THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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 to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

SIIC 上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

MAJOR AND CONNECTED TRANSACTIONS

(1) TRANSFER OF SHAREHOLDINGS IN PHARMACEUTICAL COMPANIES TO SHANGHAI PHARMACEUTICAL CO., LTD.

(2) ABSORPTION AND MERGER OF SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD. WITH SHANGHAI PHARMACEUTICAL CO., LTD.

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

A letter from the Board is set out on pages 9 to 38 of this circular, a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 39 to 40 of this circular, and a letter from Anglo Chinese, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 41 to 59 of this circular.

A notice convening the EGM of the Company to be held at the Conference Room of the Company on the 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 16th November 2009 at 11:00 a.m. is set out on pages 72 to 74 of this circular. 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 at any adjournment thereof) should you so desire.

30th October 2009

CONTENTS

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

Terms	Meaning
“Absorption Merger”	the proposed merger of Shanghai Pharmaceutical with SI Pharmaceutical and Zhongxi Pharmaceutical pursuant to the Share Swap Merger Agreement
“Agreements”	the Share Issue and Asset Acquisition Agreement and the Share Swap Merger Agreement
“Ancillary Assets”	mainly the wholly-owned subsidiaries of SIIC MedTech incorporated outside the PRC for investment holding purposes
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO
“Assessment Date”	the date of the announcement of the resolutions of the board meeting of Shanghai Pharmaceutical in relation to the Asset Restructuring, being 16th October 2009
“Asset Companies”	the companies of which the shareholding or equity interest is held by the Subject Companies and shall be transferred to Shanghai Pharmaceutical through the Equity Interests Transfer
“Asset Restructuring”	the transactions contemplated under the Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement and the Shanghai Pharmaceutical Group Agreement
“Asset Valuation Reports”	the asset valuation report No. DZ090473171 (in respect of the total issued share capital in SIIC MedTech) and the asset valuation report No. DZ090474171 (in respect of the 70.41% shareholding interest in Mergen Biotech) issued by Dongzhou (which also contain the valuations of some of the Subject Companies)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“A shares”	ordinary shares of RMB1.00 each in the capital of Shanghai Pharmaceutical, which are listed on the A Shares Market of the Shanghai Stock Exchange

"Board"	the board of directors of the Company
"Company"	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange
"CSRC"	China Securities Regulatory Commission
"Directors"	directors of the Company
"Dongzhou"	Orient Appraisal Co., Ltd. (上海東洲資產評估有限公司), an asset appraisal institution with securities business qualifications in the PRC and is a third party independent of the Company and connected persons of the Company
"E-Com Tech"	E-Com Technology Ltd. (珠海友通科技有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 24.35% and a jointly controlled entity of the Company
"EGM"	an extraordinary general meeting of the Company to be held on Monday, 16th November 2009 at 11:00 a.m. at the Conference Room of the Company on the 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong to consider and, if thought fit, approve the Agreements and the undertaking by the Company in relation to the exercise of the cash option by Shanghai YKB for its shareholding in SI Pharmaceutical under the Absorption Merger, and the transactions contemplated thereunder
"Equity Interests Transfer"	the proposed transfer of the Subject Equity Interests by the Company to Shanghai Pharmaceutical pursuant to the Share Issue and Asset Acquisition Agreement
"Equity Interests Transfer Completion Date"	the date of completion of the Equity Interests Transfer
"Excluded Assets"	the assets directly or indirectly held by SIIC MedTech which are not to be transferred to Shanghai Pharmaceutical pursuant to the Equity Interests Transfer

"Fudan Zhangjiang"	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司), a joint stock limited company established under the laws of the PRC, the H shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8231)
"Glorious Property"	Glorious Property Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 845)
"Green Source"	Green Source Medical Trading Ltd., a limited liability company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"Guosheng"	Shanghai Guosheng (Group) Co. (上海國盛(集團)有限公司), a limited liability company established under the laws of the PRC which is independent of the Company and its connected persons
"Hangzhou Qingchunbao"	Chia Tai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 55% and a subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huqingyutang Drugstore"	Hangzhou Huqingyutang Drugstore Co., Ltd. (杭州胡慶餘堂國藥號有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 24% and a jointly controlled entity of the Company
"Huqingyutang Pharmaceutical"	Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 51.0069% and a subsidiary of the Company

"Independent Board Committee"	an 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
"Independent Shareholders"	Shareholders other than SIIC and its associates
"Latest Practicable Date"	28th October 2009, being the latest practicable date for ascertaining certain information in this circular
"Liaoning Herbapex"	Liaoning Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧好護士藥業(集團)有限責任公司), a limited liability company established under the laws of the PRC and owned by the Group as to 55% and a subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mergen Biotech"	Mergen Biotech Ltd., a limited liability company established under the laws of the British Virgin Islands and owned by the Group as to 70.41% and a subsidiary of the Company
"Nanyang Tobacco"	Nanyang Brothers Tobacco Co., Ltd., a company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"PRC"	the People's Republic of China (for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shanghai Pharmaceutical"	Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司), a limited liability company established under the laws of the PRC which is a subsidiary of SIIC listed on the A Shares Market of the Shanghai Stock Exchange (stock code: 600849)
"Shanghai Pharmaceutical Group"	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司), a company established under the laws of the PRC and owned by SIIC through its wholly-owned subsidiary as to 60% of its total equity interest

"Shanghai Pharmaceutical Group Agreement"	the agreement entered into between Shanghai Pharmaceutical and Shanghai Pharmaceutical Group dated 15th October 2009 for the issue of A shares by Shanghai Pharmaceutical in consideration of certain assets of Shanghai Pharmaceutical Group
"Shanghai Urban Development"	Shanghai Urban Development (Holdings) Co., Ltd. (上海城開(集團)有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 59% and a subsidiary of the Company
"Shanghai YKB"	Shanghai Industrial YKB Ltd., an investment holding company incorporated under the laws of British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company which holds approximately 43.62% shareholding in SI Pharmaceutical
"Shanghai Yichuang"	Shanghai Yichuang Traditional Chinese Medicine R&D Center Co., Ltd. (上海醫創中醫藥科研開發中心有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 55% and a subsidiary of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shares"	shares of HK$0.1 each in the capital of the Company
"Share Issue and Asset Acquisition Agreement"	the agreement entered into among Shanghai Pharmaceutical, SIIC Shanghai and the Company dated 15th October 2009 in relation to the Subscription and the Equity Interests Transfer
"Share Swap Merger Agreement"	the agreement entered into among Shanghai Pharmaceutical, SI Pharmaceutical and Zhongxi Pharmaceutical dated 15th October 2009 pursuant to which Shanghai Pharmaceutical shall issue new A shares at RMB11.83 per share as the consideration payable to all the shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, to swap for all or part of their issued shares of SI Pharmaceutical and Zhongxi Pharmaceutical
"Shenergy"	Shenergy Co., Ltd. (申能(集團)有限公司), a limited liability company established under the laws of the PRC which is independent of the Company and its connected persons

"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd., a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company
"SIIC MedTech"	SIIC Medical Science and Technology (Group) Ltd., a limited liability company established under the laws of the Cayman Islands and a wholly-owned subsidiary of the Company
"SIIC MedTech R&D"	SIIC MedTech Research and Development Ltd., an investment holding company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"SIIC Shanghai"	SIIC Shanghai Holdings Co. Ltd. (上海上實(集團)有限公司), a company incorporated in the PRC with limited liability which is a wholly-owned subsidiary of SIIC
"SIMST eMedical"	SIMST eMedical Network Ltd. 上實醫藥科技網絡有限公司, an investment holding company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"SIMST MedTech"	SIMST Medical Science and Technology Development Ltd., an investment holding company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"SI Pharmaceutical"	Shanghai Industrial Pharmaceutical Investment Co., Ltd. (上海實業醫藥投資股份有限公司), a joint stock limited liability company established under the laws of the PRC which is a subsidiary of the Company listed on A Shares Market of the Shanghai Stock Exchange (stock code: 600607)
"SI Pharmaceutical Group"	S.I. Pharmaceuticals Group Ltd. 上海實業醫藥集團有限公司, a limited liability company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
"SI Pharmaceutical Holdings"	S.I. Pharmaceutical Holdings Ltd., a limited liability company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company

"State-owned Asset Administration Department"	Shanghai Municipal State-owned Asset Administration Department or the State-owned Asset Administration Department of the State Council
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subject Companies"	the companies of which the shareholding or equity interest shall be transferred to Shanghai Pharmaceutical through the Equity Interests Transfer
"Subject Equity Interests"	the total issued share capital in SIIC MedTech, a 70.41% shareholding interest in Mergen Biotech, and a 9.28% shareholding interest in Fudan Zhangjiang to be transferred to Shanghai Pharmaceutical and/or its subsidiary under the Share Issue and Asset Acquisition Agreement
"Subscription"	the proposed subscription by SIIC Shanghai for 169,028,200 A shares under the Share Issue and Asset Acquisition Agreement
"Sunway Biotech"	Shanghai Sunway Biotech Co., Ltd. (上海三維生物技術有限公司), a limited liability company established under the laws of the PRC and owned by Mergen Biotech as to 100% and a subsidiary of the Company
"Transitional Period"	the period from the Valuation Date up to the Equity Interests Transfer Completion Date
"Valuation Date"	30th June 2009
"Wing Fat Printing"	The Wing Fat Printing Co., Ltd., a company incorporated under the laws of Hong Kong with limited liability and a subsidiary of the Company
"World Honest"	World Honest Investments Ltd., an investment holding company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Xiamen TCM"	Xiamen Traditional Chinese Medicine Co., Ltd. (厦門中藥廠有限公司), a limited liability company established under the laws of the PRC and owned by the Group as to 61% and a subsidiary of the Company

"Zhongxi Pharmaceutical"	Shanghai Zhongxi Pharmaceutical Co., Ltd. (上海中西藥業股份有限公司), a limited liability company established under the laws of the PRC and a subsidiary of Shanghai Pharmaceutical Group, the A shares of which are listed on A Shares Market of the Shanghai Stock Exchange (stock code: 600842)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

English names of the PRC established companies/entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

In this circular, RMB has been converted to HK$ at the rate of RMB0.8804 = HK$1 and US$ has been converted to HK$ at the rate of US$1 = HK$7.8 for illustration purpose only. No representation is made that any amounts in RMB or HK$ or US$ have been, could have been or could be converted at the above rate or at any other rates or at all.

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. Zhou Jun *(Deputy CEO)*

Independent Non-Executive Directors:
Dr. Lo Ka Shui
Prof. Woo Chia-Wei
Mr. Leung Pak To, Francis

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

30th October 2009

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

(1) TRANSFER OF SHAREHOLDINGS IN PHARMACEUTICAL COMPANIES TO SHANGHAI PHARMACEUTICAL CO., LTD.

(2) ABSORPTION AND MERGER OF SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD. WITH SHANGHAI PHARMACEUTICAL CO., LTD.

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the announcement made by the Company dated 15th October 2009 in relation to the Asset Restructuring.

On 15th October 2009, the Company, SIIC Shanghai and Shanghai Pharmaceutical entered into the Share Issue and Asset Acquisition Agreement, under which (1) SIIC Shanghai will subscribe for 169,028,200 A shares in Shanghai Pharmaceutical at RMB11.83 per share, and (2) the Subject Equity Interests will be transferred by subsidiaries of the

Company to Shanghai Pharmaceutical at a consideration of RMB1,999,603,700 (equivalent to approximately HK$2.27 billion), being the assessed value of the Subject Equity Interests as appraised by Dongzhou, an asset appraisal institution with securities business qualifications in accordance with the PRC legal and regulatory requirements (save and except for the 9.28% shareholding interest in Fudan Zhangjiang, the consideration for which is based on the closing price). The final consideration for the Subject Equity Interests shall be in accordance with the assessment results as approved by or filed with the State-owned Asset Administration Department (save and except for the consideration in respect of the 9.28% shareholding interest in Fudan Zhangjiang). The amount payable by SIIC Shanghai for the Subscription shall be used to settle the consideration for the Equity Interests Transfer.

SI Pharmaceutical, a subsidiary of the Company in which the Group owns approximately 43.62% of its total issued share capital, entered into the Share Swap Merger Agreement with Shanghai Pharmaceutical and Zhongxi Pharmaceutical on 15th October 2009, pursuant to which SI Pharmaceutical and Zhongxi Pharmaceutical (a fellow subsidiary of the Company) will merge with Shanghai Pharmaceutical by way of share swap. Shanghai Pharmaceutical will issue new A shares to the existing shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, and Shanghai YKB will be entitled to a cash option alternative under the Absorption Merger, with the cash portion to be provided by Shenergy and Guosheng. Upon completion of the Absorption Merger, Shanghai Pharmaceutical will be the surviving entity, and SI Pharmaceutical and Zhongxi Pharmaceutical will be de-registered. The Company has undertaken to procure Shanghai YKB to fully exercise the cash option in respect of all its shares held in SI Pharmaceutical under the Absorption Merger.

The Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement and the Shanghai Pharmaceutical Group Agreement (also entered into on 15th October 2009 but not by any member of the Group, brief particulars of which are provided below) are integral parts of the Asset Restructuring for putting pharmaceutical businesses under the platform of Shanghai Pharmaceutical, and these three agreements are subject to various conditions precedent and are inter-conditional upon each other.

The controlling shareholder of the Company, SIIC, through its subsidiaries indirectly owns 60% of the total equity interest in Shanghai Pharmaceutical Group. The majority of the board of Shanghai Pharmaceutical is controlled by Shanghai Pharmaceutical Group. Shanghai Pharmaceutical is thus an associate of SIIC and a connected person of the Company under the Listing Rules. The Agreements constitute connected transactions of the Company and are subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the revenue ratio for the Equity Interests Transfer and the disposal of shareholding in SI Pharmaceutical pursuant to the Share Swap Merger Agreement in aggregate exceeds 25%, these two transactions constitute major transactions of the Company under Rule 14.06 of the Listing Rules and are subject to approval by the Shareholders according to the requirement under Rule 14.40 of the Listing Rules.

The purpose of this circular is to provide you with, inter alia, (i) further details of the Asset Restructuring; (ii) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (iii) a letter from Anglo Chinese containing its advice to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

2. THE SHARE ISSUE AND ASSET ACQUISITION AGREEMENT

Date

15th October 2009

Parties

1. Shanghai Pharmaceutical (a fellow subsidiary of the Company)

2. SIIC Shanghai (a fellow subsidiary of the Company)

3. the Company

The Subscription

With reference to the consideration for the Equity Interests Transfer which is determined at RMB1,999,603,700 by Dongzhou, SIIC Shanghai shall subscribe for 169,028,200 A shares at RMB11.83 per share. Such subscription price represents the average closing price of the A shares on the Shanghai Stock Exchange in the 20 trading days preceding the Assessment Date.

The cash amount to be received from SIIC Shanghai for the Subscription shall be used to settle the consideration for the Equity Interests Transfer. In the event that the final valuation of the Subject Equity Interests as approved by or filed with the State-owned Asset Administration Department differs from the valuation of RMB1,999,603,700 as determined by Dongzhou, the parties agreed to adjust the number of A shares to be subscribed pursuant to the Subscription by entering into supplemental agreement(s) in accordance with relevant regulatory provisions and the Share Issue and Asset Acquisition Agreement.

The issue price and the number of A shares under the Subscription may be adjusted pursuant to any event of exclusion of right or dividends such as dividend declaration, bonus issue of shares, transfer of capital reserve to increase in share capital from the Assessment Date up to the date of the issue of the A shares. Shanghai Pharmaceutical has undertaken not to carry out such activities from the date of the Share Issue and Asset Acquisition Agreement up to the end of such period.

SIIC Shanghai will not be able to transfer the new A shares subscribed for within 36 months from the completion of the issue.

SIIC Shanghai currently through another non wholly-owned subsidiary, Shanghai Pharmaceutical Group, holds an approximately 39.69% shareholding in Shanghai Pharmaceutical. Immediately upon completion of the Subscription, SIIC Shanghai will increase its indirect percentage shareholding in Shanghai Pharmaceutical to approximately 39.91% of its enlarged issued share capital.

The Equity Interests Transfer

Pursuant to the Share Issue and Asset Acquisition Agreement, the following shareholding interests held by wholly-owned subsidiaries of the Company shall be transferred to Shanghai Pharmaceutical:–

(a) 408,934,000 shares of HK$0.1 each in the capital of SIIC MedTech, representing 100% of the total issued share capital of SIIC MedTech;

(b) 749,667 shares of HK$0.1 each in the capital of Mergen Biotech, representing 70.41% of the total issued share capital of Mergen Biotech; and

(c) 65,856,000 H shares of RMB0.1 each in the capital of Fudan Zhangjiang, representing 9.28% of the total issued share capital of Fudan Zhangjiang.

Through the acquisition of the above shareholdings in SIIC MedTech, Mergen Biotech and Fudan Zhangjiang, the following equity interests, other than the Excluded Assets, will be transferred to Shanghai Pharmaceutical:–

(a) 65,856,000 H shares of RMB0.1 each in the capital of Fudan Zhangjiang, plus the 4,708,000 H shares of RMB0.1 each in the capital of Fudan Zhangjiang (held by SIIC MedTech), representing 9.94% in aggregate of the total issued share capital of Fudan Zhangjiang;

(b) an amount of RMB1,650,000 in the registered capital of Shanghai Yichuang (held by SIIC MedTech), representing 55% of the total equity interest in Shanghai Yichuang;

(c) an amount of RMB70,675,000 in the registered capital of Hangzhou Qingchunbao (held by SIIC MedTech), representing 55% of the total equity interest in Hangzhou Qingchunbao;

(d) an amount of RMB27,115,292 in the registered capital of Huqingyutang Pharmaceutical (held by SIIC MedTech), representing 51.0069% of the total equity interest in Huqingyutang Pharmaceutical;

(e) an amount of RMB3,157,900 in the registered capital of Huqingyutang Drugstore (held by SIIC MedTech), representing 24% of the total equity interest in Huqingyutang Drugstore;

(f) an amount of RMB28,050,000 in the registered capital of Liaoning Herbapex (held by SIIC MedTech), representing 55% of the total equity interest in Liaoning Herbapex;

(g) an amount of RMB51,257,000 in the registered capital of Xiamen TCM (held by SIIC MedTech), representing 61% of the total equity interest in Xiamen TCM;

(h) an amount of USD15,343,300 in the registered capital of Sunway Biotech (held by Mergen Biotech), representing 100% of the total equity interest in Sunway Biotech; and

(i) other relevant Ancillary Assets.

The Excluded Assets are as follows:

(a) the total issued share capital in SIMST eMedical held by SIIC MedTech, and the 24.35% of the total equity interest in E-Com Tech held by SIMST eMedical; and

(b) the total issued share capital in Green Source held by SIIC MedTech.

After completion of the Equity Interests Transfer, SIIC MedTech and Mergen Biotech will cease to be subsidiaries of the Company and the Company will no longer hold any shareholdings in SIIC MedTech and Mergen Biotech.

The Company shall clear out all assets and liabilities of SIIC MedTech, Mergen Biotech and the subject companies of the Ancillary Assets as of the Valuation Date, including but not limited to the collection of accounts receivables, payment of accounts payables, set-off or waiver of debts due from wholly-owned subsidiaries, transfer of the Excluded Assets, confirmation of the amount of remaining balance and distribution of the same by way of bonus after deducting the receivables owing by Shanghai Yichuang (HK$8,042,840.05) and taking into account the dividends declared but not yet distributed by and received from Hangzhou Qingchunbao (RMB99,080,000), which shall be completed by the Equity Interests Transfer Completion Date.

It was agreed after negotiations between the Company and Shanghai Pharmaceutical that the Excluded Assets shall not be transferred to Shanghai Pharmaceutical under the Equity Interests Transfer, such that the inter-company loans due from E-Com Tech to Green Source will remain within the Group.

Consideration for the Equity Interests Transfer

The consideration for the Equity Interests Transfer shall be RMB1,999,603,700 (equivalent to approximately HK$2.27 billion), as determined by the valuation of the total issued share capital in SIIC MedTech and the 70.41% shareholding interest in Mergen Biotech by Dongzhou (a third party independent of the Company and connected persons of the Company) in accordance with the PRC legal and regulatory requirements, and the value of the 9.28% shareholding in Fudan Zhangjiang which is based on closing price. The final consideration for the Subject Equity Interests shall be in accordance with the assessment results as approved by or filed with the State-owned Asset Administration Department (save and except for the 9.28% shareholding interest in Fudan Zhangjiang, the consideration for which is based on the closing price instead of the assessment results as approved by or filed with the State-owned Asset Administration Department).

Pursuant to the Asset Valuation Reports, the valuation of the Subject Equity Interests (only in respect of the total issued share capital in SIIC MedTech and the 70.41% shareholding interest in Mergen Biotech) as of the Valuation Date is assessed at RMB1,963,656,800 (the final valuation shall be in accordance with the assessment results as approved by or filed with the State-owned Asset Administration Department). Such valuation is partly based on the costs method with reference to the assets and liabilities involved and partly based on projection of earnings of certain companies being transferred.

As Fudan Zhangjiang is a company of which the H shares are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8231) and the Company indirectly through SI Pharmaceutical Holdings holds a 9.28% shareholding in Fudan Zhangjiang, the consideration of such shareholding is determined with reference to the closing price of Fudan Zhangjiang on 30th June 2009, i.e. HK$0.62 per share and is determined at RMB35,946,900 (based on the conversion rate of RMB0.88 = HK$1).

The above consideration for the Equity Interests Transfer was determined with reference to valuations by means of future earnings, assets value and liabilities and to the market price of the Subject Equity Interests where appropriate and after negotiation on an arm's length basis.

Waiver from strict compliance with requirements under the Listing Rules on profit forecast

Shanghai Pharmaceutical is required under applicable PRC regulations to engage a valuer with appropriate securities business qualifications to prepare the Asset Valuation Reports for the Equity Interests Transfer (other than in respect of the shareholding in Fudan Zhangjiang). The Asset Valuation Reports are partly based on projection of earnings and partly based on assessment of assets value and liabilities, and accordingly constitute profit forecast under Rule 14.61 of the Listing Rules. The Company on the other hand is not required under any rules or regulations to prepare valuations or forecasts on the Subject Equity Interests. Any profit forecasts in the Asset Valuation Reports were not prepared by the Company.

The Company did not assess the Equity Interests Transfer based on any profit forecasts in the Asset Valuation Reports. The Board considered the merits of the Equity Interests Transfer principally on the total amount of cash that would be received under both the Absorption Merger and the Equity Interests Transfer, the previous annual profits of the Subject Companies attributable to the Company and the dividends receivable from the Subject Companies in the past years, as well as the profits attributable to the Group's shareholding in SI Pharmaceutical and any dividends receivable from SI Pharmaceutical in the past years.

In the above circumstances, the Company applied to the Stock Exchange and has been granted a wavier from strict compliance with the requirements under Rules 14.62, 14.66(2), 14A.56(8) and Appendix 1B 29(2) of the Listing Rules in respect of any profit forecasts in the Asset Valuation Reports.

Conditions precedent

The Share Issue and Asset Acquisition Agreement shall take effect subject to the following conditions precedent:

1. approval of the Share Issue and Asset Acquisition Agreement by the shareholders in the general meeting of Shanghai Pharmaceutical;

2. approval of the Share Issue and Asset Acquisition Agreement and the transactions described therein by the Independent Shareholders at the EGM;

3. the Shanghai Pharmaceutical Group Agreement having taken effect;

4. the Share Swap Merger Agreement having taken effect;

5. approval of the Asset Restructuring by the State-owned Asset Administration Department;

6. approval of the Asset Restructuring by the CSRC;

7. approval by the CSRC agreeing to waive the general offer obligation of Shanghai Pharmaceutical Group and its associated parties in respect of the Asset Restructuring; and

8. approval of the Asset Restructuring and the relevant transaction arrangements by the Ministry of Commerce and other relevant government departments and supervising authorities.

If any of the above conditions precedent is not fulfilled by the earlier of (i) the expiry of 18 months from the date of execution of the Share Issue and Asset Acquisition Agreement and (ii) the expiry of 12 months from the date of the general meeting of Shanghai Pharmaceutical approving the Share Issue and Asset Acquisition Agreement (such deadline may be extended by written agreement by the parties), the Share Issue and Asset Acquisition Agreement shall become void.

The Transitional Period

If the Company or its wholly-owned subsidiary has provided shareholders' loans to Sunway Biotech before the Valuation Date (the principal amount not exceeding RMB20,000,000); and, if the Company or its wholly-owned subsidiary has provided shareholders' loans to the Asset Companies in performance of any existing undertakings (the principal amount not exceeding RMB8,000,000) during the Transitional Period, the Company or its wholly-owned subsidiary shall procure the Asset Companies to repay the said shareholders' loan and the accrued interest before the Equity Interests Transfer Completion Date. If such amount of shareholders' loans has not been repaid to the Company or its wholly-owned subsidiary before the Equity Interests Transfer Completion Date, Shanghai Pharmaceutical or its wholly-owned subsidiary outside the PRC shall, on behalf of the Asset Companies, pay the outstanding amount of shareholders' loans and the accrued interest to the Company or its wholly-owned subsidiary, such that Shanghai Pharmaceutical or its wholly-owned subsidiary outside the PRC shall replace the Company or its wholly-owned subsidiary as the provider of such shareholders' loans.

The Company agrees that it shall use appropriate means to transfer the Excluded Assets out of SIIC MedTech during the Transitional Period (and retain such assets within the Group), such as to ensure that the Excluded Assets shall not form part of the assets of SIIC MedTech on the Equity Interests Transfer Completion Date.

