses, operation costs, maintenance expenses, site areas and other pertinent data concerning the Expressway. We have not independently verified any of the information, which has been provided to us. In analyzing that information, we have held discussions with management of SRBDC. We have had no reason to doubt the truth and accuracy of the information provided to us which are material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

We have inspected the exterior of the Expressway. At the time of inspection, which was in operation, was found to be in reasonable condition and capable of performing efficiently the purpose for which it was designed and built. However, we would like to draw your attention that we have not undertaken any structural or detailed civil engineering surveys and are not therefore able to confirm that the Expressway is free from structural or other defects.

The valuation of an interest in a business (herein referred to the operation rights till 31st August 2030 of the Expressway) requires consideration of all pertinent factors affecting the operation of the business and its ability to generate future investment returns. The factors considered in the appraisal included but were not limited to, the following:

- the nature of the business and the history of SRBDC;
- the financial conditions of the SRBDC;
- the economic outlook in general and the specific economic environment for the business;
- past and projected operating results;
- market-derived investment returns of similar lines of business; and
- the financial and business risk of the SRBDC including the continuity of income and the projected future results.

In valuing the interest, we have not ascertained the titles or the ownership of the interest but we have relied on the advice given by the Company’s PRC legal adviser on the PRC law regarding the SRBDC’s interest. In the course of our valuation, we have assumed that the business is free of any encumbrances and debt liability.

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## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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### Assumptions

The key assumptions adopted in arriving at our valuation are as follows:

- the conditions in which the business are being operated and which are material to revenue and costs of businesses will remain unchanged;
- no hidden or unexpected conditions of the business might adversely affect the market value;
- the operation and maintenance costs in which the business is being operated will be in accordance with the estimated projection provided by Wilbur Smith;
- the financial and operational information provided by Wilbur Smith which is realistic and accurate, we relied to such information in arriving at our opinion of value;
- the current financial, economic, legal and political conditions which prevail in the PRC and in the neighbouring cities/countries and which are material to the revenues generated by the businesses will remain unchanged;
- the current taxation and legislation will remain unchanged;
- inflation and interest rates will remain unchanged from the rates prevailing at the date of valuation;
- the operation periods of the Expressway is due to expire on 31st August 2030;
- competent management, key personnel and technical staff will be maintained to support the ongoing operation;
- no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions will be affected the existing business;
- the claims and litigation against the business will remain free;
- any statutory notice and requirements will not affect operation of the business;
- no unusual or onerous restrictions or encumbrance is subject to; and
- the potential bad debt of SRBDC will not materially affect the operation of the business.

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## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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### Approach to Valuation

#### Income Approach – Discounted Cash Flows (“DCF”) Approach

We have adopted the DCF approach to assess the market value of the Expressway. The DCF approach involves discounting future net cash flows of the SRBDC to its present worth based on the Traffic and O&M Forecast Studies Report prepared by Wilbur Smith dated 15th August 2008, other relevant documents and information provided by the Company.

The discount rate of approximately 12% per annum was determined by the risk-free rate of 4.52% (10-year yields to maturity of respective Chinese Government Bond Yield), market annualized return of 11.14%, levered beta of the SRBDC of 0.725, and a firm-specific risk factor of approximately 4%.

We have also prepared a sensitivity analysis with discount rates ranging from 11% to 13%. The sensitivity results are as follows:

Discount Rate	Capital value of the whole operation rights till 31st August 2030 of Hu-Hang Expressway Shanghai Section held by SRBDC as at 30th June 2008 (RMB)
11%	5,710,000,000
12%	5,310,000,000
13%	4,950,000,000

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## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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### Conclusion

In our opinion, on the basis of the information made available to us, the market value of the whole Expressway held by SRBDC is reasonably stated at the amount of RMB5,310,000,000 as the valuation certificate attached.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While we have exercised our professional judgment in arriving at the appraisal, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

Unless otherwise stated, all money amounts stated in our valuation is in Renminbi, the official currency of the PRC.

We attach herewith our valuation certificate.

Yours faithfully,  
for and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**Philip C. Y. Tsang**  
*Registered Business Valuer registered with  
the Hong Kong Business Valuation Forum*  
MSc., M.H.K.I.S., M.R.I.C.S  
*Director*

*Note:* Mr. Philip C.Y. Tsang is a Registered Business Valuer registered with the Hong Kong Business Valuation Forum who has over 10 years' experience in the valuation of infrastructure projects in the PRC.

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**APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED**

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**VALUATION CERTIFICATE**

Location of business	Description of business	Particulars of occupancy	Capital value of the whole operation rights till 31st August 2030 of Hu-Hang Expressway Shanghai Section held by SRBDC as at 30th June 2008
Operation rights till 31st August 2030 of Hu-Hang Expressway Shanghai Section, Shanghai, the People's Republic of China	<p data-bbox="480 572 879 832">Shanghai Road-Bridge Development Co., Ltd. (上海路橋發展有限公司) ("SRBDC") is located at Shanghai of the PRC. Its main business is the operation of the Expressway in Shanghai. The Expressway is approximately 33.5 meters wide and 47.7 kilometers long dual four-lane to six-lane expressway.</p> <p data-bbox="480 868 879 1236">The construction of the Expressway was divided into two stages including Xinsong stage and Song Feng stage. In Xinsong stage, the construction commenced on 23rd May 1985 and it opened to traffic on 22nd December 1990. In Song Feng stage, the construction commenced on 20th January 1996 and it opened to traffic on 12th December 1998. An extension work at Song Feng stage commenced on October 2003 and it completed on 30th June 2004.</p> <p data-bbox="480 1272 879 1506">The Expressway interconnecting with Zhejiang Hangzhou-Ningbo Expressway, stretches from the east at Minhang District and west at Jinshan District. It has nine toll fee collection points at Xin Zhuang, Qi Xin, Xin Qiao, Song Jiang, Xin Cheng District, Da Gang, Shi Hu Dang, Xin Bin and Feng Jing.</p> <p data-bbox="480 1542 879 1655">The land use rights of 142,506 sq.m. has been granted for respective terms due to expire on 15th August 2049 for external transportation use.</p> <p data-bbox="480 1691 879 1798">The land use rights of 918,186 sq.m. has been granted for the term due to expire on 23rd August 2049 for external transportation use.</p>	The business is currently operated as an expressway road.	RMB5,310,000,000

## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

Notes:

- (1) According to five Shanghai Certificates of Real Estate Ownership Nos. Hu Fang Di Shi Zi (2002)001969, Hu Fang Di Shi Zi (2002)001970, Hu Fang Di Shi Zi (2002)001971, Hu Fang Di Shi Zi (2002)001972 and Hu Fang Di Shi Zi (2002)001973 dated 28th February 2002 issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局), the land use rights comprising a total site area of 1,060,692 sq.m. have been granted to Shanghai Road-Bridge Development Corporation Co., Ltd. (上海路橋發展股份有限公司) for terms as follow:

Certificate No.	Location	Site Area (sq.m.)	Land Use Right	Expiry Date of Land Use Right	Land Use
Hu Fang Di Shi Zi (2002)001969	Xinzhuang Town Xinsong Venturi Expressway 2 Qiu	82,438	State-owned	15th August 2049	External Transportation
Hu Fang Di Shi Zi (2002)001970	Xinzhuang Town Xinsong Venturi Expressway 3 Qiu	36,090	State-owned	15th August 2049	External Transportation
Hu Fang Di Shi Zi (2002)001971	Xinzhuang Town Xinsong Venturi Expressway 1 Qiu	19,560	State-owned	15th August 2049	External Transportation
Hu Fang Di Shi Zi (2002)001972	Shanghai-Hangzhou Expressway Xinsong Land	918,186	State-owned	23rd August 2049	External Transportation
Hu Fang Di Shi Zi (2002)001973	Xinzhuang Town 151 Jie Fang 9 Qiu	4,418	State-owned	15th August 2049	External Transportation
Total:		<u>1,060,692</u>			

As advised by SRBDC, the process of change of name from Shanghai Road-Bridge Development Corporation Co., Ltd. (上海路橋發展股份有限公司) to Shanghai Road-Bridge Development Co., Ltd. (上海路橋發展有限公司) in the five Shanghai Certificates of Real Estate Ownership is under progress.

