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

CONNECTED TRANSACTION

**DISPOSAL OF A COMPANY HOLDING SHARES IN
SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



KBC Bank N.V. Hong Kong Branch

A letter from the board of directors of the Company is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 10 of this circular. A letter from KBC Bank N.V. Hong Kong Branch, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 23 of this circular.

A notice convening the EGM to be held at the Conference Room of the Company, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 31st August 2009 at 3:00 p.m. is set out on pages 33 to 34 of this circular. A form of proxy for use at the EGM is enclosed herewith. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon 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 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.

13th August 2009



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DEFINITIONS

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

Terms	Meaning
“Board”	the board of Directors
“Business Day”	means a day (other than a Saturday and Sunday) on which licensed banks are open for business in Hong Kong
“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
“Completion”	completion of the sale and purchase of the Sale Share and the Sale Loan pursuant to and in accordance with the Sale and Purchase Agreement
“Completion Date”	means five (5) Business Days after the date on which all the conditions have been fulfilled (or such later date as the Parties may agree in writing) on which Completion shall take place in accordance with the Sale and Purchase Agreement
“Consideration”	the aggregate cash consideration for the Sale Share and the Sale Loan
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Sale Share and the Sale Loan to the Purchaser pursuant to the Sale and Purchase Agreement
“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, 31st August 2009 at 3:00 p.m. at which ordinary resolutions will be proposed to approve, if thought fit, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“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 Disposal
“Independent Shareholders”	Shareholders other than SIIC and its associates
“Latest Practicable Date”	11th August 2009, 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 to the Listing Rules
“Purchaser”	Shanghai Industrial Financial (Holdings) Company Limited (上海實業金融控股有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of SIIC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 27th July 2009 entered into between the Company and the Purchaser in relation to the sale and purchase of the Sale Share and the Sale Loan
“Sale Loan”	means the unsecured, interest-free loan repayable on demand owing by SI Technology to the Company as at Completion
“Sale Share”	one (1) ordinary share of US\$1.00 each in the issued share capital of SI Technology
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and a controlling shareholder of the Company

DEFINITIONS

“SMIC”	Semiconductor Manufacturing International Corporation, a company incorporated in the Cayman Islands with limited liability and the ordinary shares and the American depositary shares of which are listed on the Main Board of the Stock Exchange (stock code: 981) and the New York Stock Exchange respectively
“SMIC Shares”	ordinary shares of par value US\$0.0004 each in the capital of SMIC
“SI Technology”	S.I. Technology Production Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

LETTER FROM THE BOARD



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

Executive Directors:

Mr. Teng Yi Long (Chairman)

Mr. Cai Yu Tian (Vice Chairman & 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. Zhou Jun (Deputy CEO)

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

13th August 2009

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

DISPOSAL OF A COMPANY HOLDING SHARES IN SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the announcement by the Company dated 27th July 2009 in relation to the Disposal.

On 27th July 2009, the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company agreed to sell and the Purchaser agreed to purchase (a) the Sale Share and (b) the rights of and benefits in the Sale Loan for an aggregate cash consideration of HK\$1,099,961,604 (representing the entire interest of the Company in SI Technology). SI Technology is a wholly-owned subsidiary of the Company and its principal asset is 1,833,269,340 SMIC Shares, representing approximately 8.2% shareholding interest in SMIC as at the Latest Practicable Date.

LETTER FROM THE BOARD

SIIC is the holding company of the Company which was interested in approximately 50.76% of the total issued share capital of the Company as at the Latest Practicable Date. The Purchaser is an indirect wholly-owned subsidiary of SIIC and thus a connected person of the Company under the Listing Rules. Accordingly, the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the requirements of reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. SIIC and its associates will be required to abstain from voting in respect of the ordinary resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among others, (i) further details of the Disposal; (ii) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (iii) a letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the EGM; and (v) other information of the Company as required by the Listing Rules.

2. THE SALE AND PURCHASE AGREEMENT

Date

27th July 2009

Parties

- (1) the Company
- (2) the Purchaser, an indirect wholly-owned subsidiary of SIIC

Assets to be disposed of

- (a) the Sale Share, representing the entire issued share capital of SI Technology; and
- (b) the rights of and benefits in the Sale Loan. For reference purpose, based on the unaudited management accounts of SI Technology for the six months ended 30th June 2009, which have been prepared in accordance with the Hong Kong Financial Reporting Standards, the Sale Loan amounted to HK\$1,703,338,163.80 as at 30th June 2009.

SI Technology is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company. Its principal asset is 1,833,269,340 SMIC Shares, representing an approximate 8.2% shareholding interest in SMIC as at the Latest Practicable Date.

LETTER FROM THE BOARD

Consideration

The Consideration is HK\$1,099,961,604 which shall be satisfied in full by cash, with 70% of the Consideration (being HK\$769,973,123) payable on the Completion Date (the "First Payment") and the remaining HK\$329,988,481 payable on or before the date falling six months after the First Payment (or such other later date as the Company and the Purchaser may agree in writing).

The Consideration was determined after commercial negotiations between the parties at arm's length basis and with reference to the valuation of the underlying SMIC Shares under the Disposal as at 30th June 2009 of HK\$0.60 per SMIC Share as prepared by DTZ Debenham Tie Leung Limited, an independent valuer, based on the market approach. The interest in SMIC held by SI Technology is accounted for by the Company by way of equity accounting and therefore the operating loss from SMIC has been shared by the Company.