Completion

Completion of the Subscription shall take place on a date after all approvals and consents of the Subscription and the Equity Interests Transfer by the PRC administration departments or bodies have been obtained, as confirmed by negotiation among the parties to the Share Issue and Asset Acquisition Agreement. The date of completion of the Subscription shall be no later than the expiry of six months after the date of approval by CSRC of the new issue of A shares by Shanghai Pharmaceutical. Shanghai SIIC shall be registered as the holder of the A shares issued under the Subscription.

The Equity Interests Transfer Completion Date shall be confirmed by negotiation among the parties to the Share Issue and Asset Acquisition Agreement, and shall be no later than the expiry of one month or other longer period as agreed and confirmed by Shanghai Pharmaceutical and the Company after the date of receipt of the cash consideration from SIIC Shanghai for full subscription of the new issue of A shares under the Subscription by Shanghai Pharmaceutical. On such date, Shanghai Pharmaceutical shall pay or procure its subsidiary outside the PRC to pay the consideration for the Equity Interests Transfer to the Company or its nominated company in Hong Kong dollars at the middle exchange rate as announced by the People's Bank of China on the date of payment, or in Renminbi as approved by the administrative department. The Company shall complete the legal procedures for the transfer of shareholdings in the Subject Companies to Shanghai Pharmaceutical or its nominated subsidiary outside the PRC within 3 business days after the Equity Interests Transfer Completion Date.

Profits and losses during the Transitional Period and indemnity on net asset value

A supplemental audit shall be carried out on the Subject Equity Interests for the Transitional Period within two months after the Equity Interests Transfer Completion Date. The audited profits attributable to the Subject Equity Interests during the Transitional Period shall belong to the Company. The Company shall however indemnify Shanghai Pharmaceutical for any shortfall in the audited net asset value of the Subject Equity Interests as of the Equity Interests Transfer Completion Date as compared to the audited net asset value as of the Valuation Date.

Indemnity undertaking as to profit estimate

In accordance with applicable PRC laws and regulations, if the asset appraisal organization adopts an approach for valuation of the Subject Equity Interests which is based on expected future earnings, SIIC Shanghai shall indemnify Shanghai Pharmaceutical for any deficiency in the profits attributable to the Subject Equity Interests as compared to the profits estimated in the valuation report for the three years from completion of the Equity Interests Transfer. SIIC Shanghai shall also indemnify Shanghai Pharmaceutical in cash for any shortfall in the actual profits attributable to the equity interests or shareholdings held by the Subject Companies being transferred pursuant to the Equity Interests Transfer as compared to the estimated profits in any financial year within the three-year period. Such indemnity is provided by SIIC Shanghai as it is under common control with the Company (as both of them are controlled by SIIC), and as SIIC Shanghai is also a counter-party to Shanghai Pharmaceutical under the Share Issue and Asset Acquisition Agreement.

3. THE SHARE SWAP MERGER AGREEMENT

SI Pharmaceutical (a subsidiary in which the Company through its wholly-owned subsidiary owns approximately 43.62% of its total issued share capital) has entered into the Share Swap Merger Agreement, pursuant to which Shanghai Pharmaceutical will merge with (1) SI Pharmaceutical; and (2) Zhongxi Pharmaceutical, a subsidiary of Shanghai Pharmaceutical Group.

Date

15th October 2009

Parties

1. Shanghai Pharmaceutical (a fellow subsidiary of the Company)

2. SI Pharmaceutical (an indirect subsidiary of the Company)

3. Zhongxi Pharmaceutical (a fellow subsidiary of the Company)

The Absorption Merger

Shanghai Pharmaceutical shall issue new A shares at RMB11.83 per share as the consideration for the Absorption Merger payable to all the shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, to swap for all or part of their issued shares of SI Pharmaceutical and Zhongxi Pharmaceutical. Such issue price represents the average closing price of the A shares on the Shanghai Stock Exchange in the 20 trading days preceding the Assessment Date.

The price for the share swap for the shares of SI Pharmaceutical will be RMB19.07 per share (being the average closing price of the A shares of SI Pharmaceutical on the Shanghai Stock Exchange in the 20 trading days preceding the date of the announcement of the resolutions of the board meeting of SI Pharmaceutical in relation to the Absorption Merger) at the ratio of 1:1.61, i.e. one share of SI Pharmaceutical can be exchanged for 1.61 shares of Shanghai Pharmaceutical; whereas the price for the share swap for the shares of Zhongxi Pharmaceutical will be RMB11.36 per share (being the average closing price of the A shares of Zhongxi Pharmaceutical on the Shanghai Stock Exchange in the 20 trading days preceding the date of the announcement of the resolutions of the board meeting of Zhongxi Pharmaceutical in relation to the Absorption Merger) at the ratio of 1:0.96, i.e. one share of Zhongxi Pharmaceutical can be exchanged for 0.96 share of Shanghai Pharmaceutical.

Upon the completion of the Absorption Merger, the new A shares issued by Shanghai Pharmaceutical pursuant to the Share Swap Merger Agreement shall be listed on the Shanghai Stock Exchange. Shanghai Pharmaceutical shall be the subsisting listed company following the Absorption Merger, while SI Pharmaceutical and Zhongxi Pharmaceutical shall be de-registered without going through liquidation. All the assets, liabilities, rights, obligations, business and staff of SI Pharmaceutical and Zhongxi Pharmaceutical will be succeeded and taken up by Shanghai Pharmaceutical.

Cash option for dissenting shareholders of Shanghai Pharmaceutical

In order to provide full protection to the shareholders of Shanghai Pharmaceutical who are against the Absorption Merger, a cash option shall be accorded to ensure that such dissenting shareholders may dispose their shares in Shanghai Pharmaceutical at the price of RMB11.83 per share. The cash portion under the share option shall be provided by Shenergy and Guosheng as agreed among the parties. The entitlement of shareholders of Shanghai Pharmaceutical to the cash option shall be subject to the following conditions:–

(i) effectively voting against the resolution to approve the Share Swap Merger Agreement at a general meeting of shareholders of Shanghai Pharmaceutical;

(ii) retaining shares in Shanghai Pharmaceutical from the record date for the general meeting to consider the Share Swap Merger Agreement up to the date of implementation of the cash option by the dissenting shareholders of Shanghai Pharmaceutical; and

(iii) successfully completing the declaration procedures for the cash option.

The cash option may be exercised in respect of the lower of the following:–

(i) the number of shares in Shanghai Pharmaceutical that effectively voted against the resolution to approve the Share Swap Merger Agreement; and

(ii) the lowest number of shares in Shanghai Pharmaceutical held from the record date for the general meeting to consider the Share Swap Merger Agreement up to the date of implementation of the cash option by the dissenting shareholders of Shanghai Pharmaceutical.

The cash option may not be exercised in respect of the following:–

(i) shares in Shanghai Pharmaceutical which are subject to charge, other third party rights or judicially encumbered;

(ii) the legal owner of the shares has undertaken to waive the right to the cash option;

(iii) those shares in Shanghai Pharmaceutical that have already been sold by the dissenting shareholder; and

(iv) other shares for which the cash option cannot be exercised according to law.

Cash option for shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical

In order to provide full protection to all the shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, a cash option shall be accorded to ensure that such shareholders may elect to be paid wholly or partly in cash for their shares in SI Pharmaceutical and Zhongxi Pharmaceutical at the price of RMB19.07 per share and RMB11.36 per share respectively. The cash portion under the share option shall be provided by Shenergy and Guosheng as agreed among the parties. The cash option may not be exercised in respect of the following shares of SI Pharmaceutical or Zhongxi Pharmaceutical:–

(i) shares which are subject to charge, other third party rights or judicially encumbered;

(ii) the legal owner of the shares has undertaken to waive the right to the cash option;

(iii) other shares for which the cash option cannot be exercised according to law.

The Company has given an undertaking dated 15th October 2009 to Shanghai Pharmaceutical and SI Pharmaceutical that, subject to approval of the Absorption Merger by the CSRC, it will procure Shanghai YKB to fully exercise the cash option in respect of all its shares held in SI Pharmaceutical. It is anticipated that Shanghai YKB will receive in aggregate RMB3,059,607,676.95 (equivalent to approximately HK$3.48 billion) pursuant to the exercise of the cash option under the Absorption Merger. The Company will be effectively disposing of its entire shareholding interest in SI Pharmaceutical for an aggregate consideration of RMB3,059,607,676.95 (equivalent to approximately HK$3.48 billion) pursuant to the Share Swap Merger Agreement.

Conditions precedent for the Share Swap Merger Agreement to take effect

The Share Swap Merger Agreement shall take effect subject to the following conditions precedent:

1. approval of the Share Swap Merger Agreement by the shareholders in the general meetings of Shanghai Pharmaceutical, SI Pharmaceutical and Zhongxi Pharmaceutical;

2. approval of the Share Swap Merger Agreement and the transactions described therein and of the full exercise of the cash option by Shanghai YKB under the Share Swap Merger Agreement (as approved by the shareholders in general meeting of SI Pharmaceutical) by the Independent Shareholders at the EGM;

3. the Shanghai Pharmaceutical Group Agreement having taken effect;

4. the Share Issue and Asset Acquisition Agreement having taken effect;

5. approval of the Asset Restructuring by the State-owned Asset Administration Department;

6. approval of the Asset Restructuring by the CSRC;

7. approval by the CSRC agreeing to waive the general offer obligation of the providers of the cash options under the Asset Restructuring (if necessary);

8. approval by the CSRC agreeing to waive the general offer obligation of Shanghai Pharmaceutical Group and its associated parties under the Asset Restructuring; and

9. approval of the Asset Restructuring and the relevant transaction arrangements by the Ministry of Commerce and other relevant government departments and supervising authorities.

If any of the above conditions precedent is not fulfilled by the earlier of (i) the expiry of 18 months from the date of execution of the Share Swap Merger Agreement and (ii) the expiry of 12 months from the date of the general meeting of Shanghai Pharmaceutical approving the Share Swap Merger Agreement (such deadline may be extended by written agreement by the parties), the Share Swap Merger Agreement shall become void.

Completion

The share swap of shares in SI Pharmaceutical and Zhongxi Pharmaceutical for shares in Shanghai Pharmaceutical under the Absorption Merger shall take place after the date on which the Share Swap Merger Agreement takes effect and on a day as confirmed by the parties.

The date of completion of the transfer of assets from SI Pharmaceutical and Zhongxi Pharmaceutical to Shanghai Pharmaceutical shall be the same date on which the above share swap of shares takes place or a later date as agreed among the parties, on which all the assets, liabilities, rights, obligations, business and staff of SI Pharmaceutical and Zhongxi Pharmaceutical shall be handed over to Shanghai Pharmaceutical. SI Pharmaceutical and Zhongxi Pharmaceutical shall attend to necessary formalities for the transfer of all the assets, liabilities, rights, business and staff to Shanghai Pharmaceutical within 12 months after the effective date of the Share Swap Merger Agreement.

The accrued and undistributed profits of SI Pharmaceutical and Zhongxi Pharmaceutical shall be shared among the shareholders before and after the completion of the Asset Restructuring in accordance with their respective shareholding percentages.

4. THE SHANGHAI PHARMACEUTICAL GROUP AGREEMENT

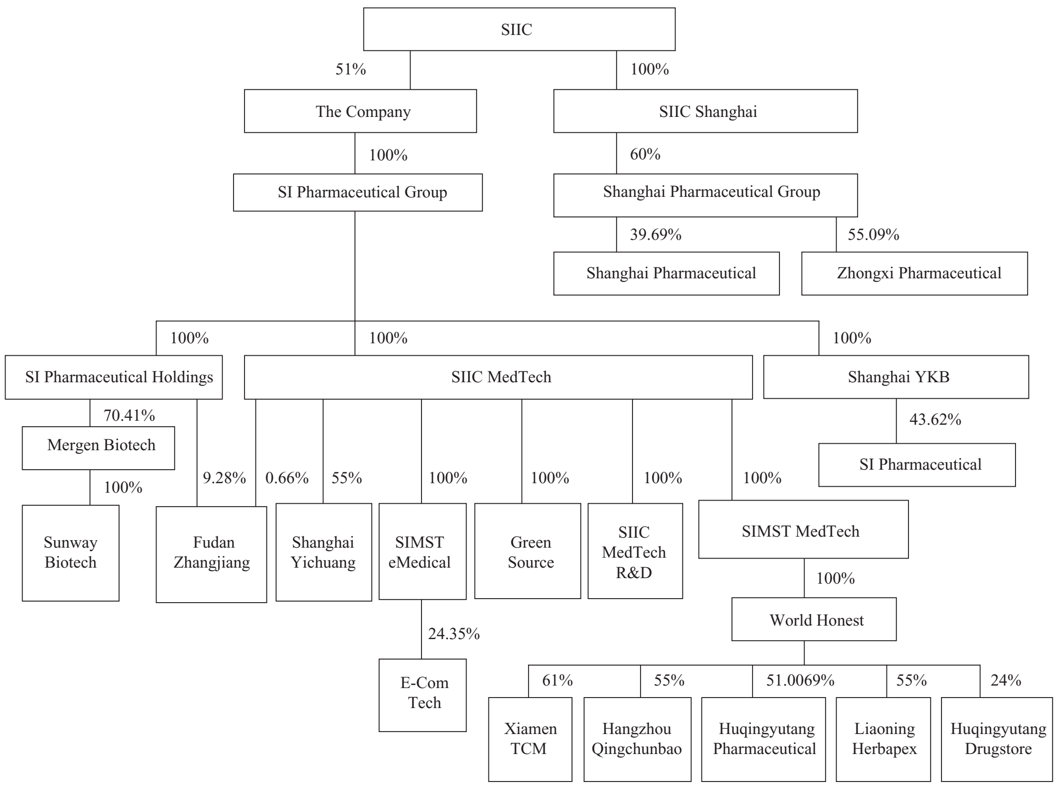
As part of the Asset Restructuring, Shanghai Pharmaceutical and Shanghai Pharmaceutical Group also entered into the Shanghai Pharmaceutical Group Agreement on 15th October 2009, pursuant to which Shanghai Pharmaceutical Group will subscribe for 455,180,600 A shares in consideration of the transfer of equity interests in certain of its subsidiaries engaged in pharmaceutical businesses to Shanghai Pharmaceutical.