- (2) According to the Franchise Agreement of the Expressway dated 22nd March 2002, the salient terms are summarized as follows:
- (i) Name of franchise company : Shanghai Road-Bridge Development Co., Ltd.  
(上海路橋發展有限公司)
  - (ii) Scope of business : Operate the Expressway (Shanghai-Hangzhou Expressway Shanghai) and expressway related business such as maintenance and repair and transportation.
  - (iii) Registered capital : Substantially changed to RMB1,600,000,000
  - (vi) Operation period : Till 31st August 2030

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## APPENDIX II VALUATION REPORT ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY DTZ DEBENHAM TIE LEUNG LIMITED

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- (3) According to Traffic and O&M Forecast Studies Report prepared by Wilbur Smith, extract of the average daily exit traffic and toll revenue of the Expressway are as below:–

Year	Average Daily Traffic at Exit Gate <i>(in vehicle)</i>	Annual Toll Revenue <i>(in million RMB)</i>
2008	85,596	654.27
2018	148,241	1,124.46
2028	175,417	1,324.84

- (4) According to Business Licence No. 310000000071670 dated 15th May 2008, SRBDC was established on 31st August 1999 with a registered capital of RMB1,600,000,000 for an unspecified operation period.

- (5) The opinion of the PRC legal adviser states that:–

- (i) Shanghai Road-Bridge Development Co., Ltd. (上海路橋發展有限公司) has obtained five Shanghai Certificate of Real Estate Ownership with clear title, the process of change of name from Shanghai Road-Bridge Development Corporation Co., Ltd. (上海路橋發展股份有限公司) to Shanghai Road-Bridge Development Co., Ltd. (上海路橋發展有限公司) of five Shanghai Certificate of Real Estate Ownership is under progress;
- (ii) Shanghai Road-Bridge Development Co., Ltd. has the legal operation rights till 31st August 2030 of the Expressway;
- (iii) Operation rights of the Expressway is subject to a mortgage in favour of Industrial and Commercial Bank of China Limited, Shanghai Branch; and
- (iv) Shanghai Road-Bridge Development Co., Ltd. has the legal operation rights to engage filling station, car washing station, car park station and advertising facilities in the scope of the Expressway.

- (6) In accordance with the legal opinion issued by the PRC legal adviser and the information provided by the Company, the status of title and grant of major certificates approvals and licenses are as follows:

Shanghai Certificate of Real Estate Ownership	Yes
Franchise Agreement	Yes
Traffic and O&M Forecast Studies Report	Yes
Business Licence	Yes

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## APPENDIX III      TRAFFIC AND O&M FORECAST STUDIES ON THE HU-HANG EXPRESSWAY SHANGHAI SECTION ISSUED BY WILBUR SMITH ASSOCIATES LIMITED

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*Set out below is the text of the report received from Wilbur Smith Associates Limited, an independent traffic consultant, in connection with the traffic study on Hu-Hang Expressway Shanghai Section as referred to in the valuation report on the Hu-Hang Expressway Shanghai Section issued by DTZ Debenham Tie Leung Limited.*



Wilbur Smith Associates Limited  
Room 5208, 52/F,  
183 Queen's Road East, Wanchai,  
Hong Kong Special Administrative Region,  
P. R. China

15th August 2008

The Directors  
Shanghai Industrial Holdings Limited  
26/F Harcourt House,  
39 Gloucester Road, Wanchai,  
Hong Kong Special Administrative Region,  
P. R. China

Dear Sirs,

### **Shanghai to Hangzhou Expressway Shanghai Section Traffic and O&M Forecast Studies**

Wilbur Smith Associates Limited (the "Consultant") was appointed by Shanghai Industrial Holdings Limited (the "Company") to carry out an independent traffic and operation and maintenance cost forecasts for a section of an expressway from Shanghai to Hangzhou ("Hu-Hang Expressway Shanghai Section").

All reasonable and professional skill, judgement, care and due diligence has been exercised in preparing the Traffic and O&M Forecast Studies. A summary of the findings of this report is set out below:

#### **1 Introduction**

Hu-Hang Expressway Shanghai Section starts from Xinzhuang Town (莘莊鎮) of Minhang District (閔行區), and passes through Minhang District (閔行區), Songjiang District (松江區), Jinshan District (金山區), and ends at Fengjing Town (楓涇鎮) of Jinshan District (金山區). The construction of the section from Xinzhuang to Songjiang started at 1985, and was opened to traffic in December 1990. This section has two lanes in each direction. The

construction of another section from Songjiang to Fengjing commenced in January 1996, and was completed in December 1998. In 2004, this section had been widened to 3 lanes in each direction. The total length of Hu-Hang Expressway Shanghai Section is about 47.7 km.

The objectives of the study include the following:

- 1) According to current traffic status, to forecast the traffic volume and toll revenue from 2008 to 2030; and
- 2) To estimate the future operation and maintenance costs.

## **2 Study Approach**

The study approach and work steps are summarized as below:

- *Step I: Data collection*

The Consultant collected all the data concerning Hu-Hang Expressway Shanghai Section, including the economic and traffic development trend, future development goals and the related forecasts of Shanghai as well as Zhejiang Province.

- *Step II: Route investigation and traffic survey*

The Consultant planned and conducted detailed route investigation on Hu-Hang Expressway Shanghai Section and the nearby major highways to understand the roadway and traffic conditions along the corridor.

The Consultant obtained the Year 2008 toll station to toll station traffic flow on Hu-Hang Expressway Shanghai Section from Shanghai Highway & Bridge Limited (“SHBL”). These data could help understand the traffic composition between Shanghai and Hangzhou and to update the 16 hour Origin-Destination (OD) survey data and the 24 hour traffic volume survey data acquired in 2006. Those survey data, after updating by the toll station to toll station traffic data, are valid for this traffic forecast.

- *Step III: Economical analysis*

The Consultant evaluated the trend of population, employment, gross domestic product (GDP), automobile ownerships etc by collected the social and economic data from 2007 China, Shanghai and Zhejiang Annual Statistical Report. It helps estimate the future GDP growth and analyse the growth rate for establishing future trips matrix.

- *Step IV: Assessment of the existing and future highway network*

The Consultant established a base year (2008) highway network transport model for Shanghai and Zhejiang Province and examined the future highway improvement plan according to the highway network plan documents. The Consultant also established the future highway network transport models for year 2009, 2010, 2011, 2015, 2020 and 2030.

- *Step V: Transport Model*

The Consultant calibrated the base year transport model with the surveyed trip matrix and the station to station traffic flows. During the calibration process, the original trip matrix was adjusted by model trip assignment such that the model traffic flows is close to the observed survey data.

The future highway transport model was also examined by using the future trip matrix. The assignment results was analysed cautiously and proper adjustment was made as necessary.

- *Step VI: Analysis of traffic flows and forecast of toll revenue*

Based on the adjusted final assignment result and the assumed GDP growth rate, the estimated exit road traffic flows, weighted Annual Average Daily Traffic (AADT) for each road section and the annual toll revenue of Hu-Hang Expressway Shanghai Section was evaluated from year 2008 to 2030.

- *Step VII: Operation cost estimates*

Estimation of operation and maintenance costs of Hu-Hang Expressway Shanghai Section consists of two components, i.e. operation cost estimate and maintenance cost estimate. Based on the trend of managing cost, front line staff expenses and public expenses of SHBL and in accordance with the traffic forecast results by the Consultant, public expenses is expected to remain at the same level from 2008 to 2030. Managing cost for Hu-Hang Expressway Shanghai Section is expected to increase marginally within the forecast years. However, on the other hand, the expenses of front line staff will increase by a relatively larger amount within the same period of time.

- *Step VIII: Maintenance cost estimates*

The Consultant's highway engineers examined the quality of the project road and related project documents, and then estimated the maintenance cost for the year 2008-2030 based on the maintenance expenses sheet.

- *Step IX: Cost estimate for major repairing*

The Consultant's highway engineers collected the highway detailed design and examined the traffic data of Hu-Hang Expressway Shanghai Section in order to analyse the major repairing cycle of Hu-Hang Expressway Shanghai Section. The cycle is estimated to be about 8 years by referring to the major repair conditions of similar expressway in the vicinity of Hu-Hang Expressway Shanghai Section.