The consideration per SMIC Share payable by the Purchaser being HK\$0.60 represents:-

1. approximately 39.5% premium over the closing price of HK\$0.43 per SMIC Share as quoted on the Stock Exchange on 24th July 2009 (being the last trading date immediately prior to the date of the Sale and Purchase Agreement); and
2. approximately 41.5% premium over the average closing price of approximately HK\$0.424 per SMIC Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 24th July 2009.

Conditions

Completion is conditional upon the following conditions being satisfied on or before:

- (a) the passing of a resolution at the EGM by the Independent Shareholders under the Listing Rules to approve the Sale and Purchase Agreement and the transactions contemplated hereunder; and
- (b) the Company and the Purchaser having obtained any and all other consents, permits, approvals, authorisations and waivers necessary or appropriate for the entering into and consummation of the transactions contemplated by the Sale and Purchase Agreement.

If the Conditions shall not have been fulfilled on or before 31st December 2009, the Sale and Purchase Agreement shall lapse and neither the Company nor the Purchaser shall have any claim against the other party except in respect of any antecedent claim or breach.

LETTER FROM THE BOARD

Completion

Completion of the Sale and Purchase Agreement shall take place on the Completion Date (or such later date as may be agreed by the Company and the Purchaser in writing).

3. INFORMATION ON SI TECHNOLOGY AND FINANCIAL EFFECTS OF THE DISPOSAL

The unaudited loss before and after taxation of SI Technology for both of the two years ended 31st December 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards were as follows:

	Year ended 31st December	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before and after taxation	219,881	27,959

The unaudited total asset value and the unaudited net asset value of SI Technology as at 31st December 2008 amounted to approximately HK\$2,068,123,000 and approximately HK\$365,428,000 respectively.

Upon Completion, it is estimated that the Group will record a loss of approximately HK\$840 million subject to the financial position of SMIC up to Completion by reference to the carrying value of SMIC held by the Group as at 31st March 2009.

4. REASONS FOR AND BENEFITS OF THE DISPOSAL

The entering into of the Sale and Purchase Agreement will help further streamline the Group's business structure which is in line with its strategies for disposing its non-core businesses. Furthermore, as the Company has been sharing operating losses from SMIC in recent years, the Disposal offers an exit for the Company to transfer its investment in SMIC to its parent company, and to direct the proceeds to other business opportunities in relation to its core business projects.

The Company intends to use the proceeds from the Disposal for the general working capital of the Company, and may apply such proceeds towards potential acquisition that may arise from time to time in the future. Upon Completion, SI Technology will cease to be a subsidiary of the Company.

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

LETTER FROM THE BOARD

5. LISTING RULES REQUIREMENTS

SIIC is the holding company of the Company which was interested in approximately 50.76% of the total issued share capital of the Company as at the Latest Practicable Date. The Purchaser is an indirect wholly-owned subsidiary of SIIC and thus a connected person of the Company under the Listing Rules. Accordingly, the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the requirements of reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. SIIC and its associates will be required to abstain from voting in respect of the ordinary resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

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 Disposal. KBC Bank N.V. 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 Disposal.

6. GENERAL

The Company is principally engaged in the business of infrastructure facilities, medicine, consumer products and real estate.

The Purchaser is principally engaged in investment holding.

SMIC is principally engaged in the manufacture and sale of semiconductor.

7. EGM

The EGM is to be held for the purpose of considering and approving by the Independent Shareholders the Sale and Purchase Agreement and the transactions contemplated thereunder. Votes for the resolution at the EGM will be taken by way of poll. SIIC and its associates together holding approximately 50.76% 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 resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder. Save for the above, no Shareholder has any interests in the Disposal.

Set out on pages 33 to 34 of this circular is the notice convening the EGM to be held at the Conference Room of the Company, 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 31st August 2009 at 3:00 p.m. for the purposes of considering and, if thought fit, passing the ordinary resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular.

LETTER FROM THE BOARD

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 will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

8. RECOMMENDATION

Based on the relevant information disclosed herein, the Directors (including the independent non-executive Directors) are of the opinion that the terms of the Sale and Purchase Agreement are fair and reasonable and on normal commercial terms and the Disposal is in the interests of the Company and the Shareholders as a whole. The Directors recommend that the Shareholders vote in favour of the ordinary resolution to be proposed at the EGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

As mentioned above, KBC Bank N.V. 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 Sale and Purchase Agreement and the transactions contemplated thereunder. Having considered the advice given by KBC Bank N.V. 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 terms of the Sale and Purchase Agreement are fair and reasonable and in the interests 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 resolution to be proposed at the EGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

9. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (ii) the letter from the independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the information set out in the appendices to this circular as required under the Listing Rules.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular.