As neither Shanghai Pharmaceutical nor Shanghai Pharmaceutical Group is a member of the Group, the Shanghai Pharmaceutical Group Agreement is not an agreement entered into by the Group and also does not concern any assets of the Group.

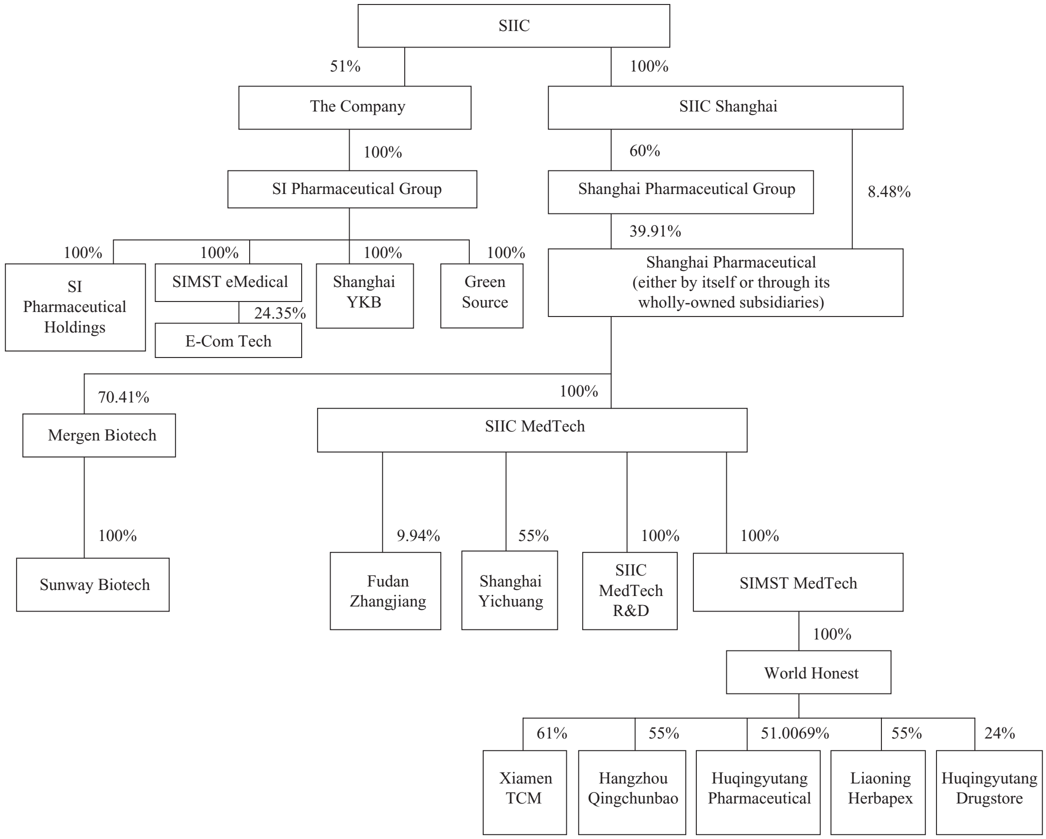
The Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement and the Shanghai Pharmaceutical Group Agreement are integral parts of the Asset Restructuring, and these three agreements are inter-conditional upon each other.

5. SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION OF THE AGREEMENTS

Before completion



After completion



6. INFORMATION ON THE SUBJECT EQUITY INTERESTS TO BE TRANSFERRED PURSUANT TO THE AGREEMENTS

SIIC MedTech

SIIC MedTech is principally engaged in investment holding. It holds shareholding interest in a number of subsidiaries of the Group, namely, Shanghai Yichuang, E-Com Tech, Xiamen TCM, Hangzhou Qingchunbao, Huqingyutang Pharmaceutical, Liaoning Herbapex and Huqingyutang Drugstore which are engaged in different types of pharmaceutical businesses.

Share capital

SIIC MedTech has a total issued share capital of HK$40,893,400, which is currently entirely owned by SI Pharmaceutical Group.

Financial information

The audited profit before taxation and the audited profit after taxation of SIIC MedTech for the two years ended 31st December 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	HK$'000	*HK$'000*
Profit before and after taxation	178,709	227,016

The audited net asset value and the audited total asset value of SIIC MedTech as at 31st December 2008 amounted to approximately HK$465,954,000 and approximately HK$1,622,287,000 respectively.

SIIC MedTech is not required to prepare audited consolidated accounts. The above financial information of SIIC MedTech has not consolidated the results of its subsidiaries which will be transferred pursuant to the Equity Interests Transfer.

Subject companies directly or indirectly held by SIIC MedTech

Shanghai Yichuang

Shanghai Yichuang is principally engaged in research and development of Chinese medicine and health food.

Share capital

Shanghai Yichuang has a total registered capital of RMB3,000,000 which is currently held by its shareholders in the following manner:–

Name of shareholder	**Amount of registered capital** *RMB*	**Percentage shareholding**
SIIC MedTech	1,650,000	55%
Shanghai TCM University Technology Development Ltd. (上海中醫大科技發展有限公司)	1,350,000	45%

Financial information

The audited profit before taxation and the audited profit after taxation of Shanghai Yichuang for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	RMB'000	*RMB'000*
Profit before and after taxation	37	2,018

The audited net asset value and the audited total asset value of Shanghai Yichuang as at 31st December 2008 amounted to approximately RMB2,623,000 and approximately RMB18,073,000 respectively.

SIIC MedTech R&D

SIIC MedTech R&D is inactive.

Share capital

SIIC MedTech R&D has a total issued share capital of HK$2, which is currently entirely owned by SIIC MedTech.

Financial information

The audited loss before taxation and the audited loss after taxation of SIIC MedTech R&D for the two years ended 31st December 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	HK$'000	*HK$'000*
Loss before and after taxation	29	32

The audited net liabilities value and the audited total liabilities value of SIIC MedTech R&D as at 31st December 2008 were both approximately HK$1,388,000.

SIMST MedTech

SIMST MedTech is an investment holding company.

Share capital

SIMST MedTech has a total issued share capital of USD1, which is currently entirely owned by SIIC MedTech.

Financial information

The unaudited profit before taxation and the unaudited profit after taxation of SIMST MedTech for the two years ended 31st December 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	HK$'000	*HK$'000*
Profit before and after taxation	158,995	184,995

The unaudited net asset value and the unaudited total asset value of SIMST MedTech as at 31st December 2008 amounted to approximately HK$409,000 and approximately HK$851,687,000 respectively.

World Honest

World Honest is an investment holding company.

Share capital

World Honest has a total issued share capital of HK$10,000, which is currently entirely owned by SIMST MedTech.

Financial information

The audited profit before taxation and the audited profit after taxation of World Honest for the two years ended 31st December 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	HK$'000	*HK$'000*
Profit before and after taxation	2,206	784

The audited net asset value and the audited total asset value of World Honest as at 31st December 2008 amounted to approximately HK$506,000 and approximately HK$11,343,000 respectively.

Hangzhou Qingchunbao

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

Share capital

Hangzhou Qingchunbao has a total registered capital of RMB128,500,000 which is currently held by its shareholders in the following manner:–

Name of shareholder	**Amount of registered capital** *RMB*	**Percentage shareholding**
World Honest	70,675,000	55%
China (Hangzhou) Qingchunbao Group Co., Ltd. (中國(杭州)青春寶集團公司)	25,700,000	20%
Hangzhou Chia Tai Qingchunbao Staff Shareholding Association (杭州市正大青春寶職工持股協會)	25,700,000	20%
Champion First Investments Ltd.	6,425,000	5%

Financial information

The audited profit before taxation and the audited profit after taxation of Hangzhou Qingchunbao for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	RMB'000	*RMB'000*
Profit before taxation	260,954	279,663
Profit after taxation	222,397	205,111

The audited net asset value and the audited total asset value of Hangzhou Qingchunbao as at 31st December 2008 amounted to approximately RMB485,955,000 and approximately RMB947,841,000 respectively.

Huqingyutang Pharmaceutical

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

Share capital

Huqingyutang Pharmaceutical has a total registered capital of RMB53,160,000 which is currently held by its shareholders in the following manner:–

Name of shareholder	**Amount of registered capital** *RMB*	**Percentage shareholding**
World Honest	27,115,292	51.0069%
Hangzhou Huqingyutang Group Co., Ltd. (杭州胡慶餘堂集團有限公司)	23,898,952	44.9566%
Enhanced Assets Management Ltd.	1,594,800	3.0000%
China (Hangzhou) Qingchunbao Group Co., Ltd. (中國(杭州)青春寶集團公司)	550,956	1.0364%

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Huqingyutang Pharmaceutical for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December	
	2008 *RMB'000*	**2007** *RMB'000*
Consolidated profit before taxation and minority interests	16,521	14,997
Consolidated profit after taxation and minority interests	14,071	12,948

The audited consolidated net asset value and the audited consolidated total asset value of Huqingyutang Pharmaceutical as at 31st December 2008 amounted to approximately RMB275,896,000 and approximately RMB380,979,000 respectively.

Liaoning Herbapex

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

Share capital

Liaoning Herbapex has a total registered capital of RMB51,000,000 which is currently held by its shareholders in the following manner:–

Name of shareholder	**Amount of registered capital** *RMB*	**Percentage shareholding**
World Honest	28,050,000	55%
Medieval International Ltd.	7,650,000	15%
Zheng Ji Yu (鄭繼宇)	8,400,000	16.4706%
Qu Wen Ge (曲文閣)	4,100,000	8.0392%
Lu Xi Wei (呂錫偉)	1,800,000	3.5294%
Hu Lu Dao Jing Xin Investment Group Co., Ltd. (葫蘆島金鑫投資集團有限公司)	1,000,000	1.9608%

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Liaoning Herbapex for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	RMB'000	*RMB'000*
Consolidated profit before taxation and minority interests	10,435	5,294
Consolidated profit after taxation and minority interests	8,518	3,448

The audited consolidated net asset value and the audited consolidated total asset value of Liaoning Herbapex as at 31st December 2008 amounted to approximately RMB148,866,000 and approximately RMB276,178,000 respectively.

Xiamen TCM

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

Share capital

Xiamen TCM has a total issued share capital of RMB47,830,000 which is currently held by its shareholders in the following manner:–

Name of shareholder	Amount of registered capital *RMB*	Percentage shareholding
World Honest	29,175,000	61%
Xiamen Qinggong Group Co., Ltd. (廈門輕工集團有限公司)	14,350,000	30%
Rocal Health Ltd.	4,305,000	9%

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Xiamen TCM for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	RMB'000	*RMB'000*
Consolidated profit before taxation and minority interests	47,875	40,420
Consolidated profit after taxation and minority interests	39,407	37,480

The audited consolidated net asset value and the audited consolidated total asset value of Xiamen TCM as at 31st December 2008 amounted to approximately RMB197,138,000 and approximately RMB258,666,000 respectively.

Huqingyutang Drugstore

Huqingyutang Drugstore is principally engaged in the operation of drug stores for sale of Chinese medicine and health food.

Share capital

Huqingyutang Drugstore has a total registered capital of RMB14,084,500 which is currently held by its shareholders in the following manner:–

Name of shareholder	Amount of registered capital *RMB*	Percentage shareholding
World Honest	4,084,500	24%
Hangzhou Huqingyutang Group Co., Ltd. (杭州胡慶餘堂集團有限公司)	5,459,152	38.76%
39 Individual Shareholders	4,899,998	37.24%

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of Huqingyutang Drugstore for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	RMB'000	*RMB'000*
Consolidated profit before taxation and minority interests	21,430	13,750
Consolidated profit after taxation and minority interests	15,924	9,038

The audited consolidated net asset value and the audited consolidated total asset value of Huqingyutang Drugstore as at 31st December 2008 amounted to approximately RMB46,347,000 and approximately RMB87,735,000 respectively.