### **3      Traffic and toll revenue forecast**

The Consultant carried out the traffic assignment for Hu-Hang Expressway Shanghai Section based on the traffic demand and highway network in year 2008, 2009, 2010, 2011, 2015, 2020 and 2030. Traffic flows on other years were estimated by interpolation between the model years. Traffic assignment was analysed to ensure that rationality and proper adjustments have been performed as necessary. This traffic volume formed the basis for traffic and toll revenue forecasts for Hu-Hang Expressway Shanghai Section from 2008 to 2030.

The Gross Domestic Product is a general economic indicator to measure the economic development of major cities in the world, including the national economic development, economic development in Shanghai and in major cities in the Zhejiang Province.

The hypothetical annual GDP growth rates are given in the table below:

**Table 1: The hypothetical annual GDP growth rate for 2008-2030**

<b>Region/years</b>	<b>2008-2010</b>	<b>2011-2015</b>	<b>2016-2020</b>	<b>2021-2030</b>
Hangzhou Area	11%	9%	7%	5%
Ningbo Area	11%	8%	5%	4%
Jiaxing Area	11%	8%	6%	4%
Taizhou/ Wenzhou Area	9%	8%	5%	4%
Jinhua Area	9%	8%	5%	4%
Zhuji/ Yiwu Area	10%	7%	5%	4%
Other Areas in Zhejiang Province	9%	8%	5%	4%
Jinshan District	10%	7%	5%	4%
Fengxian District	10%	8%	5%	4%
Nanhui District	10%	7%	5%	4%
Songjiang District (near Shanghai City Centre)	19%	13%	10%	7%
Songjiang District Centre	19%	13%	10%	7%
Songjiang District (near Zhejiang Province)	14%	10%	7%	6%
South of Minhang District (near Songjiang District)	19%	13%	10%	7%
Shanghai City Centre (inside the Outer Ring Road)	12%	8%	5%	4%
Pudong New District	12%	8%	5%	4%
Qingpu District	11%	8%	5%	4%
Jiading District and North of Minhang District	15%	11%	6%	4%
Baoshan District	11%	9%	5%	4%
Jiangsu Province	10%	8%	5%	4%
Other Provinces in China	9%	7%	5%	4%

*Source:* Wilbur Smith Associates Limited, 2008

The following factors were considered by the Consultant during the procedures of traffic assignments.

1) *Traffic shifted from other state and provincial highways*

Traffic is expected to be attracted from other state and provincial highways when there is new expressway open in the same corridor. However, Hu-Hang Expressway Shanghai Section has opened for a long period of time that the shifting effect has already been stabilized.

2) *Impact of network change*

Traffic is expected to be diverted from Hu-Hang Expressway Shanghai Section if there is any future competitive expressways near or along the same corridor. Therefore, the Consultant obtained some government road network planning data of Shanghai and Zhejiang Province, such as the *Shanghai National and Provincial Arterial Expressway Network Planning (2020)*, the *Zhejiang Transport Planning (2003-2020)* and the *Planning Outline of Zhejiang Land and Water Transportation Construction*, in order to form a concrete future network model to analyse the diversion impact.

3) *Induced traffic*

With the expected growth in economic development, the traffic between cities and the nearby suburbs will be more and more frequent. The induced traffic flow has thus been taken into consideration in the forecast assumption.

4) *Impact of the new tolling system*

Since any toll adjustment mechanism in Shanghai for future years is unlikely to be confirmed, the revenue forecasts in this study are based on the assumption that the toll rates remains unchanged.

The average daily exit traffic and toll revenue of Hu-Hang Expressway Shanghai Section are shown in Table 2. The average daily exit traffic by vehicle types is shown in Table 3.

**Table 2: Average Daily Traffic at Exit Gate and Annual Toll Revenue  
of Hu-Hang Expressway Shanghai Section**

<b>Year</b>	<b>Average Daily Traffic at Exit Gate (in veh)</b>	<b>Annual Toll Revenue (in million RMB)</b>
2008	85,596	654.27
2009	95,064	726.65
2010	101,406	771.42
2011	110,335	837.74
2012	116,612	884.97
2013	123,209	935.03
2014	130,204	988.12
2015	137,610	1,044.32
2016	141,111	1,070.38
2017	144,632	1,097.09
2018	148,241	1,124.46
2019	151,940	1,152.52
2020	155,731	1,181.27
2021	158,132	1,198.33
2022	160,492	1,215.64
2023	162,889	1,233.19
2024	165,320	1,251.00
2025	167,789	1,269.06
2026	170,294	1,287.39
2027	172,836	1,305.98
2028	175,417	1,324.84
2029	178,036	1,343.97
2030	180,694	1,363.38

*Source:* Wilbur Smith Associates Limited, 2008

*Note:*

1. GDP in future years has been estimated;
2. Diversion impact by opening to traffic of corresponding expressways has been considered in the model;
3. Impact of free vehicles has been taken into account in the estimated result.

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**Table 3: Average daily traffic by vehicle types at accesses of  
Hu-Hang Expressway Shanghai Section**

Year	Type I	Type II	Type III	Type IV	Type V	Type VI	Type VII	Type VIII	Type IX	Type X	Type XI	Total
2008	50,430	8,172	1,213	3,699	7,763	6,516	1,615	545	2,083	115	3,444	85,596
2009	55,941	9,098	1,339	4,103	8,664	7,285	1,795	607	2,316	127	3,789	95,064
2010	59,596	9,727	1,419	4,371	9,289	7,823	1,917	651	2,474	134	4,004	101,406
2011	64,747	10,587	1,538	4,749	10,158	8,563	2,092	711	2,701	146	4,344	110,335
2012	68,333	11,194	1,618	5,012	10,787	9,102	2,217	755	2,863	155	4,577	116,612
2013	72,096	11,831	1,703	5,287	11,453	9,672	2,349	801	3,033	163	4,821	123,209
2014	76,081	12,507	1,792	5,579	12,161	10,279	2,488	850	3,215	172	5,079	130,204
2015	80,292	13,222	1,887	5,887	12,914	10,926	2,637	903	3,407	182	5,352	137,610
2016	82,244	13,564	1,928	6,030	13,294	11,256	2,709	929	3,502	187	5,470	141,111
2017	84,201	13,908	1,969	6,172	13,678	11,590	2,782	956	3,597	191	5,587	144,632
2018	86,205	14,261	2,011	6,318	14,074	11,935	2,857	983	3,694	196	5,707	148,241
2019	88,257	14,622	2,054	6,468	14,480	12,289	2,934	1,011	3,795	200	5,830	151,940
2020	90,356	14,993	2,098	6,621	14,899	12,654	3,013	1,040	3,897	205	5,955	155,731
2021	91,627	15,211	2,126	6,713	15,187	12,903	3,069	1,060	3,971	209	6,056	158,132
2022	92,870	15,425	2,153	6,804	15,474	13,150	3,125	1,080	4,044	212	6,156	160,492
2023	94,130	15,641	2,180	6,896	15,766	13,402	3,182	1,100	4,118	216	6,258	162,889
2024	95,406	15,861	2,208	6,988	16,064	13,658	3,240	1,121	4,193	220	6,361	165,320
2025	96,699	16,084	2,236	7,083	16,367	13,920	3,299	1,142	4,270	223	6,465	167,789
2026	98,010	16,309	2,265	7,178	16,676	14,186	3,359	1,163	4,348	227	6,572	170,294
2027	99,337	16,538	2,294	7,275	16,991	14,457	3,420	1,185	4,428	231	6,680	172,836
2028	100,682	16,770	2,323	7,372	17,311	14,734	3,482	1,207	4,509	235	6,790	175,417
2029	102,045	17,005	2,353	7,472	17,638	15,015	3,545	1,230	4,592	239	6,902	178,036
2030	103,426	17,243	2,383	7,572	17,970	15,302	3,610	1,253	4,676	243	7,015	180,694

*Source:* Wilbur Smith Associates Limited, 2008

Type I: passenger vehicle with 7 seats or less;

Type II: passenger vehicle with 8-19 seats;

Type III: passenger vehicle with 20-39 seats;

Type IV: passenger vehicle with 40 seats or more;

Type V: small truck with 2 tons or less;

Type VI: small truck with 2-5 tons;

Type VII: medium truck with 5-10 tons;

Type VIII: large truck with 10-15 tons;

Type IX: large truck with 15 tons or more;

Type X: 20 foot container vehicle;

Type XI: 40 foot container vehicle

#### **4      Operation and maintenance cost estimates for future years**

##### **4.1    Maintenance cost in past years**

Historical maintenance cost of Hu-Hang Expressway Shanghai Section is shown as below:

*1)    2005*

Routine maintenance cost of Hu-Hang Expressway Shanghai Section over the whole year was around RMB9.8640 million and the cost of special repairing project was around RMB7.3308 million. The total maintenance cost was about RMB17.1948 million.