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

13th August 2009

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

DISPOSAL OF A COMPANY HOLDING SHARES IN SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

We refer to the circular of the Company dated 13th August 2009 (the "Circular") to the Shareholders, of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

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

KBC Bank N.V. 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 Sale and Purchase Agreement and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Board set out on pages 4 to 9 of the Circular, the letter from KBC Bank N.V. Hong Kong Branch set out on pages 11 to 23 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Sale and Purchase Agreement and transactions contemplated thereunder and the advice given by KBC Bank N.V. Hong Kong Branch, we consider that the terms of the Sale and Purchase Agreement 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 resolution relating to the Sale and Purchase Agreement 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*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from KBC Bank N.V. Hong Kong Branch to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder which has been prepared for the purpose of inclusion in this circular.



39th Floor
Central Plaza
18 Harbour Road
Hong Kong

13 August 2009

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION

DISPOSAL OF A COMPANY HOLDING SHARES IN SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

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 Sale and Purchase Agreement and the transactions contemplated thereunder. Details of which, amongst other things, are set out in the section headed “Letter from the Board” of the circular dated 13 August 2009 (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 27 July 2009, the Company and the Purchaser, an indirect wholly-owned subsidiary of SIIC, entered into the Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to dispose of and the Purchaser agreed to purchase (i) the entire issued share capital of SI Technology (of which the principal asset is 1,833,269,340 SMIC Shares) and (ii) the rights of and benefit in the Sale Loan (amounting to approximately HK\$1,703,338,163.80 as at 30 June 2009) for the Consideration of HK\$1,099,961,604. By virtue of the Purchaser being an indirect wholly-owned subsidiary of SIIC, the controlling Shareholder, the Disposal constitutes a non-exempted connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent Shareholders’ approval requirements. SIIC and its associates are required to abstain from voting in respect of the ordinary resolution(s) in connection with the Sale and Purchase Agreement 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 Disposal and the terms of the Sale and Purchase Agreement. We, KBC Bank N.V. Hong Kong Branch, have been

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Disposal and the terms of the Sale and Purchase Agreement as to whether (i) the Disposal is in the Group's ordinary and usual course of business and is on normal commercial terms; and (ii) the entering into of the Sale and Purchase Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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 Sale and Purchase Agreement; (iii) the annual report of the Company (the "Company Annual Report") covering the two years ended 31 December 2008; (iv) the annual report of SMIC covering the three years ended 31 December 2008 ("FY2006", "FY2007" and "FY2008", respectively) and the quarterly and interim results of SMIC covering the three months ended 31 March 2009 ("1Q09") and the six months ended 30 June 2009 ("1H09"), respectively (altogether, the "SMIC Financial Reports"); and (v) the valuation report (the "Valuation Report") based on market approach and prepared by DTZ Debenham Tie Leung Limited, an independent valuer (the "Valuer") appointed by the Company for the purpose of valuing the underlying SMIC Shares. We have assumed that all information, opinions and representations contained or referred to in other parts of 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 and management of the Company 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 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 regarding the Disposal 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 THE INDEPENDENT FINANCIAL ADVISER

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 Disposal, we have taken into account the following principal factors:

1. Background of the Group and SMIC

Principal business of the Group

SIIC, the controlling Shareholder, is a conglomerate controlled by the Shanghai Municipal Government and in turn controls a number of listed and unlisted companies in the People's Republic of China (the "PRC"), Hong Kong and other countries such as North America, Europe, Asia Pacific and Middle East. The Company is the listed flagship of the SIIC Group in Hong Kong. As an investment arm of SIIC, the Company has invested in and operated five key businesses including infrastructure facilities (including toll roads, sewage treatment and water supply), medicine (manufacture and sale of Chinese medicine and health food, biomedicine, chemical medicine and medical equipment), consumer products (including the manufacture and sale of tobacco and printing of packaging materials) and real estate (property investment and development and hotel operations). Set out below are the operating results of the Group for the two years ended 31 December 2008.

	<u>FY2007</u>	<u>FY2008</u>	<u>Increase/ (Decrease) %</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	
	<i>(Audited)</i>	<i>(Audited)</i>	
Turnover			
– Infrastructure facilities	446,690	938,802	110.16
– Medicine	4,322,141	5,280,547	22.17
– Consumer products	3,293,486	3,551,309	7.82
– Real estate	369,983	2,961,994	700.57
– Information technology	–	–	–
<i>Total</i>	<u>8,432,300</u>	<u>12,732,652</u>	<u>51.0</u>
Profit contribution from each business segment			
– Infrastructure facilities	256,056	828,916	223.72
– Medicine	174,505	264,285	51.45
– Consumer products	966,150	487,875	(49.50)
– Real estate	58,720	439,868	649.09
– Information technology	88,141	204,422	131.93
<i>Total</i>	<u>1,543,572</u>	<u>2,225,366</u>	<u>44.17</u>

Source: *The Company Annual Report*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the Company Annual Report and representations made by the Company's management, the surge in the Company's profit contribution from information technology for FY2008 was mainly derived from its investment in non-core businesses, including (i) the share of the loss from SMIC; and (ii) the gain of approximately HK\$332 million from the disposal of its 20% equity interest in 上海市信息投資股份有限公司 (Shanghai Information Investment Inc.) in June 2008.