Mergen Biotech

Mergen Biotech is principally engaged in investment holding. It holds the entire equity interest in Sunway Biotech which is engaged in biomedicine manufacturing and sale.

Share capital

Mergen Biotech has a total issued share capital of HK$106,470.10 which is currently held by its shareholders in the following manner:–

Name of shareholder	**No. of issued shares**	**Percentage shareholding**
SI Pharmaceutical Holdings	749,667	70.41%
Sino-Alliance International Ltd.	198,034	18.60%
Excellent Hope Holdings Inc.	117,000	10.99%

Financial information

The unaudited consolidated loss before taxation and minority interests and the unaudited consolidated loss after taxation and minority interests of Mergen Biotech for the two years ended 31st December 2008, which were prepared in accordance with the Hong Kong Financial Reporting Standards, were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	HK$'000	*HK$'000*
Consolidated loss before taxation and minority interests	16,642	16,677
Consolidated loss after taxation and minority interests	16,642	14,129

The unaudited consolidated net asset value and the unaudited consolidated total asset value of Mergen Biotech as at 31st December 2008 amounted to approximately HK$55,415,000 and approximately HK$77,703,000 respectively.

Fudan Zhangjiang

Fudan Zhangjiang is principally engaged in research, development and selling of self-developed bio-pharmaceutical know-how.

Share capital

Fudan Zhangjiang has a total issued share capital of RMB71,000,000 currently held by its shareholders in the following manner:–

Name of shareholder	No. of issued shares	Percentage shareholding
Shanghai Pharmaceutical	139,578,560	19.66%
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	105,915,096	14.92%
Fudan University	30,636,286	4.31%
S.I. Pharmaceutical Holdings	65,856,000	9.28%
SIIC MedTech	4,708,000	0.66%
Public	363,306,058	51.17%

Financial information

The audited consolidated loss before taxation and minority interests and the audited consolidated loss after taxation and minority interests of Fudan Zhangjiang for the two years ended 31st December 2008, which were prepared in accordance with the International Financial Reporting Standards were approximately as follows:–

	Year ended 31st December	
	2008	**2007**
	RMB'000	*RMB'000*
Consolidated loss before taxation and minority interests	23,130	28,947
Consolidated loss after taxation and minority interests	23,402	29,550

The audited consolidated net asset value and the audited consolidated total asset value of Fudan Zhangjiang as at 31st December 2008 amounted to approximately RMB73,587,000 and approximately RMB158,452,000 respectively.

SI Pharmaceutical

SI Pharmaceutical and its subsidiaries are principally engaged in the research and development, manufacture and sale of bio-medicine, chemical medicine and medical equipment.

Share capital

SI Pharmaceutical has a total issued share capital of RMB367,814,821 which is currently held by its shareholders in the following manner:–

Name of shareholder	No. of issued shares	Percentage shareholding
Shanghai YKB	160,440,885	43.62%
Public	207,373,936	56.38%

Financial information

The audited consolidated profit before taxation and minority interests and the audited consolidated profit after taxation and minority interests of SI Pharmaceutical for the two years ended 31st December 2008, which were prepared in accordance with the generally accepted accounting principles in the PRC, were approximately as follows:–

	Year ended 31st December 2008 *RMB'000*	2007 *RMB'000*
Consolidated profit before taxation and minority interests	373,450	263,410
Consolidated profit after taxation and minority interests	196,775	137,973

The audited consolidated net asset value and the audited consolidated total asset value of SI Pharmaceutical as at 31st December 2008 amounted to approximately RMB2,007,786,000 and approximately RMB3,443,633,000 respectively.

Before completion of the Equity Interests Transfer, Fudan Zhangjiang is treated as available-for-sale investment in the accounts of the Group. Upon completion of the Equity Interests Transfer, it shall cease to be so accounted for in the accounts of the Group.

7. PRINCIPAL BUSINESSES OF THE COMPANIES UNDER THE EXCLUDED ASSETS

Name of the company	Principal business
SIMST eMedical	Investment holding
Green Source	Inactive
E-Com Tech	Manufacture and sale of medical instrument

8. REASONS FOR AND THE BENEFITS OF ENTERING INTO OF THE AGREEMENTS

Taking the opportunity of the restructuring of pharmaceutical businesses by SIIC, and in line with the Group's strategic planning to optimize its business structure, the Group will totally withdraw from the medicine business by divesting its pharmaceutical assets for cash under the Share Issue and Asset Acquisition Agreement and by the exercise of the cash option to dispose all of its shareholding in SI Pharmaceutical under the Share Swap Merger Agreement.

Such transactions will streamline the Group's core businesses and help the Group focus on further business development in infrastructure facilities, real estate and consumer goods. In addition, possible intra-group competition will be eliminated as the medicine business will be concentrated on the platform of Shanghai Pharmaceutical upon completion of the transactions. Moreover, in the share reform plan of SI Pharmaceutical in 2006, the Company undertook that it would inject its shareholding in Hangzhou Qingchunbao to SI Pharmaceutical. The Share Issue and Asset Acquisition Agreement will enable the Company to perform such undertaking.

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

9. USE OF PROCEEDS

The Agreements are expected to realize a total of approximately HK$5.75 billion for the Group and to bring a considerable disposal gain of approximately HK$3 billion to the Group upon completion of the transactions. These will provide an ample cashflow for subsequent expansion of the core businesses of the Group, and will facilitate acquisitions and takeovers and strengthen the Group's assets, thus creating greater profit contribution to the Group.

10. FINANCIAL EFFECTS OF THE ASSET RESTRUCTURING

Upon completion of the Equity Interests Transfer and the Absorption Merger, it is estimated that the Group will record a considerable profit of approximately HK$3 billion subject to the final income tax liabilities for the Equity Interests Transfer and the Absorption Merger.

(i) Effect on consolidated net asset value

Consolidated net asset value of the Group upon completion of the Equity Interests Transfer and the Absorption Merger will increase by approximately HK$3 billion, which principally reflects the gain on disposal of the Subject Equity Interests and all the shares held in SI Pharmaceutical under the Absorption Merger. The change in consolidated net asset value of the Group upon completion of the Equity Interests Transfer and the Absorption Merger represents approximately 12.26% of the unaudited consolidated net asset value of the Group as at 30th June 2009.

(ii) Effect on earnings

After completion of the Equity Interests Transfer and the Absorption Merger, there will be no net profit attributable by the Asset Companies and SI Pharmaceutical. The total net profit attributable by the Asset Companies and SI Pharmaceutical based on the respective results for the six-month period ended 30th June 2009 accounted for 7.68% of the unaudited profit attributable to the shareholders of the Company for the six-month period ended 30th June 2009. The Directors consider that the shortfall in net profit attributable by the Asset Companies and SI Pharmaceutical could be compensated by the use of the ample cashflow for subsequent expansion of the core business to create greater profit contribution to the Group.

(iii) Effect on working capital

The Group has cash and bank balances and short term bank deposits of approximately HK$12.86 billion as at 30th June 2009. Upon completion of the Equity Interests Transfer and the disposal of shareholding in SI Pharmaceutical pursuant to the Absorption Merger, the Group will receive cash of about HK$5.75 billion for the full payment of the consideration for the Equity Interests Transfer and cash option under the Absorption Merger. The Group's cash balance will be reduced by the amount held by the Asset Companies and SI Pharmaceutical upon completion of the transactions. Accordingly, the cash position of the Group, net of applicable tax, is expected to increase by about HK$2.65 billion and this will immediately improve the Group's cash position, working capital as well as the gearing.

11. GENERAL

The Group is principally engaged in the business of infrastructure facilities, medicine, consumer products and real estate. Shanghai Pharmaceutical is principally engaged in the business of retail and distribution of medical products.

The controlling shareholder of the Company, SIIC, through its subsidiaries indirectly owns 60% of the total equity interest in Shanghai Pharmaceutical Group. The majority of the board of Shanghai Pharmaceutical is controlled by Shanghai Pharmaceutical Group. Shanghai Pharmaceutical is thus an associate of SIIC and a connected person of the Company under the Listing Rules. The Agreements constitute connected transactions of the Company and are subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the revenue ratio for the Equity Interests Transfer and the disposal of shareholding in SI Pharmaceutical pursuant to the Share Swap Merger Agreement in aggregate exceeds 25%, these two transactions constitute major transactions of the Company under Rule 14.06 of the Listing Rules and are subject to approval by the Shareholders according to the requirement under Rule 14.40 of the Listing Rules.

The Independent Board Committee has been formed by the Board to advise the Independent Shareholders on the reasonableness and fairness of the Equity Interests Transfer and the disposal of shareholding in SI Pharmaceutical pursuant to the Share Swap Merger Agreement (including the exercise of the cash option). An independent financial adviser has been appointed to provide its opinion to the Independent Board Committee and the Independent Shareholders in connection with such transactions.

12. EGM

The Company will convene the EGM for the purpose of considering and approving by the Independent Shareholders on the Agreements and the transactions contemplated thereunder (including the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical under the Absorption Merger). Votes for the resolution at the EGM shall be taken by way of poll. Shanghai Investment Holdings Ltd., SIIC Capital (B.V.I.) Ltd., SIIC Treasury (B.V.I.) Ltd., South Pacific International Trading Ltd., SIIC Trading Co. Ltd., The Tien Chu (Hong Kong) Co. Ltd., SIIC CM Development Funds Ltd., Billion More Investments Ltd. and SIIC CM Development Ltd. (all being associates of SIIC) together holding approximately 51.06% 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(s) approving the Agreements and the transactions contemplated thereunder (including the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical under the Absorption Merger). Save for the associates of SIIC, the Company is not aware that any other Shareholder has a material interest in the Asset Restructuring which would require that Shareholder to abstain from voting at the EGM.

Set out on pages 72 to 74 of this circular is a notice convening the EGM which will be held on 16th November 2009 at which the resolutions will be proposed to approve the Agreements and the transactions contemplated thereunder. The EGM will be held at the Conference Room of the Company on the 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Monday, 16th November 2009 at 11:00 a.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.

13. RECOMMENDATIONS

Based on the relevant information disclosed herein, the Directors, including the independent non-executive Directors, believe that the respective terms of the Agreements (including the undertaking to exercise the cash option under the Absorption Merger) 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 that the Shareholders vote in favour of the resolution at the EGM.

As mentioned above, Anglo Chinese has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder. Having considered the advices given by Anglo Chinese and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion that the terms of the 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 resolution to be proposed at the EGM to approve the Agreements (including the undertaking to exercise the cash option under the Absorption Merger) and the transactions contemplated thereunder.

14. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Shanghai Industrial Holdings Limited
TENG YI LONG
Chairman

上海實業控股有限公司
SHANGHAI INDUSTRIAL HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 363)

30th October 2009

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

(1) TRANSFER OF SHAREHOLDINGS IN PHARMACEUTICAL COMPANIES TO SHANGHAI PHARMACEUTICAL CO., LTD.

(2) ABSORPTION AND MERGER OF SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD. WITH SHANGHAI PHARMACEUTICAL CO., LTD.

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular of the Company dated 30th October 2009 (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 members of the Independent Board Committee to advise you as to whether the terms of the Agreements, the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Anglo Chinese 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 Agreements, the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical, and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Board set out on pages 9 to 38 of the Circular, the letter from Anglo Chinese set out on pages 41 to 59 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Agreements, the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical and the transactions contemplated thereunder and the advice given by Anglo Chinese, we consider that the terms of the Agreements, the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution relating to the Agreements, the undertaking by the Company to procure Shanghai YKB to exercise the cash option in respect of its shareholding in SI Pharmaceutical and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
Independent Board Committee

Lo Ka Shui	**Woo Chia-Wei**	**Leung Pak To, Francis**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
英高財務顧問有限公司

30th October 2009

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS

(1) TRANSFER OF SHAREHOLDINGS IN PHARMACEUTICAL COMPANIES TO SHANGHAI PHARMACEUTICAL CO., LTD.

(2) ABSORPTION AND MERGER OF SHANGHAI INDUSTRIAL PHARMACEUTICAL INVESTMENT CO., LTD. WITH SHANGHAI PHARMACEUTICAL CO., LTD.