*2)    2006*

Routine maintenance cost of Hu-Hang Expressway Shanghai Section for the whole year was around RMB9.9401 million and the cost of special repairing project around RMB35.8490 million. The total maintenance cost was approximately RMB45.7891 million.

*3)    2007*

Routine maintenance cost of Hu-Hang Expressway Shanghai Section for the whole year was around RMB9.8900 million and the cost of special repairing project was around RMB59.5468 million. The total maintenance cost was about RMB69.4368 million.

**Table 4: Maintenance cost of Hu-Hang Expressway Shanghai Section  
over the past years (RMB ten thousand)**

<b>Items</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>
Road facilities	Routine	436.17	490.51	482.63
	Special	733.08	2,760.51	3,128.08
Bridges & Tunnels	Routine	361.09	182.97	197.44
	Special	–	824.39	2,649.47
Greening	Routine	137.56	183.16	277.75
	Special	–	–	–
Accessorial facilities	Routine	51.58	137.37	31.18
	Special	–	–	177.13
<b>Total</b>		<b><u>1,719.48</u></b>	<b><u>4,578.91</u></b>	<b><u>6,943.68</u></b>

*Source:* SHBL, 2008

#### ***4.2 Operation cost over the past years***

Operation cost of Hu-Hang Expressway Shanghai Section can be classified into two parts, tolling cost and management cost.

Tolling cost is mainly referring to the cost occurred at toll stations and management office due to toll activities, including two categories: staff expenses and public expenses. Staff expenses consist of salary, supplements, welfare, housing fund and various labour insurance, etc. Public expenses consist of vehicle use expenses, power bill, public security and coordination expenses, routine public expenses and other items which all are assumed to remain constant within the forecast years. The former is mainly influenced by staff demands. Number of staff is expected to increase in line with the growth of traffic volume in order to deal effectively with traffic accident and to meet the requirements of more frequent maintenance and toll station work, which is subject to changes in traffic volume.

Management cost refers to the expenses at the headquarters of SHBL. It composes of two parts, staff expenses and public expenses.

**Table 5: Tolling cost and management cost of Hu-Hang Expressway Shanghai Section during the year 2005-2007 (RMB ten thousand)**

<b>Items</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Average Annual Growth Rate</b>
Managing staff expense	589.84	876.45	722.20	10.7%
Tolling staff expense	2,047.43	1,787.96	2,477.86	10.0%
Public expense	<u>673.00</u>	<u>577.00</u>	<u>660.00</u>	<u>-1.0%</u>
<b>Total</b>	<b><u>3,310.27</u></b>	<b><u>3,241.41</u></b>	<b><u>3,860.06</u></b>	<b><u>8.0%</u></b>

*Source:* SHBL, 2008

### ***4.3 Future operation and maintenance cost estimates***

The future operation and maintenance cost forecast of Hu-Hang Expressway Shanghai Section has been conducted from year 2008 to 2030. The forecast was based on the figures in 2007 and the impact of inflation was not taken into account. The unit cost of maintenance expenses in 2007 and the forecast were estimated based on data provided by SHBL and the Consultant's experience in China.

Based on the above mentioned information, operation and maintenance cost of Hu-Hang Expressway Shanghai Section is estimated as below:

- 1) Based on the operation cost of Hu-Hang Expressway Shanghai Section over the past years, the managing staff expenses will increase at a rate of 4% per year during 2008-2030. The tolling staff expenses will increase at a rate of 5% per year during 2008-2030.

The overall actual public expense in toll and managing cost in 2007 was RMB6.6 million, equivalent to an average of RMB138.4 thousand per kilometre. Based on suggestions of SHBL and the Consultant's experience, RMB140 thousand per kilometre was finally determined as the base for calculation, i.e. RMB6.68 million for the entire expressway. The public expense is not expected to change significantly from 2008 to 2030.

- 2) The routine maintenance cost was calculated at an average of RMB200 thousand per kilometre per year from 2005 to 2007. Considering the heavy traffic on Hu-Hang Expressway Shanghai Section, the level of routine maintenance is acceptable. Forecast of the total routine maintenance cost was estimated according to the Consultant's experiences in China, where the growth rate of routine maintenance will keep up with the growth rate of traffic and revenue.

**Table 6: Growth rate of annual toll revenue in future years**

<b>Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Increase rate	—	11.1%	6.2%	8.6%	5.6%	5.7%	5.7%	5.7%
<b>Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Increase rate	2.5%	2.5%	2.5%	2.5%	2.5%	1.4%	1.4%	1.4%
<b>Year</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	
Increase rate	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	

Source: Wilbur Smith Associates Limited, 2008

- 3) Hu-Hang Expressway Shanghai Section uses asphalt concrete pavement with the design service period of 15 years. Therefore, when the service period is reached, it is suggested to perform a complete rehabilitation for bridge pavement at a frequency of every ten years. This cost is expected to evenly distribute in five consecutive years from the commencement year of the rehabilitation. The total area of bridge pavement of the entire expressway is around 74,399 sq.m. and thus the annual maintenance area of the bridge pavement is 14,880 sq.m. The unit cost of bridge pavement is RMB100 per sq.m.. The first maintenance is expected to start in 2009.
- 4) The expansion joints are proposed to be overhauled or replaced in ten years and the cost will be evenly distributed in five consecutive years from the commencement year of the repair work. There are 456 expansion joints along Hu-Hang Expressway Shanghai Section. Total length of expansion joints on the entire expressway is 5,748 meters and joints to be replaced every year should be 1,150 meters. The unit cost of expansion joint is RMB1,600 per meter. Next replacement will start in 2009.
- 5) Special maintenance of the pavement is also required to fix the damages from rutting. The kind of damage may vary between cases and the estimation of the maintenance cost is about RMB80 per sq.m.. As the area of pavement of the entire expressway is 948,470 sq.m., assume 5 percent of the area will be repaired each year, and influenced area will be about 47,424 sq.m..
- 6) The allocation of natural disaster relief funds is suggested by the Consultant.
- 7) It is also suggested that part of that cost should take into account the costs for the systems for supervision, communication and toll collection facilities. The maintenance and replacement cost of communication facilities of RMB3 million per year, supervision system of RMB1.5 million per year (assume no upgraded facilities) and the toll system of RMB5 million per year (no device adding is considered) are estimated. An additional RMB1.5 million should also be allocated to the monitoring of the technology and technical conditions of the base, pavement and bridges and to the maintenance of pavement management system.
- 8) Besides, RMB3 million is suggested to be allocated to the special maintenance of the expressway.

- 9) Since the major part of the expressway is paved with asphalt concrete with the designed service period of 15 years, repairing of the road surface will be required for the pavement at the end of the designed service year. However, due to factors such as poor material performance and rapid traffic growth, the service period is expected to be shorten generally. Considering the heavy traffic on Hu-Hang Expressway Shanghai Section, major repair is therefore assumed to be performed every 8 years. To mitigate the traffic impact, each major repair will be completed in three years. As the observed strength and flatness of pavement are in a good condition, thin overlay could be used and the thickness should be controlled within the range of 5-6 cm. In case of the budget constraint, different measures, such as micro-surfacing, surface dressing, may be applied to part of the road segments with the best roadway conditions and the least damages. Preparation for the corresponding examination and design shall be performed a year beforehand and a thorough investigation shall be conducted each year on the damage conditions of the pavements. The cost of major repairing is calculated on the basis of RMB4.2 million per kilometre and this cost will be distributed into three consecutive years in the proportion: 25%:35%:40%. Taking into account that Hu-Hang Expressway Shanghai Section was opened to traffic at the end of 1990 and based on the pavement quality and conditions, it is estimated that the first, second and third major repair will begin in 2009, 2017 and 2025 respectively.
- 10) Petty cash, which is 10% of the annual overall maintenance cost, will be allocated as emergent incidents fund.

Result of operation and maintenance cost estimates of Hu-Hang Expressway Shanghai Section is shown in Table 7.