Relationship between the Company and SMIC

With a view to diversifying its investment portfolio, prior to the dual listing of SMIC on the New York Stock Exchange and the Stock Exchange in March 2004, the Company, through its wholly-owned subsidiary, SI Technology, firstly invested a total amount of approximately HK\$1.7 billion in SMIC (which represented an average investment cost of approximately HK\$0.94 per SMIC Share) as a strategic investor in stages from April 2001 to June 2002. Since then, the Company has, from time to time, acquired and disposed of certain SMIC Shares in the open market. As at the date of the Sale and Purchase Agreement, SI Technology held 1,833,269,340 SMIC Shares, representing approximately 8.2% of the issued share capital of SMIC. In November 2008, SMIC, in order to strengthen its capital base and enhance its market position in the PRC's mobile manufacture market, introduced Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang") as a strategic investor through a placing of new shares, raising gross proceeds of approximately HK\$1.33 billion, and Datang in turn, has replaced the Company to become the single largest shareholder of SMIC, holding approximately 16.57% of SMIC's issued share capital as at 31 December 2008, and has the right to nominate two directors to the board of SMIC and a vice president in charge of projects relating to "Time Division-Synchronous Code Division Multiple Access".

Overview of SMIC

SMIC is one of the largest semi-conductor foundry in the PRC and is principally engaging in the manufacturing, trading, packaging, testing and providing computer-aided design integrated circuits based on its customers' design. Over the past years, sales to the United States of America and Asia Pacific (including the PRC) have grown significantly to approximately 56.73% and 19.92% of SMIC's total sales in FY2008 from approximately 41.11% and 11.51% in FY2006, respectively. SMIC's products are mainly sold to integrated device manufacturer and fabless integrated circuit companies engaged in production of communication products (mainly mobile phone), networking and wireless local area network applications in the United States of America, and/or companies engaged in the manufacture of digital television, MPEG-1

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Audio Layer 3 (MP3), MPEG-4 Part 14 (MP4), mobile phones and personal digital assistant (PDA) in the PRC. Set out below is the summary of SMIC's audited financial results for FY2006, FY2007 and FY2008:

	FY2006		FY2007		FY2008	
	<i>US\$ Million (Audited)</i>	%	<i>US\$ Million (Audited)</i>	%	<i>US\$ Million (Audited)</i>	%
Turnover						
– United States of America	602.51	41.11%	657.60	42.43%	767.97	56.73%
– Europe	440.33	30.05%	328.71	21.21%	92.57	6.84%
– Asia Pacific*	168.61	11.51%	227.97	14.71%	269.62	19.92%
– Taiwan	153.06	10.45%	183.11	11.82%	185.85	13.73%
– Japan	100.82	6.88%	152.36	9.83%	37.70	2.78%
	<u>1,465.32</u>	<u>100.00%</u>	<u>1,549.77</u>	<u>100.00%</u>	<u>1,353.71</u>	<u>100.00%</u>
Gross profit/(loss)	<u>127.17</u>		<u>152.73</u>		<u>(59.14)</u>	
<i>Gross profit/(loss) margin</i>	<u>8.68%</u>		<u>9.86%</u>		<u>(4.37)%</u>	
Loss from operations	<u>13.87</u>		<u>35.93</u>		<u>376.94</u>	
Net loss	<u>44.11</u>		<u>19.47</u>		<u>440.23</u>	

Source: *The SMIC Financial Reports*

* *excluding Japan and Taiwan*

2. Major terms of the Sale and Purchase Agreement

Completion of the Sale and Purchase Agreement is subject to (i) the passing of a resolution at the EGM by the Independent Shareholders to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and (ii) the Company and the Purchaser having obtained any and all other consents, permits, approvals, authorisation and waivers necessary or appropriate for the entering into and consummation of the transactions contemplated by the Sale and Purchase Agreement. On the Completion Date, the Company will receive an initial amount of 70% of the Consideration (HK\$769,973,123) and the remaining balance will be payable by the SIIC Group within six months after the initial payment.

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3. Reasons for and benefit of the Disposal

Unfavourable market conditions

As disclosed in the SMIC Financial Reports, SMIC has focused on the PRC market for growth and has successfully increased its sales to PRC's integrated circuit companies by approximately 28% in FY2008 from FY2007. Although through the closer collaboration and strategic alliance with Datang, SMIC has been able to strengthen its position as the leading semi-conductors foundry, particularly in the telecommunication market in the PRC, and the economic stimulus package announced by the State Council of the PRC in November 2008 involving an aggregate of RMB4 trillion in 2009 and 2010 to stimulate PRC's domestic consumption including, among other things, granting subsidies/rebates to rural households for their exchange of old home appliances (such as mobile phones, televisions and computers) for new ones, is expected to have a positive impact on SMIC's business performance. However, given the fierce competition in the PRC's telecommunication market, the magnitude of the said economic benefit that can be brought to SMIC remains uncertain. In addition, according to an article of "Review of China's Integrated Circuit Industry in 2008 and its Outlook" (2008年中國集成電路產業回顧與展望) dated 5 January 2009 published on the website of China Semiconductor Industry Association (www.csia.net.cn), the PRC's integrated circuit industry has experienced a decline in growth in 2008 with growth in sales of about 5% only, which was significantly below that of 24.3% in 2007, and the industry growth rate is expected to remain low at about 4%. We concur with the view of the management of the Company that the slowing down of the growth in global economy and the competitive nature of semiconductor business may continue to impose adverse impact on SMIC's business performance in the foreseeable future. In addition, according to the SMIC Financial Reports, SMIC intended to substantially scale down its capital expenditure by more than 70% from approximately US\$666 million in FY2008 to approximately US\$190 million in 2009, which is taken mainly as a cost reduction measure to reduce loss rather than improvement on sales.