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 Equity Interests Transfer and the disposal of shareholding in SI Pharmaceutical by means of exercising the cash option pursuant to the Share Swap Merger Agreement (the "Disposal"). Details of which, amongst other things, are set out in the section headed "Letter from the Board" contained in the circular dated 30th October 2009, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 15th October 2009, SIIC Shanghai and Shanghai Pharmaceutical, both being fellow subsidiaries of the Company, and the Company entered into the Share Issue and Asset Acquisition Agreement, under which SIIC Shanghai will subscribe for 169,028,200 A shares in Shanghai Pharmaceutical at RMB11.83 per share. Shanghai Pharmaceutical will apply the proceeds from such subscription to acquire the Subject Equity Interests from the subsidiaries of the Company at a consideration of approximately RMB2.0 billion (equivalent to approximately HK$2.27 billion). On the same date, SI Pharmaceutical, a 43.62% owned subsidiary of the Group and the shares of which are listed on the Shanghai Stock Exchange, entered into the Share Swap Merger Agreement with Shanghai Pharmaceutical and Zhongxi Pharmaceutical, pursuant to which SI Pharmaceutical and Zhongxi Pharmaceutical, a fellow subsidiary of the Company, will merge with Shanghai Pharmaceutical by way of share swap. Shanghai Pharmaceutical will issue new A shares to the existing shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, and Shanghai YKB, a subsidiary of the Company holding 43.62% of SI Pharmaceutical, will fully exercise a cash option alternative and effectively disposing of its entire shareholding interest in SI Pharmaceutical for an aggregate consideration of approximately RMB3.06 billion (equivalent to approximately HK$3.48 billion) pursuant to the Share Swap Merger Agreement.

By virtue of Shanghai Pharmaceutical being an associate of SIIC and a connected person of the Company, the transactions contemplated under the Share Issue and Asset Acquisition Agreement and the Share Swap Merger Agreement constitute non-exempted connected transactions of the Company and are subject to approval by the Independent Shareholders according to the requirement under the Listing Rules. 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 on the reasonableness and fairness of the Equity Interests Transfer and the Disposal. SIIC and its associates shall abstain from voting on the resolutions to be proposed at the EGM.

Save for the approval from the Independent Shareholders at the EGM, the transactions contemplated under the Share Issue and Asset Acquisition Agreement and the Share Swap Merger Agreement are subject to conditions precedent as set out on page 15 and page 20 of this circular, which include amongst others, relevant approvals by the shareholders at the general meetings of Shanghai Pharmaceutical, SI Pharmaceutical and Zhongxi Pharmaceutical, respectively.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinion and representations contained or referred to in this circular and all information and representations which have been provided by the Directors, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the "Letter from the Board" contained in this circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in other parts of this circular.

The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Group, the Asset Companies, SI Pharmaceutical, or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Equity Interests Transfer and the Disposal, we have taken into account the following principal factors:

Background of the Group

SIIC, the controlling shareholder of the Company, is a conglomerate controlled by the Shanghai Municipal Government and in turn controls a number of listed and unlisted companies in the PRC, Hong Kong and other countries such as North America, Europe, Asia Pacific and the Middle East. The Company is the listed flagship of SIIC in Hong Kong. As an investment arm of SIIC, the Company has invested in and operated four key business segments, namely infrastructure facilities (including toll roads, sewage treatment and water supply), medicine (including the 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 (including property investment and development and hotel operations). Set out below are the operating results of the Group's business segments for the three years ended 31st December 2008 and the six months ended 30th June 2009 extracted from the annual reports and interim report of the Company:

	Year ended 31st December 2006 HK$'000 (Audited)	% of total turnover	Year ended 31st December 2007 HK$'000 (Audited) (restated)	% of total turnover	Year ended 31st December 2008 HK$'000 (Audited)	% of total turnover	For the six months ended 30th June 2009 HK$'000 (Unaudited)	% of total turnover
Turnover contribution by key business segments								
– Infrastructure facilities	276,419	4.03	446,690	5.30	938,802	7.37	393,556	7.05
– Medicine	3,729,130	54.43	4,322,141	51.26	5,280,547	41.47	2,914,720	52.24
– Consumer products	2,845,474	41.54	3,293,486	39.06	3,551,309	27.89	1,683,119	30.17
– Real estate	–	–	369,983	4.38	2,961,994	23.27	587,776	10.54
Total turnover	6,851,023	100.00	8,432,300	100.00	12,732,652	100.00	5,579,171	100.00

	Year ended 31st December 2006 HK$'000 (Audited)	% of profit attributable to shareholders	Year ended 31st December 2007 HK$'000 (Audited) (restated)	% of profit attributable to shareholders	Year ended 31st December 2008 HK$'000 (Audited)	% of profit attributable to shareholders	For the six months ended 30th June 2009 HK$'000 (Unaudited)	% of profit attributable to shareholders
Profit contribution by key business segments								
– Infrastructure facilities	614,694	48.87	256,056	13.04	828,916	39.44	332,781	23.71
– Medicine	(52,350)	(4.16)	174,505	8.89	264,285	12.58	508,467	36.23
– Consumer products	566,763	45.06	966,150	49.22	487,875	23.22	760,619	54.20
– Real estate	–	–	58,720	2.99	439,868	20.93	53,500	3.81
Sub-total	1,129,107	89.77	1,455,431	74.14	2,020,944	96.17	1,655,367	117.95*
Profit attributable to the Shareholders	1,257,778	100.00	1,963,023	100.00	2,101,546	100.00	1,403,282	100.00

* The information technology business, a non-core business of the Group contributed losses in the relevant financial period.

	Year ended 31st December 2006 % (Audited)	Year ended 31st December 2007 % (Audited) (restated)	Year ended 31st December 2008 % (Audited)	For the six months ended 30th June 2009 % (Unaudited)	Average %
Profit margin of key business segments					
– Infrastructure facilities	222.38	57.32	88.30	84.56	113.14
– Medicine	(1.40)	4.04	5.00	17.44	6.27
– Consumer products	19.92	29.34	13.74	45.19	27.05
– Real estate	–	15.87	14.85	9.10	13.27
Sub-total profit margin	16.48	17.26	15.87	29.67	
Total profit margin	18.36	23.28	16.51	25.15	

	Year ended 31st December 2006 % (Audited)	Year ended 31st December 2007 % (Audited) (restated)	Year ended 31st December 2008 % (Audited)	For the six months ended 30th June 2009 % (Unaudited)	Average %
Return on assets of key business segments					
– Infrastructure facilities	23.14	2.77	6.89	2.79	8.90
– Medicine	N/A	3.66	4.83	7.40	5.29
– Consumer products	15.26	19.80	9.57	14.23	14.72
– Real estate**	–	0.37	2.34	0.26	0.99

** The Group first entered into the real estate market in July 2007 by acquiring 40% equity interest of Shanghai Urban Development (Holdings) Co. Ltd. and this segment has contributed profit to the Group since then. Further to the acquisition by the Group of an additional 19% equity interest of Shanghai Urban Development (Holdings) Co. Ltd. at the end of 2007, the results of Shanghai Urban Development (Holdings) Co. Ltd. have been consolidated into the accounts of the Group since 2008.

As illustrated from the table above, turnover from the medicine division that principally comprised of the companies under the Subject Equity Interests and the Disposal accounted for an average of approximately 50% of the Group's turnover during the above periods. In terms of turnover the medicine division outweighs the other key business segments of the Group, but the profits contributed by this division were relatively low with only approximately 8.89% and 12.58% for the year ended 31st December 2007 and 2008, respectively. The medicine division incurred a loss of some HK$52.4 million for the year ended 31st December 2006, inclusive of a one-off loss of some HK$215 million resulted from the share reform of SI Pharmaceutical. The profit contributed by the medicine division reached 36.23% or approximately HK$508.5 million during the first half of 2009, included a one-off disposal gain of approximately HK$383 million generated from the disposal of the Group's entire interest in MicroPort Medical (Shanghai) Co. Ltd., details of which can be referred to in the Company's announcement dated 26th June 2009. Without taking into account the one-off gain above, the medicine division which accounted for about 52.2% of the Group's turnover for the six months ended 30th June 2009 merely contributed about 10% of the Group's profit. The profit margin of the medicine division during the three years ended 31st December 2008 was also the lowest among the Group's key business segments for the same period.

Based on the Company's 2009 interim report, the Group had aggregated segment assets of about HK$44.7 billion and the assets under the medicine division accounted for about 15.4% of the total segment assets. As illustrated from the above table, the average return on assets ("ROA") for the medicine division during the three years ended 31st December 2008 and six months ended 30th June 2009 is approximately 5.29%, which is lower than the ROA of the Group's infrastructure facilities and consumer products divisions.

As explained by the Chairman in the Company's 2009 interim report, the Company is in the course of speeding up its assets restructuring and strengthening its core businesses to focus on the infrastructure and real estate segments. The Equity Interests Transfer and the Disposal are only part of the Asset Restructuring stipulated by SIIC on its pharmaceutical assets and the Company will totally withdraw from the medicine business following the restructuring.

Overview of the Subject Equity Interests

The background information on the companies to be transferred by the Group to Shanghai Pharmaceutical under the Equity Interests Transfer are set out in the section headed "Letter from the Board" in this circular. The principal assets comprising the Subject Equity Interests include a 9.28% equity interest in Fudan Zhangjiang, a 70.41% equity interest in Mergen Biotech and the entire issued share capital of SIIC MedTech.

Fudan Zhangjiang is a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8231) which principally engages in research, development and selling of self-developed bio-pharmaceutical know-how. Fudan Zhangjiang is classified as available-for-sale investment in the accounts of the Company and no dividend was paid by Fudan Zhangjiang over the past three financial years. Mergen Biotech is an investment holding company and its subsidiary Sunway Biotech is engaged in biomedicine manufacturing and sale. SIIC MedTech is an investment holding company and its subsidiaries and associate company are principally engaged in different types of pharmaceutical businesses in the PRC, including research, development, manufacturing and sale of Chinese medicine and health food, operation of drug stores for sale of Chinese medicine and health food, etc.

We set out below a summary of the financial information extracted from the unaudited consolidated management accounts of SIIC MedTech (inclusive of the Excluded Assets) and Mergen Biotech:

	Year ended 31st December				**For the six months ended 30th June 2009**	
	2007		**2008**			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	SIIC MedTech (unaudited)	Mergen Biotech (unaudited)	SIIC MedTech (unaudited)	Mergen Biotech (unaudited)	SIIC MedTech (unaudited)	Mergen Biotech (unaudited)
Turnover	1,471,756	12,133	1,752,450	13,850	929,129	7,935
Consolidated profit before taxation and minority interests	353,665	(16,677)	431,494	(16,642)	557,701	(4,828)
Consolidated profit after taxation and minority interests	166,817	(14,129)	239,687	(16,642)	479,757	(4,828)
Profit attributable to the Company	166,817	(9,948)	239,687	(11,718)	479,757	(3,399)
Net asset value attributable to the Company	600,511	48,914	720,474	39,018	1,186,560	35,618

Mergen Biotech remained loss making during the above periods. Based on the unaudited consolidated profit of SIIC MedTech for the year ended 31st December 2008, the return on equity ("ROE") and ROA of SIIC MedTech was 33.27% and 7.66% respectively. SIIC MedTech recorded a profit of HK$479.8 million for the six months ended 30th June 2009 which included the one-off disposal gain of HK$383 million from MicroPort Medical (Shanghai) Co. Ltd as mentioned above.

Pursuant to the Share Issue and Asset Acquisition Agreement, the Company has agreed that it shall use appropriate means to dispose of the Excluded Assets, including effectively 100% of Green Source and 24.35% equity interest in E-Com Tech, such as to ensure that the Excluded Assets shall not form part of the assets of SIIC MedTech upon completion of the Equity Interests Transfer. The Excluded Assets will be retained by the Group but their operations are immaterial to the Group as a whole. Green Source was inactive with net deficits of approximately HK$19.9 million as at 31st December 2008, mainly represented by a loan due to the Group of HK$20.3 million. E-Com Tech is a private company incorporated in the PRC and principally engaged in manufacturing and sale of medical instrument. The audited net asset value of E-Com Tech as at 31st December 2008 was approximately RMB36.3 million with net profit for the same year of approximately RMB1.0 million.

Overview of the asset under the Disposal

Upon completion of the Absorption Merger, SI Pharmaceutical shall be de-registered without going through liquidation and all its assets, liabilities, rights, obligation, business and staff will be succeeded and taken up by Shanghai Pharmaceutical. The shares of SI Pharmaceutical are traded on the Shanghai Stock Exchange (stock code: 600607) with total issued share capital of RMB367,814,821 as at the Latest Practicable Date. SI Pharmaceutical and its subsidiaries are principally engaged in the research and development, manufacture and sale of bio-medicine, chemical medicine and medical equipment. Shanghai YKB, a wholly-owned subsidiary of the Company, currently has a shareholding interest of approximately 43.62% in SI Pharmaceutical.