**APPENDIX III      TRAFFIC AND O&M FORECAST STUDIES ON THE HU-HANG EXPRESSWAY  
SHANGHAI SECTION ISSUED BY WILBUR SMITH ASSOCIATES LIMITED**

**Table 7-1: Result of operation and maintenance cost estimates of Hu-Hang Expressway  
Shanghai Section (RMB ten thousand)**

Items	Unit price 2007	Unit	Quantity	Unit	2008	2009	2010	2011	2012	2013
<b>1. Operation cost</b>	–	–	–	–	<b>4,020.8</b>	<b>4,181.0</b>	<b>4,348.8</b>	<b>4,524.7</b>	<b>4,709.1</b>	<b>4,902.4</b>
a. Tolling staff expense	2,477.9	RMB10,000/yr	–	–	2,601.8	2,731.8	2,868.4	3,011.9	3,162.4	3,320.6
b. Managing staff expense	722.2	RMB10,000/yr	–	–	751.1	781.1	812.4	844.9	878.7	913.8
c. Public expenses	660.0	RMB10,000/yr	–	–	668.0	668.0	668.0	668.0	668.0	668.0
<b>2. Maintenance cost</b>	–	–	–	–	<b>2,816.3</b>	<b>3,737.6</b>	<b>3,875.3</b>	<b>4,085.4</b>	<b>4,241.3</b>	<b>4,414.3</b>
<b>Routine maintenance</b>	989.0	RMB10,000/yr	–	–	1,166.3	1,375.4	1,513.1	1,723.3	1,879.1	2,052.1
a. Routine clearing	205.9	RMB10,000/yr	–	–	209.6	247.1	271.9	309.6	337.6	368.7
b. Greening	277.8	RMB10,000/yr	–	–	235.1	277.2	305.0	347.3	378.7	413.6
c. Pavement	234.4	RMB10,000/yr	–	–	275.2	324.6	357.1	406.7	443.5	484.3
d. Base	42.4	RMB10,000/yr	–	–	68.7	81.1	89.2	101.6	110.8	120.9
e. Bridge and culverts	197.4	RMB10,000/yr	–	–	291.2	343.4	377.8	430.3	469.2	512.4
f. Safety facilities	5.8	RMB10,000/yr	–	–	40.0	47.2	51.9	59.1	64.4	70.4
g. Service facilities	17.3	RMB10,000/yr	–	–	28.9	34.0	37.4	42.6	46.5	50.8
h. Management facilities	8.1	RMB10,000/yr	–	–	17.6	20.8	22.9	26.0	28.4	31.0
<b>Special maintenance</b>	–	–	–	–	1,650.0	2,362.2	2,362.2	2,362.2	2,362.2	2,362.2
a. Bridge pavement	100.0	RMB/m <sup>2</sup>	14,880	sq.m	0.0	148.8	148.8	148.8	148.8	148.8
b. Expansion joints	1,600.0	RMB/m	1,150	m	0.0	184.0	184.0	184.0	184.0	184.0
c. Pavements	80.0	RMB/m <sup>2</sup>	47,424	sq.m	0.0	379.4	379.4	379.4	379.4	379.4
d. Protection of disasters and emergent repairing	250.0	RMB10,000/item	1	item	250.0	250.0	250.0	250.0	250.0	250.0
e. Communication facilities	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	300.0
f. Supervision facilities	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	150.0
g. Toll system	500.0	RMB10,000/yr	–	–	500.0	500.0	500.0	500.0	500.0	500.0
h. Pavement and bridge management system	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	150.0
i. Other	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	300.0
<b>3. Rehabilitation cost</b>	420.0	RMB10,000/km	47.7	km	<b>0.0</b>	<b>5,008.5</b>	<b>7,011.9</b>	<b>8,013.6</b>	<b>0.0</b>	<b>0.0</b>
<b>4. Petty cash</b>	–	–	–	–	<b>281.6</b>	<b>373.8</b>	<b>387.5</b>	<b>408.5</b>	<b>424.1</b>	<b>441.4</b>
<b>Overall operation and maintenance cost</b>	–	–	–	–	<b>7,118.8</b>	<b>13,300.8</b>	<b>15,623.5</b>	<b>17,032.3</b>	<b>9,374.5</b>	<b>9,758.1</b>

Source: Wilbur Smith Associates Limited, 2008

**APPENDIX III      TRAFFIC AND O&M FORECAST STUDIES ON THE HU-HANG EXPRESSWAY  
SHANGHAI SECTION ISSUED BY WILBUR SMITH ASSOCIATES LIMITED**

**Table 7-2: Result of operation and maintenance cost estimates of Hu-Hang Expressway  
Shanghai Section (RMB ten thousand) (cont'd)**

Items	Unit price 2007	Unit	Quantity	Unit	2014	2015	2016	2017	2018	2019
<b>1. Operation cost</b>	–	–	–	–	<b>5,105.0</b>	<b>5,317.3</b>	<b>5,539.9</b>	<b>5,773.2</b>	<b>6,017.8</b>	<b>6,274.1</b>
a. Tolling staff expense	2,477.9	RMB10,000/yr	–	–	3,486.6	3,660.9	3,844.0	4,036.2	4,238.0	4,449.9
b. Managing staff expense	722.2	RMB10,000/yr	–	–	950.4	988.4	1,027.9	1,069.0	1,111.8	1,156.3
c. Public expenses	660.0	RMB10,000/yr	–	–	668.0	668.0	668.0	668.0	668.0	668.0
<b>2. Maintenance cost</b>	–	–	–	–	<b>3,891.0</b>	<b>4,097.3</b>	<b>4,196.1</b>	<b>4,298.9</b>	<b>4,405.9</b>	<b>5,229.3</b>
<b>Routine maintenance</b>	989.0	RMB10,000/yr	–	–	2,241.0	2,447.3	2,546.1	2,648.9	2,755.9	2,867.1
a. Routine clearing	205.9	RMB10,000/yr	–	–	402.6	439.7	457.5	475.9	495.2	515.1
b. Greening	277.8	RMB10,000/yr	–	–	451.7	493.2	513.2	533.9	555.4	577.9
c. Pavement	234.4	RMB10,000/yr	–	–	528.9	577.6	600.9	625.1	650.4	676.6
d. Base	42.4	RMB10,000/yr	–	–	132.1	144.2	150.1	156.1	162.4	169.0
e. Bridge and culverts	197.4	RMB10,000/yr	–	–	559.6	611.1	635.8	661.5	688.2	716.0
f. Safety facilities	5.8	RMB10,000/yr	–	–	76.8	83.9	87.3	90.8	94.5	98.3
g. Service facilities	17.3	RMB10,000/yr	–	–	55.4	60.5	63.0	65.5	68.2	70.9
h. Management facilities	8.1	RMB10,000/yr	–	–	33.9	37.0	38.5	40.0	41.6	43.3
<b>Special maintenance</b>	–	–	–	–	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	2,362.2
a. Bridge pavement	100.0	RMB/m <sup>2</sup>	14,880	sq.m	0.0	0.0	0.0	0.0	0.0	148.8
b. Expansion joints	1,600.0	RMB/m	1,150	m	0.0	0.0	0.0	0.0	0.0	184.0
c. Pavements	80.0	RMB/m <sup>2</sup>	47,424	sq.m	0.0	0.0	0.0	0.0	0.0	379.4
d. Protection of disasters and emergent repairing	250.0	RMB10,000/item	1	item	250.0	250.0	250.0	250.0	250.0	250.0
e. Communication facilities	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	300.0
f. Supervision facilities	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	150.0
g. Toll system	500.0	RMB10,000/yr	–	–	500.0	500.0	500.0	500.0	500.0	500.0
h. Pavement and bridge management system	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	150.0
i. Other	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	300.0
<b>3. Rehabilitation cost</b>	420.0	RMB10,000/km	47.7	km	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5,008.5</b>	<b>7,011.9</b>	<b>8,013.6</b>
<b>4. Petty cash</b>	–	–	–	–	<b>389.1</b>	<b>409.7</b>	<b>419.6</b>	<b>429.9</b>	<b>440.6</b>	<b>522.9</b>
<b>Overall operation and maintenance cost</b>	–	–	–	–	<b>9,385.1</b>	<b>9,824.3</b>	<b>10,155.6</b>	<b>15,510.5</b>	<b>17,876.1</b>	<b>20,040.0</b>

Source: Wilbur Smith Associates Limited, 2008

**APPENDIX III      TRAFFIC AND O&M FORECAST STUDIES ON THE HU-HANG EXPRESSWAY  
SHANGHAI SECTION ISSUED BY WILBUR SMITH ASSOCIATES LIMITED**