More importantly, majority of SMIC's revenue has been derived from sales to the United States of America, the economy of which has been adversely impacted by the financial turmoil in the second half of 2008 and the timing as to its economic recovery is still not certain.

SMIC's unfavourable financial performance

As reflected in the table above, there has been a decline in the overall financial performance of SMIC over the past three years with (i) sales having been decreased by approximately 12.65% in FY2008 from FY2007; (ii) gross profit having been declined from approximately US\$152.73 million in FY2007 to a gross loss of approximately US\$59.14 million in FY2008 (and having been further widened to approximately

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US\$142.28 million for just 1H09); (iii) loss from operations having been increased by over 26 times from FY2006 to FY2008; and (iv) net loss having been increased by nearly 9 times from FY2006 to FY2008. In addition, in the first quarter of 2008, SMIC reached an agreement with its customers to completely exit from the commodity Dynamic Random Access Memory (DRAM) business which resulted in SMIC having recorded an impairment loss of approximately US\$105.8 million on related long-lived assets in FY2008.

For the three years ended 31 December 2008 and 1Q09, the Company has shared net losses of SMIC of approximately HK\$31.08 million, HK\$30.91 million, HK\$167.29 million and HK\$123.69 million, respectively, or approximately HK\$352.97 million in aggregate.

The capability to research and development for new products/design to increase income is key to remain competitive in the semi-conductor and integrated circuits industry. Accordingly, in spite of the declining business performance during the past three years, SMIC has continued to invest in its research and development which amounted to approximately US\$106.06 million, US\$102.09 million and US\$159.21 million (being the aggregate of the research and development expenses incurred and the related government subsidies obtained) for each of the three years ended 31 December 2008 (representing a compound annual growth rate of approximately 22.5%). However, we noted that not only has SMIC's heavy investment in research and development activities not turned around its business, but it has been heavily relying on financial reimbursement from the PRC government to support its research and development activities in the past. Of the research and development and the other related costs incurred, approximately US\$36.49 million, US\$32.14 million and US\$73.60 million were reimbursed by the PRC government in the form of awards and subsidies. As there is no guarantee that such government subsidy may continue in the future and, in the event that such subsidy is ceased or reduced in the future, the research and development activities of SMIC may be hindered and thus, adversely further affect the future financial performance of SMIC.

In addition, SMIC has also encountered lawsuits with Taiwan Semiconductor Manufacturing Company, Limited relating to the infringement of certain patents and misappropriation of alleged trade secrets in connection with the methods for conducting semiconductor fab operations and manufacturing integrated circuits, which may result in adverse impact on the future financial and operating performance of SMIC if the lawsuit result is not favourable to SMIC.

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In order to assess SMIC's financial performance, we have researched and identified seven other companies listed on the Stock Exchange, the Singapore Stock Exchange and the Taiwan Stock Exchange which are principally engaged in the semi-conductor business (the "Comparable Companies") for the purpose of comparing their key financial ratios based on their respective financial results for the year ended 31 December 2008:

Comparable Companies	Stock Code	Gross Profit Margin	Net Profit/(loss) Margin	Return on Shareholders' Equity
<u>Listed on the Stock Exchange</u>				
Hannstar Board International Holdings Limited	667	13.6%	8.1%	17.6%
Galaxy Semi-Conductor Holdings Limited	527	16.4%	4.8%	7.0%
Meadville Holdings Limited	3313	19.2%	7.2%	14.5%
Advanced Semiconductor Manufacturing Corporation	3355	(2.4)%	(25.4)%	(32.1)%
<u>Listed on the Taiwan Stock Exchange</u>				
Taiwan Semiconductor Manufacturing Company Limited	2330	42.5%	30.0%	21.0%
United Microelectronics Corporation	2303	16.2%	(23.1)%	(12.1)%
<u>Listed on the Singapore Stock Exchange</u>				
Chartered Semiconductor Manufacturing Limited	CSM	12.9%	(6.2)%	(7.1)%
Highest		42.5%	30.0%	21.0%
Lowest		(2.4)%	(25.4)%	(32.1)%
Median		16.2%	4.8%	7.0%
Average		16.9%	(0.7)%	1.3%
SMIC		<u>(4.4)%</u>	<u>(32.5)%</u>	<u>(16.0)%</u>

Source: The latest annual reports of the Comparable Companies and the Company Annual Report

According to above, all of the key financial ratios of SMIC were significantly lower than the average and median of those of the Comparable Companies.

Good divestment opportunity for the Group to dispose of its loss-making non-core business

As mentioned above, the Disposal effectively represented the sale of 1,833,269,340 SMIC Shares to SIIC at HK\$0.6 per SMIC Share (the "Disposal Price"). During the past 12 months prior to the date of Sale and Purchase Agreement, the SMIC Shares were traded in the range of approximately HK\$0.11 to HK\$0.465. Given the historical unsatisfactory track records of SMIC and the uncertainty as to its financial improvement in the foreseeable future, the management of the Company did not consider it likely to indentify other third parties which would offer a purchase price at a premium to the current trading price of the SMIC Shares. As such, the Disposal

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represented an attractive divestment opportunity for the Group to dispose all of its SMIC Shares at a premium price over the historical trading price of SMIC Shares in the past 12 months.