The financial results of SI Pharmaceutical for the three years ended 31st December 2008 and the six months ended 30th June 2009 as extracted from its annual reports and interim report are set out below:

		Year ended 31st December			For the six months ended
		2006	**2007**	**2008**	**30th June 2009**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover		2,588,781	2,849,556	3,207,516	1,751,857
	Equivalent HK$'000	(HK$2,940,460)	(HK$3,236,661)	(HK$3,643,249)	(HK$1,989,842)
Consolidated profit before taxation and minority interests		217,838	263,410	373,450	696,731
	Equivalent HK$'000	(HK$247,431)	(HK$299,194)	(HK$424,182)	(HK$791,380)
Consolidated profit after taxation and minority interests		105,696	137,973	196,775	432,498
	Equivalent HK$'000	(HK$120,055)	(HK$156,716)	(HK$223,506)	(HK$491,252)
Profit attributable to the Company		46,105	60,184	85,833	188,656
	Equivalent HK$'000	(HK$52,368)	(HK$68,360)	(HK$97,493)	(HK$214,284)
Net asset value		1,765,376	1,861,850	2,007,786	2,275,739
	Equivalent HK$'000	(HK$2,005,198)	(HK$2,114,777)	(HK$2,280,538)	(HK$2,584,892)

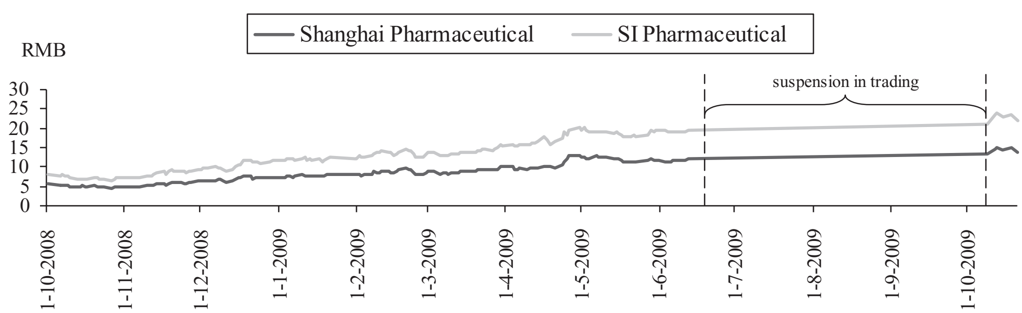
Both the turnover and profit attributable to the shareholders of SI Pharmaceutical maintained a stable growth over the three years ended 31st December 2008. According to SI Pharmaceutical's 2009 interim report, given the economic conditions in the PRC are getting stable in the first half of 2009, the PRC government has increased investment in the pharmaceutical industry and this sector has gradually regained its growth momentum. During this reporting period, SI Pharmaceutical achieved an increase in turnover of approximately 8.02% compared with the six months ended 30 June 2008, mainly attributed to the increase in sales of medical products. SI Pharmaceutical's net profit for the first half of 2009 increased sharply which was primarily due to the disposal of its 100% stake in a subsidiary, namely Shanghai Industrial United (Group) Commercial Network Development Company Limited which owned a 21.17% interest in Lianhua Supermarket Holdings Co., Ltd., and achieved a one-off disposal gain of some RMB361.18 million, further details of which can be referred to in the Company's announcement dated 21st January 2009. For the year ended 31st December 2008, the ROE and ROA for SI Pharmaceutical was 9.80% and 5.71% respectively.

Considerations for the Disposal and the Equity Interests Transfer

Consideration for the Disposal

Pursuant to the Share Swap Merger Agreement, Shanghai Pharmaceutical shall issue new A shares at RMB11.83 per share as the consideration for the Absorption Merger payable to all the shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, in exchange for all or part of their issued shares of SI Pharmaceutical and Zhongxi Pharmaceutical. The price for the shares of SI Pharmaceutical under the Absorption Merger will be RMB19.07 per share, equivalent to one share of SI Pharmaceutical in exchange for 1.61 shares of Shanghai Pharmaceutical. Set out below a chart that illustrates the price movement of both Shanghai Pharmaceutical and SI Pharmaceutical for a nearly 12-month period from 1st October 2008 up to the Latest Practicable Date:

Share price of Shanghai Pharmaceutical and SI Pharmaceutical from 1st October 2008 up to the Latest Practicable Date



Source: Bloomberg

(i) An analysis of the swap ratio

Pursuant to the Share Swap Merger Agreement, one share of SI Pharmaceutical can be exchanged for 1.61 Shanghai Pharmaceutical shares. Such ratio is determined with reference to the average closing price of the A Shares of these two companies in 20 trading days before the suspension of trading in their shares on 17th June 2009 of RMB19.07 and RMB11.83 respectively. As at the Latest Practicable Date, the share price of Shanghai Pharmaceutical and SI Pharmaceutical increased by approximately 199.87% and 205.86% respectively on a yearly basis. The chart above shows the trend of the share price for both Shanghai Pharmaceutical and SI Pharmaceutical was generally in line with each other prior to the suspension of trading on 17th June 2009. The share price movement remained consistent with each other after the resumption of trading of both shares on 16th October 2009.

	Swap price under the Absorption Merger *(RMB)*	**Net asset value per share as at 30th June 2009** *(RMB)*	**Share price as at the Latest Practicable Date** *(RMB)*
SI Pharmaceutical (stock code: 600607)	19.07	6.19	22.04
Shanghai Pharmaceutical (stock code: 600849)	11.83	3.04	14.04
Implied swap ratio	1.61	2.04	1.57

Based on the respective interim report 2009, the net asset value per share for SI Pharmaceutical and Shanghai Pharmaceutical was RMB6.19 and RMB3.04 respectively. If the share swap were to base on the net asset value per share of the two companies, the swap ratio would be approximately 2.04, i.e. one SI Pharmaceutical share in exchange for 2.04 shares in Shanghai Pharmaceutical. If the swap ratio were to base on the share price of the two companies as at the Latest Practicable Date, it will be 1.57 which is close to the swap ratio of 1.61 pursuant to the Absorption Merger. The swap ratio will be higher if it were based on net asset value per share rather than 20-days average closing price mentioned above, but we are of the view that using prevailing share price for both SI Pharmaceutical and Shanghai Pharmaceutical, which are principally determined by the market and investors, as a basis for determining the swap ratio is fair and reasonable to the Company and its Shareholders as a whole.

(ii) An analysis of the cash option

In order to provide full protection to the shareholders of SI Pharmaceutical and Zhongxi Pharmaceutical, a cash option is made available to ensure that such shareholders may elect to be paid wholly or partly in cash for their shares in SI Pharmaceutical and Zhongxi Pharmaceutical at the price of RMB19.07 per share and RMB11.36 per share respectively. Accordingly, the Company has undertaken to Shanghai Pharmaceutical and SI

Pharmaceutical that, subject to approval of the Absorption Merger by the CSRC, it will procure Shanghai YKB to fully exercise the cash option in respect of all its shares held in SI Pharmaceutical at the price of RMB19.07 per share (the "SI Pharmaceutical Disposal Price"). By means of exercising the cash option, the Company will be effectively disposing of its entire shareholding interest in SI Pharmaceutical for an aggregate consideration of approximately RMB3.06 billion, equivalent to approximately HK$3.48 billion pursuant to the Share Swap Merger Agreement.

The SI Pharmaceutical Disposal Price of RMB19.07 represents a price-to-earnings ratio (the "PER") of approximately 35.65 times based on the profit of SI Pharmaceutical for the year ended 31st December 2008, which is slightly higher than the average PER of 34.36 times for the comparable companies listed in the PRC, and is higher than the average PER of 15.18 times for comparable companies listed in Hong Kong (please refer to page 54 for the basis of selecting these comparable companies). The price-to-book ratio (the "PBR") implied by the SI Pharmaceutical Disposal Price with reference to the unaudited net asset value of SI Pharmaceutical as at 30th June 2009 is about 3.08 times, which is lower than the PBR of comparables companies listed in the PRC but higher than that listed in Hong Kong.

The share price performance of SI Pharmaceutical

The SI Pharmaceutical Disposal Price of RMB19.07 represents:

i. a discount of approximately 1.35% to the closing price of RMB19.33 per SI Pharmaceutical share on the last trading day before the date of the Share Swap Merger Agreement;

ii. a discount of approximately 0.16% over the average closing price of approximately RMB19.10 per SI Pharmaceutical share for the last 5 consecutive trading days up to and including the date of the Share Swap Merger Agreement;

iii. a premium of approximately 18.23% over the average closing price of approximately RMB16.13 per SI Pharmaceutical share for the last 90 consecutive trading days up to and including the date of the Share Swap and Merger Agreement;

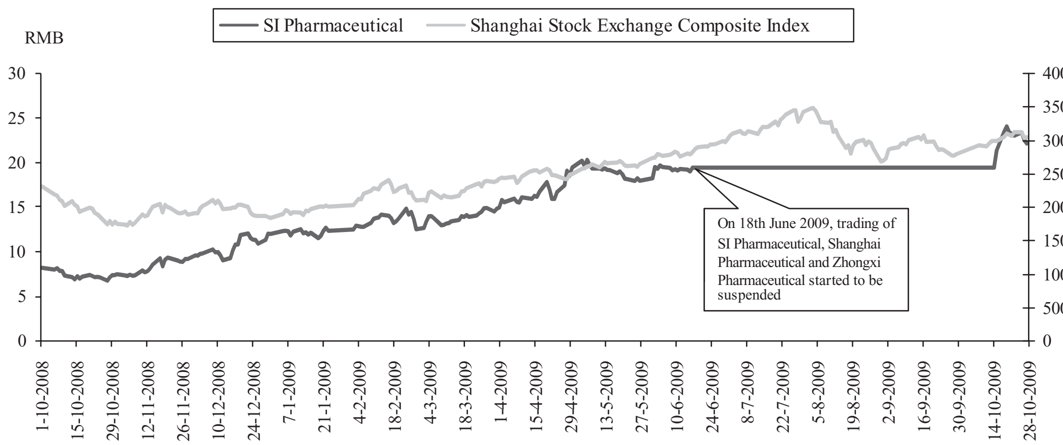
iv. a premium of approximately 50.28% over the average closing price of RMB12.69 per SI Pharmaceutical share for the last 180 consecutive trading days up to and including the date of the Share Swap Merger Agreement;

v. a discount of approximately 13.48% to the closing price of RMB$22.04 per SI Pharmaceutical share on the Latest Practicable Date; and

vi a premium of approximately 208.08% over the unaudited net asset value of approximately RMB$6.19 per SI Pharmaceutical share as at 30th June 2009.

The chart below shows the closing prices of the share of SI Pharmaceutical from 1st October 2008 up to the Latest Practicable Date.

SI Pharmaceutical share price versus Shanghai Stock Exchange Composite Index



Source: Bloomberg

During the period from 1st October 2008 up to 17th June 2009, being the last trading day prior to the suspension of trading due to the Asset Restructuring, the share price of SI Pharmaceutical increased steadily and were traded between a range of RMB6.59 and RMB20.19 and the average closing price during such period was approximately RMB12.95 per SI Pharmaceutical share. The price of the SI Pharmaceutical shares had been on an upward trend since November 2008 which was generally in line with the positive investment sentiments in the Chinese stock market. Shanghai Stock Exchange Composite Index increased by 7.87% from 17th June 2009 up to the Latest Practicable Date, and during the nearly one year period from 1st October 2008 up to the Latest Practicable Date, the share price of SI Pharmaceutical increased by 174.16% while that of the Shanghai Stock Exchange Composite Index increased by 32.15%.

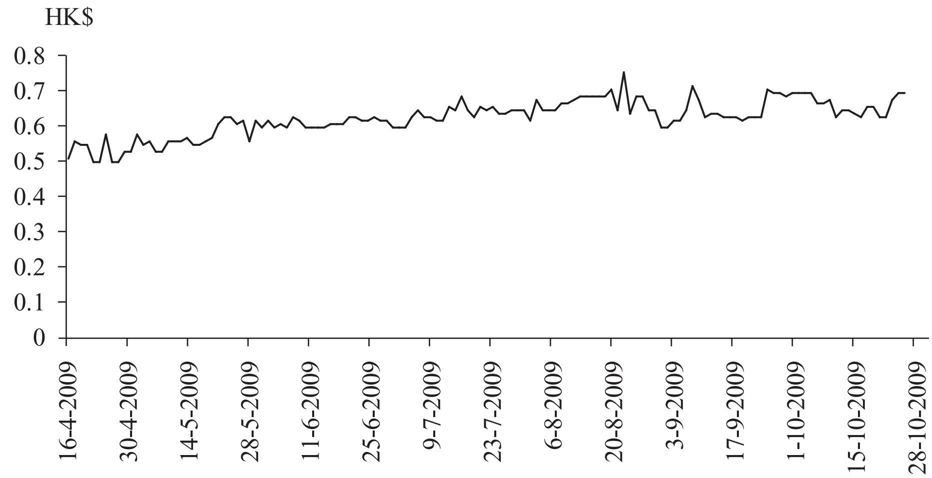
Based on the share swap ratio of 1.61, one share of SI Pharmaceutical should theoretically worth RMB22.60 according to the share price of Shanghai Pharmaceutical of RMB14.04 as at the Latest Practicable Date, representing a premium of 18.51% over the cash option of RMB19.07 under the Share Swap Merger Agreement. The SI Pharmaceutical Disposal Price of RMB19.07 represents a small discount of approximately 13.48% and 15.62% to SI Pharmaceutical's share price and the theoretic price based on Shanghai Pharmaceutical's share price as at the Latest Practicable Date, respectively. Such discount is not unreasonable given disposal of such a substantial proportion in SI Pharmaceutical's shares on the market is likely to create downward pressure on its share price. Without the cash option, it is expected the Company will be interested in approximately 12.97% of Shanghai Pharmaceutical upon completion of the Asset Restructuring which the Company is unlikely to have significant control over the amalgamated entity. In addition, pursuant to the letter issued by a PRC lawyer, Yuan Tai Law Offices, to the Company dated 21st October 2009, it is stated that under the relevant rules and regulations in the PRC, the shares of Shanghai Pharmaceutical received by the Group pursuant to the Absorption Merger are subject to a lockup period of three years. While the Company will not be able to sell its minority interest in Shanghai Pharmaceutical during such lockup period, the dividend from the amalgamated entity is uncertain given the 12 months dividend yield as quoted by Bloomberg for Shanghai Pharmaceutical and SI Pharmaceutical was 0.32% and 0.77% respectively, and Zhongxi Pharmaceutical has not declared any dividend since 1999. By choosing the cash option of RMB19.07 per share instead of Shanghai Pharmaceutical shares, the Company can immediately realise a significant cash inflow at a reasonable valuation compared to the comparable companies as discussed on pages 54 to 57. We are of the view that the Disposal by means of exercising the cash option offered by independent third parties, namely Shenergy and Guosheng, both of which are controlled by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, being an effective channel for divesting the Group's pharmaceutical assets at a reasonable price, is in the interest of the Company and its Shareholders as a whole.