**Table 7-3: Result of operation and maintenance cost estimates of Hu-Hang Expressway  
Shanghai Section (RMB ten thousand) (cont'd)**

Items	Unit price 2007	Unit	Quantity	Unit	2020	2021	2022	2023	2024	2025
<b>1. Operation cost</b>	–	–	–	–	<b>6,542.9</b>	<b>6,824.6</b>	<b>7,119.9</b>	<b>7,429.5</b>	<b>7,754.1</b>	<b>8,094.3</b>
a. Tolling staff expense	2,477.9	RMB10,000/yr	–	–	4,672.4	4,906.0	5,151.3	5,408.9	5,679.3	5,963.3
b. Managing staff expense	722.2	RMB10,000/yr	–	–	1,202.5	1,250.6	1,300.6	1,352.7	1,406.8	1,463.0
c. Public expenses	660.0	RMB10,000/yr	–	–	668.0	668.0	668.0	668.0	668.0	668.0
<b>2. Maintenance cost</b>	–	–	–	–	<b>5,345.1</b>	<b>5,412.5</b>	<b>5,481.5</b>	<b>5,552.0</b>	<b>4,912.0</b>	<b>4,985.7</b>
<b>Routine maintenance</b>	989.0	RMB10,000/yr	–	–	2,982.9	3,050.3	3,119.3	3,189.8	3,262.0	3,335.7
a. Routine clearing	205.9	RMB10,000/yr	–	–	535.9	548.1	560.5	573.1	586.1	599.3
b. Greening	277.8	RMB10,000/yr	–	–	601.2	614.8	628.7	642.9	657.4	672.3
c. Pavement	234.4	RMB10,000/yr	–	–	704.0	719.9	736.2	752.8	769.8	787.2
d. Base	42.4	RMB10,000/yr	–	–	175.8	179.8	183.8	188.0	192.3	196.6
e. Bridge and culverts	197.4	RMB10,000/yr	–	–	744.9	761.7	778.9	796.5	814.6	833.0
f. Safety facilities	5.8	RMB10,000/yr	–	–	102.3	104.6	106.9	109.4	111.8	114.4
g. Service facilities	17.3	RMB10,000/yr	–	–	73.8	75.5	77.2	78.9	80.7	82.5
h. Management facilities	8.1	RMB10,000/yr	–	–	45.1	46.1	47.1	48.2	49.3	50.4
<b>Special maintenance</b>	–	–	–	–	2,362.2	2,362.2	2,362.2	2,362.2	1,650.0	1,650.0
a. Bridge pavement	100.0	RMB/m <sup>2</sup>	14,880	sq.m	148.8	148.8	148.8	148.8	0.0	0.0
b. Expansion joints	1,600.0	RMB/m	1,150	m	184.0	184.0	184.0	184.0	0.0	0.0
c. Pavements	80.0	RMB/m <sup>2</sup>	47,424	sq.m	379.4	379.4	379.4	379.4	0.0	0.0
d. Protection of disasters and emergent repairing	250.0	RMB10,000/item	1	item	250.0	250.0	250.0	250.0	250.0	250.0
e. Communication facilities	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	300.0
f. Supervision facilities	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	150.0
g. Toll system	500.0	RMB10,000/yr	–	–	500.0	500.0	500.0	500.0	500.0	500.0
h. Pavement and bridge management system	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	150.0
i. Other	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	300.0
<b>3. Rehabilitation cost</b>	420.0	RMB10,000/km	47.7	km	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5,008.5</b>
<b>4. Petty cash</b>	–	–	–	–	<b>534.5</b>	<b>541.3</b>	<b>548.2</b>	<b>555.2</b>	<b>491.2</b>	<b>498.6</b>
<b>Overall operation and maintenance cost</b>	–	–	–	–	<b>12,422.5</b>	<b>12,778.4</b>	<b>13,149.6</b>	<b>13,536.8</b>	<b>13,157.2</b>	<b>18,587.1</b>

Source: Wilbur Smith Associates Limited, 2008

**APPENDIX III      TRAFFIC AND O&M FORECAST STUDIES ON THE HU-HANG EXPRESSWAY  
SHANGHAI SECTION ISSUED BY WILBUR SMITH ASSOCIATES LIMITED**

**Table 7-4: Result of operation and maintenance cost estimates of Hu-Hang Expressway  
Shanghai Section (RMB ten thousand) (cont'd)**

Items	Unit price 2007	Unit	Quantity	Unit	2026	2027	2028	2029	2030	Total
<b>1. Operation cost</b>	–	–	–	–	<b>8,451.0</b>	<b>8,824.9</b>	<b>9,217.0</b>	<b>9,627.9</b>	<b>10,058.8</b>	<b>150,659.1</b>
a. Tolling staff expense	2,477.9	RMB10,000/yr	–	–	6,261.4	6,574.5	6,903.2	7,248.4	7,610.8	–
b. Managing staff expense	722.2	RMB10,000/yr	–	–	1,521.6	1,582.4	1,645.7	1,711.6	1,780.0	–
c. Public expenses	660.0	RMB10,000/yr	–	–	668.0	668.0	668.0	668.0	668.0	–
<b>2. Maintenance cost</b>	–	–	–	–	<b>5,061.1</b>	<b>5,138.3</b>	<b>5,217.1</b>	<b>6,010.0</b>	<b>6,092.5</b>	<b>108,496.5</b>
<b>Routine maintenance</b>	989.0	RMB10,000/yr	–	–	3,411.1	3,488.3	3,567.1	3,647.8	3,730.3	–
a. Routine clearing	205.9	RMB10,000/yr	–	–	612.9	626.7	640.9	655.4	670.2	–
b. Greening	277.8	RMB10,000/yr	–	–	687.5	703.0	718.9	735.2	751.8	–
c. Pavement	234.4	RMB10,000/yr	–	–	805.0	823.2	841.8	860.9	880.3	–
d. Base	42.4	RMB10,000/yr	–	–	201.0	205.6	210.2	215.0	219.9	–
e. Bridge and culverts	197.4	RMB10,000/yr	–	–	851.8	871.1	890.8	910.9	931.5	–
f. Safety facilities	5.8	RMB10,000/yr	–	–	116.9	119.6	122.3	125.1	127.9	–
g. Service facilities	17.3	RMB10,000/yr	–	–	84.4	86.3	88.2	90.2	92.3	–
h. Management facilities	8.1	RMB10,000/yr	–	–	51.5	52.7	53.9	55.1	56.4	–
<b>Special maintenance</b>	–	–	–	–	1,650.0	1,650.0	1,650.0	2,362.2	2,362.2	–
a. Bridge pavement	100.0	RMB/m <sup>2</sup>	14,880	sq.m	0.0	0.0	0.0	148.8	148.8	–
b. Expansion joints	1,600.0	RMB/m	1,150	m	0.0	0.0	0.0	184.0	184.0	–
c. Pavements	80.0	RMB/m <sup>2</sup>	47,424	sq.m	0.0	0.0	0.0	379.4	379.4	–
d. Protection of disasters and emergent repairing	250.0	RMB10,000/item	1	item	250.0	250.0	250.0	250.0	250.0	–
e. Communication facilities	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	–
f. Supervision facilities	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	–
g. Toll system	500.0	RMB10,000/yr	–	–	500.0	500.0	500.0	500.0	500.0	–
h. Pavement and bridge management system	150.0	RMB10,000/yr	–	–	150.0	150.0	150.0	150.0	150.0	–
i. Other	300.0	RMB10,000/yr	–	–	300.0	300.0	300.0	300.0	300.0	–
<b>3. Rehabilitation cost</b>	420.0	RMB10,000/km	47.7	km	<b>7,011.9</b>	<b>8,013.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>60,102.0</b>
<b>4. Petty cash</b>	–	–	–	–	<b>506.1</b>	<b>513.8</b>	<b>521.7</b>	<b>601.0</b>	<b>609.2</b>	<b>10,849.7</b>
<b>Overall operation and maintenance cost</b>	–	–	–	–	<b>21,030.1</b>	<b>22,490.6</b>	<b>14,955.8</b>	<b>16,238.9</b>	<b>16,760.5</b>	<b>330,107.3</b>

Source: Wilbur Smith Associates Limited, 2008

## **5      Conclusion**

From 2008 to 2030, Hu-Hang Expressway Shanghai Section traffic volume at exit gate is expected to increase from 85,596 vehicle per day to 180,694 vehicle per day, equivalent to a growth of 111%. Hu-Hang Expressway Shanghai Section is expected to achieve a total revenue of approximately RMB25.26 billion during this period of time.