Having considered the above, together with the intention of the Group to divest its non-core businesses in order to consolidate its financial resources and focus on the development of its core businesses as stated in the Company Annual Report, we are of the view that the Disposal will not only allow the Group to cease to share any future loss incurred by SMIC (hence resulting in potential improvement in the Group's overall financial performance), but is also in line with the Group's corporate development strategy of the Group. Therefore, we consider that the Disposal is in the ordinary and usual course of the business of the Group and the entering into of the Sale and Purchase Agreement is in the interest of the Company and the Shareholder as a whole.

4. Consideration

Valuation of the SMIC Shares

As stated in the section headed "Letter from the Board" in the Circular, the Disposal Price was arrived at after arm's length negotiation between the Company and SIIC and is the same as the fair value of the SMIC Shares as stated in the Valuation Report. We have reviewed the Valuation Report and discussed with the Valuer regarding the methodology of, and bases and assumption adopted for the Valuation and noted that the Valuer has adopted the market approaches which involves making comparison of SMIC with the Comparable Companies and analyzing their transaction prices (such as price-to-book ratio, price-to-sales ratio and price-to-EBITDA (earnings before interest, tax, depreciation and amortization) ratio). In deriving the value of the SMIC Shares, the Valuer has, among other things, (i) discussed with the senior management of SMIC to understand the core business and management of SMIC; (ii) obtained the relevant financial and operational information in respect of SMIC from its management; (iii) conducted relevant research and obtaining industrial information and statistical information relating to the business of SMIC; and (iv) identified and considered the risk factors associated with SMIC's business as well as the overall integrated circuit and semi-conductor foundry industry in the PRC. We have reviewed the Comparable Companies and considered that the said methodology is a reasonable approach in establishing the valuation of the fair value of the SMIC Shares.

The share price performance of SMIC Shares

The Disposal Price represents:

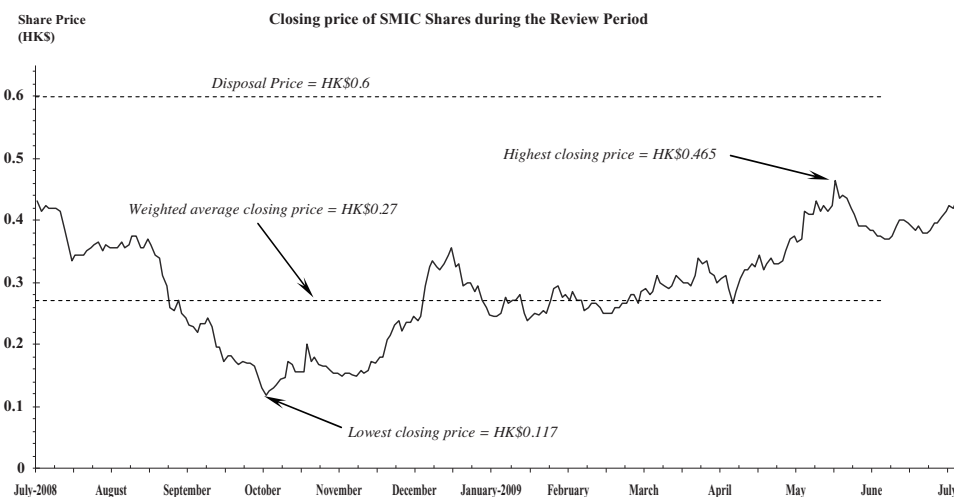
- (i) a premium of approximately 39.53% over the closing price of HK\$0.430 per SMIC Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (ii) a premium of approximately 40.19% over the average closing price of approximately HK\$0.428 per SMIC Share (or approximately 40.19% over the average closing price of approximately HK\$0.428 per SMIC Share as

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weighted by trading volume) as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the date of the Sale and Purchase Agreement;

- (iii) a premium of approximately 68.07% over the average closing price of approximately HK\$0.357 per SMIC share (or approximately 63.04% over the average closing price of approximately HK\$0.368 per SMIC Share as weighted by trading volume) as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- (iv) a premium of approximately 102.02% over the average closing price of HK\$0.297 per SMIC Share (or approximately 90.48% over the average closing price of approximately HK\$0.315 per SMIC Share as weighted by trading volume) as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- (v) a premium of approximately 48.15% over the closing price of HK\$0.405 per SMIC Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a discount of approximately 30.72% to the unaudited net asset value of approximately US\$0.111 (equivalent to approximately HK\$0.866) per SMIC Share (based on the unaudited consolidated net asset value of SMIC of approximately US\$2,478.32 million and a total of 22,353,411,672 SMIC Shares in issue as at 30th June 2009).

The chart below shows the closing prices of the SMIC Shares during the one-year period from 28 July 2008 to the date of the Sale and Purchase Agreement (the “Review Period”)



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During the Review Period, the SMIC Shares were traded between the range of HK\$0.117 and HK\$0.465 and the average closing price was approximately HK\$0.27 per SMIC Share as weighted by trading volume. The price of the SMIC Shares had been in an upward trend since November 2008; however, we suspected that the said upward trend was mainly due to the recent general positive investment sentiments in the Hong Kong stock market (where the Hang Seng Index went up from 11,015 on 27 October 2008 to 20,252 on the date of the Sale and Purchase Agreement).