In the corresponding period, Hu-Hang Expressway Shanghai Section operation and maintenance costs will be around RMB3.3 billion, or 13.1% of the total revenue.

Yours faithfully,  
For and on behalf of  
**Wilbur Smith Associates Limited**

**Sue Chan**  
BEcon, MA, CMILT  
*Associate*

*Set out below is the text of the report from Deloitte Touche Tohmatsu in connection with the cash flow forecast underlying the valuation of the operation rights of Hu-Hang Expressway Shanghai Section prepared for the purpose of inclusion in this circular.*

**Deloitte.**  
**德勤**

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15th August 2008

The Board of Directors  
Shanghai Industrial Holdings Limited  
26/F, Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

Dear Sirs,

We have examined the cash flow projection covering the period from 1st July 2008 to 31st August 2030 used in the valuation of the operation rights of Hu-Hang Expressway (Shanghai Section) (the “Hu-Hang Expressway Shanghai Section”), which is located in Shanghai, the People’s Republic of China (the “Underlying Forecast”) as set out in Appendix II included in the circular of Shanghai Industrial Holdings Limited (the “Company”) dated 15th August 2008 in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. The scope of our engagement included an examination of the arithmetical accuracy of the calculations in the preparation of the Underlying Forecast.

Management is responsible for the Underlying Forecast including the assumptions on which it is based. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. It is our responsibility to form an opinion, based on our examination of the Underlying Forecast, and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Our work has been undertaken solely to assist the directors of the Company in evaluating whether the Underlying Forecast has been properly compiled in accordance with the assumptions made by the directors of the Company. Our work does not constitute a valuation of the Hu-Hang Expressway Shanghai Section. As described above, the Underlying Forecast has been prepared in connection with the valuation of the Hu-Hang Expressway Shanghai Section. The Underlying Forecast has been prepared using a set of assumptions

that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that the Underlying Forecast may not be appropriate for purposes other than that described above.

In our opinion, the Underlying Forecast is properly prepared on the basis of the assumptions, is arithmetically accurate and is presented in accordance with the assumptions made by the directors of the Company.

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the Underlying Forecast since other anticipated events frequently do not occur as expected and the variation may be material.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## 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 interests 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

#### *Ordinary Shares*

Name of Director	Capacity	Nature of interests	Number of issued Shares held	Percentage of total issued share capital
Cai Yu Tian	Beneficial Owner	Personal	520,000	0.05%
Lu Ming Fang	Beneficial Owner	Personal	1,467,000	0.14%
Ding Zhong De	Beneficial Owner	Personal	685,000	0.06%
Zhou Jie	Beneficial Owner	Personal	307,000	0.03%
Qian Shi Zheng	Beneficial Owner	Personal	479,000	0.04%
Yao Fang	Beneficial Owner	Personal	248,000	0.02%
Tang Jun	Beneficial Owner	Personal	30,000	0.003%

All interests stated above represented long positions.

*Share options of the Company*

Name of Director	Capacity	Date of grant	Exercise price per Share HK\$	Number of share options held	Percentage of total issued share capital
Cai Yu Tian	Beneficial Owner	2nd May 2006	17.10	520,000	0.05%
Lu Ming Fang	Beneficial Owner	2nd September 2005	14.89	480,000	0.04%
Ding Zhong De	Beneficial Owner	2nd May 2006	17.10	400,000	0.04%
Zhou Jie	Beneficial Owner	2nd September 2005	14.89	220,000	0.02%
Qian Shi Zheng	Beneficial Owner	2nd September 2005	14.89	200,000	0.02%
Tang Jun	Beneficial Owner	2nd September 2005	14.89	220,000	0.02%

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 Shanghai Industrial Pharmaceutical Investment Co. Ltd.**

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 interests and short positions of the persons (not being a Director or chief executive of the Company) in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Capacity	Total interests in Shares and underlying Shares	Percentage of total issued share capital
● <i>Long Positions</i>			
SIIC	Interests held by controlled corporations	548,771,371 (note (i))	50.99%
JPMorgan Chase & Co.	Beneficial Owner	1,058,000	0.10%
	Investment Manager	3,667,000	0.34%
	Custodian Corporation/Approved Lending Agent	60,116,644	5.59%
● <i>Short Positions</i>			
SIIC	Interests held by controlled corporations	86,218,331 (note (ii))	8.01%
JPMorgan Chase & Co.	Beneficial Owner	400,000	0.04%

Notes:

- (i) SIIC through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, SIIC Treasury (B.V.I.) Limited, SIIC Asset Management Company Limited, SIIC CM Development Funds Limited, SIIC Trading Company Limited, Billion More Investments Limited and SIIC CM held 466,644,371, 80,000,000, 1,217,000, 350,000, 350,000, 150,000, 50,000 and 10,000 Shares and underlying Shares respectively, and was accordingly deemed to be interested in the respective Shares and underlying Shares held by the aforementioned companies.
- (ii) SIIC was taken to have short positions in respect of 86,218,331 underlying Shares 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 the Shares.

- (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:

<b>Name of Director</b>	<b>Position held in SIIC</b>
Mr. Teng Yi Long	Executive Director and Chairman
Mr. Cai Yu Tian	Executive Director and President
Mr. Lu Ming Fang	Executive Director
Mr. Ding Zhong De	Executive Director
Mr. Zhou Jie	Executive Director and Executive Vice President
Mr. Qian Shi Zheng	Vice President
Mr. Yao Fang	Vice President
Mr. Tang Jun	General Manager of 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 and companies (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) in the following manner:–

<b>Name of member of the Group</b>	<b>Name of substantial shareholders</b>	<b>Class of share capital</b>	<b>Percentage of registered shareholding</b>
Hunan Urban Development Depu Property Co. Ltd.* (湖南城開德普置業有限公司)	Shanghai Depu Property Development Co. Ltd.* (上海德普置業發展有限公司)	equity interest	45%
Kunshan Urban Development Real Estate Development Co. Ltd.* (昆山城開房地產開發有限公司)	Shanghai Zhongxin Real Estate Development Co.* (上海中新房地產開發公司)	equity interest	10%
New Shanghai International Commercial City Development Co. Ltd.* (新上海國際商城發展有限公司)	Shanghai Shangtou Real Estate Co. Ltd.* (上海市上投房地產有限公司)	equity interest	40%
Shanghai Chengda Water Treatment Technology Co. Ltd.* (上海城大 wat 處理科技有限公司)	Ge Er Pu (格爾普)	equity interest	25%

## APPENDIX V

## GENERAL INFORMATION

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of registered shareholding
Shanghai Senxin Investment Co. Ltd.* (上海森鑫投資有限公司)	Shanghai Yingde Property Co. Ltd.* (上海鷹德置業有限公司)	equity interest	21%
	Shanghai Zhengyang Investment Co. Ltd.* (上海正陽投資有限公司)	equity interest	25%
Shanghai Shenda Property Co. Ltd.* (上海申大物業有限公司)	Jiang You Ji (蔣友集)	equity interest	25%
	Xie Xian Wei (謝先偉)	equity interest	15%
Shanghai Urban Cradle Real Estate Development Co. Ltd.* (上海萬源房地產開發有限公司)	Shanghai Zhufeng Enterprises Development Co. Ltd.* (上海珠峰企業發展有限公司)	equity interest	10%
Shanghai Urban Development (Holdings) Co. Ltd.* (上海城開(集團)有限公司)	Xuhui District State-owned Assets Administrative Committee (上海市徐匯區國有資產監督管理委員會)	equity interest	41%
Shanghai Urban Development Holdings Chongqing Depu Property Co. Ltd.* (上海城開集團重慶德普置業有限公司)	Shanghai Depu Property Development Co. Ltd.* (上海德普置業發展有限公司)	equity interest	45%
Shanghai Urban Development Property Agent Co. Ltd.* (上海城開產權經紀有限公司)	Zhang Sheng Zhong (張升中)	equity interest	20%
Shanghai Huanyu City Investment Development Co. Ltd.* (上海寰宇城市投資發展有限公司)	Shanghai Xuhui Land Development Co. Ltd.* (上海徐匯土地發展有限公司)	equity interest	30%
	Shanghai Xuhui Commercial City (Group) Co. Ltd.* (上海徐匯商城(集團)有限公司)	equity interest	10%
Changshu Shangchi Dental Materials Co. Ltd. (常熟尚齒齒科材料有限公司)	Zhou Zhen Kang (周振康)	equity interest	17.6%
Changzhou Pharmaceutical Co. Ltd.* (常州藥業股份有限公司)	Changzhou Investment Group Limited* (常州投資集團有限公司)	equity interest	23.05%

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of registered shareholding
Chia Tai Qingchunbao Pharmaceutical Co. Ltd.* (正大青春寶藥業有限公司)	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 Development Co. Ltd.* (深圳市益公實業發展有限公司)	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	23.07%
	Fu He Liang (傅和亮)	equity interest	11.98%
Guangdong 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	49%
Hangzhou Huqingyutang Pharmaceutical Co. Ltd.* (杭州胡慶餘堂藥業有限公司)	Hangzhou Huqingyutang Group Co. Ltd.* (杭州胡慶餘堂集團有限公司)	equity interest	44.9566%
Hangzhou Huqingyutang Natural Pharmaceutical Co. Ltd.* (杭州胡慶餘堂天然藥物有限公司)	Hangzhou Huqingyutang Drugstore Co. Ltd.* (杭州胡慶餘堂國藥號有限公司)	equity interest	18.37%
	Hangzhou Huqingyutang Group Co. Ltd.* (杭州胡慶餘堂集團有限公司)	equity interest	11.63%
Hangzhou Huqingyutang Raw Pharmaceutical Co. Ltd.* (杭州胡慶餘堂藥材種植有限公司)	Hangzhou Huqingyutang Group Co. Ltd.* (杭州胡慶餘堂集團有限公司)	equity interest	24%
Herbapex Group Liaoning Huanren Pharmaceutical Co. Ltd.* (好護士集團遼寧桓仁藥業有限公司)	Zhao Ming (趙明)	equity interest	25%

Name of member of the Group	Name of substantial shareholders	Class of share capital	Percentage of registered shareholding
Liaoning Herbapex Pharmaceutical (Group) Co. Ltd.* (遼寧好護士藥業(集團)有限責任公司)	Medieval International Limited	equity interest	15%
	Zheng Ji Yu (鄭繼宇)	equity interest	16.50%
Mergen Biotech Limited	Excellent Hope Holdings Inc.	ordinary share	10.99%
	Sino Alliance International, Ltd.	ordinary share	18.6%
Shanghai Feimante Medical Instrument Co. Ltd.* (上海菲曼特醫療器械有限公司)	Finn Fund	equity interest	12.5%
	Sitra Fund	equity interest	12.5%
	Fimet OY	equity interest	25%
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 Victor Medical Instrument Co. Ltd. (上海勝利醫療器材有限公司)	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	14.09%
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%
Shanghai United Pharmaceutical Co. Ltd.* (上海上聯藥業有限公司)	Zhou Yi Ping(周一平)	equity interest	22%
	Xu Zheng(許政)	equity interest	17%
	Feng Wei (馮衛)	equity interest	10%
Xiamen Traditional Chinese Medicine Co. Ltd.* (廈門中藥廠有限公司)	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 Swellfun Co. Ltd. (四川水井坊股份有限公司)	equity interest	20%
	Chengdu Juhe Management Strategies Co. Ltd.* (成都聚和管理策劃有限公司)	equity interest	19%
	Sichuan 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. (許昌永昌印務有限公司)	China Tobacco Henan Industrial Corp.* (河南中煙工業公司)	equity interest	20.6%
	Shangtou 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 interests or short positions in any Shares or underlying Shares or interests 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; and
- (ii) there was no person known to the Directors who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value 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' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company 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. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any interest in any assets which have been, since 31st December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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, which is significant in relation to the business of the Group.

**6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December 2007 (being the date to which the latest published audited accounts of the Group have been made up).

**7. LITIGATION**

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

**8. EXPERTS**

- (a) The following are the qualifications of the experts who have provided their opinions or advice, which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
DTZ Debenham Tie Leung Limited	International Valuers
Wilbur Smith Associates Limited	Traffic Consultant
Commerzbank AG Hong Kong Branch	Commerzbank AG, acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance and an authorized financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 of the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Yuan Tai Law Offices	PRC Lawyers
Beijing Great Hold Law Offices	PRC Lawyers

- (b) As at the Latest Practicable Date, each of the above experts did not have any shareholding interest directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and it had no interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its report and/or letter and references to its name and advice or opinion in the form and context in which they respectively appear.

**9. 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 Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Leung Lin Cheong who is a Fellow of The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries, The Chartered Institute of Management Accountants and the Hong Kong Institute of Certified Public Accountants.
- (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.

**10. PROCEDURES FOR DEMANDING A POLL**

Pursuant to Article 73 of the Articles of Association of the Company, at any general meeting a resolution put to the vote at the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is (before or on the declaration of the result of the show of hands) demanded. A poll may be demanded:

- (a) by the Chairman; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by any member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

**11. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's registered office in Hong Kong at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

- (a) the Hotel Acquisition Agreement;
- (b) the Road Bridge Acquisition Agreement;
- (c) the Supplemental Hotel Acquisition Agreement;
- (d) the Supplemental Road Bridge Acquisition Agreement;
- (e) the Concession Contract; and
- (f) the Equity Transfer Contract.

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## NOTICE OF EGM

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Shanghai Industrial Holdings Limited (the “Company”) will be held at the Conference Room of the Company, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 8th September 2008 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions as ordinary resolutions of the Company:

### **ORDINARY RESOLUTIONS**

**1. “THAT:**

- (a) the conditional sale and purchase agreement dated 21st July 2008 (as amended by a supplemental agreement dated 5th August 2008, together the “Hotel Acquisition Agreements”), copies of which are produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification, made between South Pacific Hotel Holdings Limited, the Company and Shanghai Industrial Investment (Holdings) Company Limited (“SIIC”) in relation to the acquisition by the Company of the Good Cheer Sale Share (as defined and described in the circular of the Company dated 15th August 2008 (the “Circular”) and the Good Cheer Sale Loans (as defined and described in the Circular) for a consideration of HK\$1,350,000,000 pursuant to the Hotel Acquisition Agreements, upon the terms and subject to the conditions therein contained, and all transactions contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, confirmed and/or ratified; and
- (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such agreements, instruments, documents and deeds, and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to the Hotel Acquisition Agreements as they may in their discretion consider to be desirable and in the interests of the Company.”

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## NOTICE OF EGM

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2. “THAT:

- (a) the conditional sale and purchase agreement dated 21st July 2008 (as amended by a supplemental agreement dated 5th August 2008, together the “Road Bridge Acquisition Agreements”), copies of which are produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification, made between SIIC CM Development Limited (上海實業崇明開發建設有限公司), S.I. Infrastructure Holdings Limited (上實基建控股有限公司) and SIIC in relation to the acquisition by the Company of the Hu-Hang Sale Share and the Hu-Hang Sale Loan (both as defined and described in the Circular) for a consideration of HK\$4,196,312,000 pursuant to the Road Bridge Acquisition Agreements, upon the terms and subject to the conditions therein contained, and all transactions contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, confirmed and/or ratified; and
- (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such agreements, instruments, documents and deeds, and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to the Road Bridge Acquisition Agreements as they may in their discretion consider to be desirable and in the interests of the Company.”

By Order of the Board  
**Shanghai Industrial Holdings Limited**  
**Leung Lin Cheong**  
*Company Secretary*

Hong Kong, 15th August 2008

*Registered Office:*  
26th Floor  
Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

*Notes:*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.

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## NOTICE OF EGM

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- (3) The Register of Members of the Company will be closed from Thursday, 4th September 2008 to Monday, 8th September 2008, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by 4:30 p.m. on Wednesday, 3rd September 2008.
- (4) A form of proxy for use at the meeting is enclosed with the circular to shareholders of the Company.
- (5) The instrument appointing a proxy must be in writing under the hand of the appointer or attorney duly authorized in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
- (6) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the registered office of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting (or any adjournment thereof, as the case may be).
- (7) Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting. If such member attends the meeting, his form of proxy will be deemed to have been revoked.
- (8) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English language version shall prevail.