Given the facts that the Disposal Price (i) is the same as the fair value of the SMIC Shares as stated on the Valuation Report and (ii) represents a significant premium over the highest and the weighted-average closing prices of the SMIC Shares during the Relevant Period, we are of the view that the Disposal Price is fair and reasonable.

5. Financial impacts of the Disposal

(i) Earnings

As disclosed in the section headed “Letter from the Board” of the Circular, the principal asset of SI Technology is 1,833,269,340 SMIC Shares which has been classified as an interest in associates and, accordingly, the results and assets and liabilities of SMIC are recorded into in the Company’s consolidated financial statements using the equity method. SI Technology recorded loss before and after taxation of approximately HK\$27.96 million and HK\$219.88 million for the two years ended 31 December 2008 mainly due to its share of SMIC’s net loss for the corresponding years. Although it is estimated that the Disposal will result in an once-off estimated loss of approximately HK\$840 million, the total final amount of which is subject to the financial position of SMIC up to Completion with reference to the carrying value of SMIC held by the Group as at 31 March 2009, the Disposal will also enable the Group, in the future, to cease to share any loss which amounted to an aggregate of approximately HK\$352.97 million for the three years ended 31 December 2008 and 1Q09 (based on the Company’s attributable interest in SMIC and SMIC’s net loss). As such, we consider the impact of such “once-off” loss on disposal will likely be off-set by the future improvement in the Group’s consolidated financial statements due to its cessation of sharing SMIC’s loss.

(ii) Net asset value

Following the Disposal, the Group will no longer share the net asset value of SMIC and the Group’s consolidated net asset value immediately after the Disposal will be reduced by the aforesaid once-off estimated loss of approximately HK\$840 million. However, it is expected that the future potential improvement in the Group’s consolidated results by ceasing to share SMIC’s loss after the Disposal is expected to have a positive impact on its net asset value in the future.

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(iii) Cashflow and Gearing

According to the Company Annual Report, as at 31 December 2008, the Company had net debt of approximately HK\$0.08 billion (being the Company's total interest-bearing borrowings of approximately HK\$9.65 billion, less the cash and bank balances of approximately HK\$9.57 billion) and total capital of approximately HK\$31.96 billion (being the aggregate of the equity attributable to shareholders of approximately HK\$23.40 billion, the minority interest of HK\$8.48 billion and the net debt of approximately HK\$0.08 billion). As such, the gearing ratio of the Group (expressed as a percentage of the Company's net debt over its total capital) was approximately 0.25% as at 31 December 2008. Given that the entire Consideration will be payable in cash, the cash level of the Company will be increased by the same amount as the Consideration and the Group will turn into net cash accordingly.

CONCLUSION AND ANALYSIS

As the listed flagship of the SIIC Group in Hong Kong, the Company has, from time to time, reviewed and adjusted its investment portfolio with a view to optimising return to Shareholders. As disclosed in the Company's annual report for the year ended 31 December 2001, given the expected increase in demand for chips in the PRC and worldwide at that time, the Group had made investments in a number of information technology businesses, including its initial total investment of approximately HK\$1.7 billion in SMIC. However, similar to other high-tech companies, SMIC's manufacturing of semi-conductor and integrated circuits business has been facing severe competition in the past few years and, coupled with the global financial turmoil in the second half of 2008, the business operating environment of SMIC has become even more difficult.

Given the declining financial performance of SMIC during the recent years with high uncertainty as to its success to turn around in the foreseeable future, together with (i) the Group's reduced degree of management influence over SMIC's business after becoming SMIC's second largest shareholder following Datang's investment in SMIC; (ii) all of SMIC's key financial ratios were significantly lower than the average of the median of the Comparable Companies; (iii) SMIC's intention to substantially reduce its capital expenditure substantially by more than 70% from FY2008 to FY2009, which is taken mainly as a cost reduction measure to narrow down loss rather than improvement on sales; and (iv) the expected benefit of cessation of sharing any future loss incurred by SMIC for potential improvement on the Group's consolidated financial results, the Disposal represents an attractive opportunity for the Group to divest its non-performing non-core business at the Disposal Price and allows the Group to apply the proceeds as general working capital and for any future opportunities (such as potential acquisitions) under its core businesses.

RECOMMENDATION

Based on the above principal factors and reasons, we consider that the Disposal is in the Group's ordinary course of business and on normal commercial terms, and the entering into of the Sale and Purchase Agreement (including its terms) is fair and reasonable and in

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the interest of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement.

Yours faithfully,

For and on behalf of

KBC Bank N.V. Hong Kong Branch

Kenneth Chan

Head of Corporate Finance

Gaston Lam

Corporate Finance

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 the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement contained herein misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and 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	620,000	0.06%
Lu Ming Fang	Beneficial owner	Personal	586,000	0.05%
Ding Zhong De	Beneficial owner	Personal	625,000	0.06%
Zhou Jie	Beneficial owner	Personal	333,000	0.03%
Qian Shi Zheng	Beneficial owner	Personal	679,000	0.06%
Yao Fang	Beneficial owner	Personal	52,000	0.005%
Zhou Jun	Beneficial owner	Personal	260,000	0.02%

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	245,000	0.02%

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	547,904,371 <i>(Note)</i>	50.76%
JPMorgan Chase & Co.	Beneficial owner	563,000	0.06%
	Investment manager	8,657,000	0.80%
	Custodian Corporation/ approved lending agent	58,312,865	5.40%

Note: SIIC through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Ltd., SIIC Trading Co. Ltd., SIIC Treasury (B.V.I.) Ltd. and SIIC CM Development Ltd. held 466,644,371, 80,000,000, 1,161,000, 89,000 and 10,000 Shares, and was deemed to be interested in the respective Shares held by the aforementioned companies.

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

Name of Director	Position held in SIIC
Mr. 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. Zhou Jun	Vice President

- (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:–

Name of member of the Group	Name of substantial Shareholders	Class of share capital	Percentage of registered shareholding
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%
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	10.452%
	Starr International Finance AG	equity interest	28%

Name of member of the Group	Name of substantial Shareholders	Class of share capital	Percentage of registered shareholding
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%
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	25%
	Zheng Ji Yu (鄭繼宇)	equity interest	16.50%
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	15%
Mergen Biotech Limited	Excellent Hope Holdings Inc.	ordinary share	10.99%
	Sino Alliance International, Ltd.	ordinary share	18.60%
Shanghai Qiyi Dental Equipment Co. Ltd.* (上海奇異牙科器材有限公司)	Shanghai Dental Materials Factory Qixin 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%

Name of member of the Group	Name of substantial Shareholders	Class of share capital	Percentage of registered shareholding
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%
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 Jinting Property Co. Ltd.* (昆山城開錦亭置業有限公司)	Shanghai Hengdi Real Estate Development Co. Ltd.* (上海恒地錦亭房產開發有限公司)	equity interest	43%
Kunshan Urban Development Real Estate Development Co. Ltd.* (昆山城開房地產開發有限公司)	Shanghai Cangsheng Property Development Co. Ltd.* (上海滄盛置業發展有限公司)	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 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 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 (上海城開住宅安置有限公司)	Mo Yong Min (莫雍民)	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%

Name of member of the Group	Name of substantial Shareholders	Class of share capital	Percentage of registered shareholding
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%
Beijing Youxing Paper Recycle Co. Ltd.* (北京友興紙源再生資源回收有限公司)	Beijing Zhongxing Green Leaf Trading Co. Ltd.* (北京中興綠樹葉經貿有限公司)	equity interest	11.6%
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 and 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	20%
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 positions 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 had entered, or propose 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 had any interest in any assets which have been, since 31st December 2008 (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 significantly 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 2008 (being the date to which the latest published audited accounts of the Company were made up).

7. EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has provided his opinions or advice, which is contained in this circular:

Name	Qualification
KBC Bank N.V. Hong Kong Branch	KBC Bank N.V., acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance and an authorised financial institution under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

- (b) As at the Latest Practicable Date, the above expert did not have 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 on which the latest published audited financial statements of the Company were made up, acquired to 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) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name and advice or opinion in the form and context in which they respectively appear.

8. 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 the Chartered Certified Accountant 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.

9. PROCEDURES OF 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.

Pursuant to the Listing Rules, the resolution put to the vote at the EGM shall be taken by poll.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents will be 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 up to and including the date of the EGM:

- (a) the Sale and Purchase Agreement;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 10 of this circular;
- (c) the letter from the independent financial adviser, the text of which is set out on pages 11 to 23 of this circular; and
- (d) the written consent referred to in paragraph 7 of this appendix.

NOTICE OF EGM



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, 31st August 2009 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

“ THAT:

- (a) a sale and purchase agreement dated 27th July 2009 entered into between the Company and Shanghai Industrial Financial (Holdings) Company Limited (上海實業金融控股有限公司) (the “**Sale and Purchase Agreement**”, a copy of which has been produced to the meeting and marked “A” and signed by the Chairman of the meeting for the purpose of identification) in relation to the disposal by the Company of the entire issued share capital in and shareholders’ loan to S.I. Technology Production Holdings Limited and the transactions contemplated thereunder and in connection therewith and any other ancillary documents be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised 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 absolute discretion consider necessary, desirable or expedient to implement and/or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 13th August 2009

Registered Office;
26th Floor, Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

NOTICE OF EGM

Notes:

- (1) A shareholder entitled to attend and vote at the extraordinary general meeting (the “EGM”) is entitled to appoint one or more proxies to attend and on a poll, vote on his behalf. The proxy need not be a shareholder of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the EGM, 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 be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.
- (3) The Register of Members of the Company will be closed from Thursday, 27th August 2009 to Monday, 31st August 2009, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend the EGM, 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, 26th August 2009.
- (4) A form of proxy for use at the EGM is enclosed with the circular to the shareholders.
- (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 certified copy of such power 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 holding the EGM (or any adjournment thereof, as the case may be).
- (7) Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM. If such shareholder attends the EGM, his form of proxy will be deemed to have been revoked.
- (8) The ordinary resolution as set out above will be determined by way of a poll.
- (9) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English language version shall prevail.