Consideration for the Equity Interests Transfer

As stated in the section headed "Letter from the Board", the consideration of approximately RMB2.0 billion (equivalent to approximately HK$2.27 billion) for the Equity Interests Transfer was arrived at after arm's length negotiation between the Company and Shanghai Pharmaceutical and is the same as the fair value of the assets as stated in the Asset Valuation Reports, save and except for the 9.28% shareholding interest in Fudan Zhangjiang the consideration of which is based on its closing price as at 30th June 2009. The final consideration for the Subject Equity Interests, save for the shareholding interests in Fudan Zhangjiang which is based on its closing price, shall be in accordance with the assessment results as approved by or filed with the State-owned Asset Administration Department. As the Asset Valuation Reports were not commissioned by the Group and were prepared according to valuation standards in the PRC, we have not relied on the Asset Valuation Reports in reaching our view on whether the consideration for the Equity Interests Transfer is fair and reasonable.

With reference to the closing price of Fudan Zhangjiang on 30th June 2009 of HK$0.62 per share, the consideration for the disposal of 9.28% interest in Fudan Zhangjiang is approximately HK$40.8 million, equivalent to approximately RMB35.9 million.

6 months share price of Fudan Zhangjiang



Source: Bloomberg

As shown in the chart above, the share price of Fudan Zhangjiang remained relatively stable over the 6-month period from April 2009 to the date of the Share Swap Merger Agreement, shares of which were traded at a range between HK$0.51 to HK$0.76 with an average of HK$0.63 during this period with relatively low liquidity. Based on the 5 days average closing price of Fudan Zhangjiang up to the Latest Practicable Date of approximately HK$0.67, which represents a slight premium of 8.06% to the disposal price of HK$0.62, we consider the basis for determining the consideration for the disposal of interest in Fudan Zhangjiang under the Equity Interests Transfer is fair and reasonable and in the interest to the Company and its Shareholders as a whole.

Unlike Fudan Zhangjiang and SI Pharmaceutical which are listed securities, SIIC MedTech and Mergen Biotech are private companies with low marketability for their shares. The implied consideration for them is about HK$2.23 billion, being the consideration of approximately HK$2.27 billion under the Share Issue and Asset Acquisition Agreement minus the consideration for the disposal of Fudan Zhangjiang of HK$40.8 million as discussed above. As set out on page 46, Mergen Biotech has been loss making and its net asset value was immaterial compared with that of SIIC MedTech, as such, the consideration of approximately HK$2.23 billion is likely to be attributed mainly to SIIC MedTech, if it were to split among these two companies. Since there are no financial statements prepared for the Subject Equity Interests, for illustration purpose only, the total of the unaudited consolidated net profit attributable to the Group from Mergen Biotech and SIIC MedTech was approximately HK$227.97 million for the year ended 31st December 2008, and the total of the unaudited consolidated net asset values of these two companies was approximately HK$1,222.18 million as at 30th June 2009. These figures implied that the PER and the PBR for SIIC MedTech and Mergen Biotech as a whole are about 9.78 times and 1.82 times, respectively. Such valuation ratios are lower than the average, but within the range, of the comparables companies as discussed on page 56.

In accordance with applicable PRC laws and regulations, SIIC Shanghai shall indemnify Shanghai Pharmaceutical for any deficiency in the actual profit and estimated profit attributable to the Subject Equity Interests for three years given the Asset Valuation Reports are based on expected future earnings. Although we have not relied on the Asset Valuation Reports prepared by the independent valuer in the PRC, we consider such indemnity given by SIIC Shanghai which eliminates possible claim from counter-party, is in the interest of the Company and its Shareholders as a whole.

In assessing the fairness and reasonableness of the considerations for the Equity Interests Transfer and the Disposal as a whole, we have selected a universe of comparable companies based on the selection criteria of: (i) being listed on the Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange; (ii) being principally engaged in the research and development, manufacture and sale of either Chinese medicine and health food, bio-medicine, chemical medicine or medical equipment or a combination of the above; and (iii) with net profit of at least US$20 million for the last financial year, a threshold that is comparable to the profit of the Group's medicine division of HK$246.3 million (equivalent to US$34 million for the year ended 31st December 2008; and (iv) with market capitalisation between US$780 million to US$2,000 million, a range that is comparable to the market capitalisation of SI Pharmaceutical of US$1,187 million as at the Latest Practicable Date. These comparable companies are identified by us, to our best effort, in our research searching through published information on Bloomberg. Therefore, the Independent Shareholders should note that the information of the comparable companies below is for information and reference only.

We have reviewed commonly used valuation ratios implied by the closing prices of the comparable companies as at the Latest Practicable Date. These valuation ratios include PER and PBR, which we consider appropriate for this comparison purpose.

The table below shows the market capitalisation and valuation ratios of the comparable companies based on their closing prices as at the Latest Practicable Date.

PRC comparable companies

	Stock Code	Market Capitalisation *(USD million)*	PER *(Times)*	PBR *(Times)*
Guangzhou Pharmaceutical Co Ltd	600332	781.22	41.83	1.89
Zhangzhou Pientzehuang Pharmaceutical Co Ltd	600436	795.14	36.97	6.95
Tianjin Zhong Xin Pharmaceutical Group Corp Ltd	600329	970.94	43.39	5.83
Harbin Pharmaceutical Group Sanjing Pharmaceutical Co Ltd	600829	1,012.89	23.47	4.87
Huadong Medicine Co Ltd	000963	1,047.63	29.28	7.52
Shanghai Kehua Bio-Enineering Co Ltd	002022	1,157.14	41.42	11.08
North China Pharmaceutical Co Ltd	600812	1,245.78	34.43	6.11
Zhejiang Hisun Pharmaceutical Co Ltd	600267	1,301.50	40.57	5.64
Northeast Pharmaceutical Group Co Ltd	000597	1,310.19	16.65	4.82
China National Medicines Corp Ltd	600511	1,321.80	39.24	9.07
Beijing Tongrentang Co Ltd	600085	1,360.78	31.83	3.18
Tianjin Tasly Pharmaceutical Co Ltd	600535	1,408.66	29.70	4.95
Beijing SL Pharmaceutical Co Ltd	002038	1,428.97	39.53	10.81
Beijing Double Crane Pharmaceutical Co Ltd	600062	1,792.59	26.41	3.63
Guilin Sanjin Pharmaceutical Co Ltd	002275	1,813.85	40.72	14.30
Sub simple average		**1,249.94**	**34.36**	**6.71**

HK comparable companies

	Stock Code	Market Capitalisation *(USD million)*	PER *(Times)*	PBR *(Times)*
Guangzhou Pharmaceutical Co Ltd	874	780.93	17.95	0.81
China Pharmaceutical Group Ltd	1093	903.15	6.80	1.48
Sino Biopharmaceutical Ltd	1177	1,001.02	19.95	3.40
China Shineway Pharmaceutical Group Ltd	2877	1,254.91	16.02	3.51
Sub simple average		**985.00**	**15.18**	**2.30**

	Market Capitalisation *(USD million)*	PER *(Times)*	PBR *(Times)*
Simple average (PRC and HK comparables)	**1,194.16**	**30.32**	**5.78**

	PER *(Times)*	PBR *(Times)*
Simple average (PRC and HK comparables)	30.32	5.78
SI Pharmaceutical, based on the SI Pharmaceutical Disposal Price	35.65	3.08
SIIC MedTech and Mergen Biotech, based on the consideration under Equity Interests Transfer	9.78	1.82
Group's medicine division, based on the aggregated consideration from the Equity Interests Transfer and the Disposal	21.73	2.50

Following the Asset Restructuring, the Company will virtually withdraw from the medicine division, save for the Excluded Assets which is immaterial to the Group. As such, we have used the valuation ratios of the Group's medicine division to assess the fairness and reasonableness of the Equity Interests Transfer and the Disposal as a whole.

PER

According to the Company's 2008 annual report, the profit from the Group's medicine segment was about HK$264.3 million, the PER of the Group's medicine division as represented by the aggregate consideration of RMB5,059 million (equivalent to HK$5,746 million) under the Equity Interests Transfer and the Disposal is approximately 21.73 times. This is higher than the average PER of Hong Kong comparable companies of approximately 15.18 times but lower than the average PER of the PRC comparable companies of approximately 34.36 times. The PER of 21.73 times is within the range of 6.80 times to 43.39 times as represented by all the comparable companies.

PBR

As represented by the Company, the book value of the companies under the Equity Interests Transfer and the Disposal at 30th June 2009 was about HK$2,298 million. The PBR of the underlying assets represented by the aggregate consideration of RMB5,059 million (equivalent to HK$5,746 million) is approximately 2.50 times, which is slightly higher than the average PBR of Hong Kong comparable companies of approximately 2.30 times, but is lower than the average PBR of the PRC comparable companies of approximately 6.71 times. The PBR of 2.50 times is within the range of 0.81 time to 14.30 times as represented by all of the comparable companies.

The trading multiples of the comparable companies in the PRC are generally higher than those in other major stock markets in the world. In particular, the average PER of the comparable companies in the PRC is about 126.35% more than that of comparable companies in Hong Kong and the average PBR is about 191.74% more than that of the comparable companies in Hong Kong. In light of this, we note that the PER and PBR of the Group's medicine division as represented by the aggregate consideration, are within the range of valuation ratios of the comparable companies, though are lower than the average of PRC comparable companies, are higher than the comparables in Hong Kong. As such, we are of the opinion that the aggregate consideration for the Equity Interests Transfer and the Disposal as a whole is fair and reasonable.

In view of the above, in particular:

(i) considerations of the Equity Interests Transfer and the Disposal have been arrived at after arm's length negotiations between the Company, Shanghai Pharmaceutical, SIIC Shanghai and Zhongxi Pharmaceutical;

(ii) the disposal consideration for Fudan Zhangjiang that is based on the closing price as at 30th June 2009, is close to the 5-trading days average closing price of Fudan Zhangjiang up to the Latest Practicable Date and represents a slight discount to the six months average closing price;

(iii) the share swap ratio under the Share Swap Merger Agreement using the 20-trading days average for Shanghai Pharmaceutical and SI Pharmaceutical is fair and reasonable;

(iv) the SI Pharmaceutical Disposal Price represents a higher than average PER than the comparable companies in Hong Kong and the PRC, with only a small discount of 15.62% to the theoretical value of SI Pharmaceutical based on the share price of Shanghai Pharmaceutical as at the Latest Practicable Date; and

(v) the valuation ratios of the Equity Interests Transfer and the Disposal as a whole are within the range of the comparable companies;

we are of the view that the considerations of the Equity Interests Transfer and the Disposal as a whole are fair and reasonable and in the interests of the Company and the Shareholders.

Reasons for and benefit of the Share Issue and Asset Acquisition Agreement and the Share Swap Merger Agreement

The transactions contemplated under the Share Issue and Asset Acquisition Agreement and the Share Swap Merger Agreement are part of the pharmaceutical business restructuring within SIIC and upon completion of such restructuring, the Group shall totally withdraw from the medicine business, save for the Excluded Assets which are immaterial to the Group as a whole. We are of the view that the Equity Interests Transfer and the Disposal is in line with the objective of the Group as stated in the section headed "Letter from the Board" for streamlining its core businesses and helping the Group to focus on further business development in infrastructure facilities, consumer goods and real estate. The divesting of the

Group's pharmaceutical assets for cash under the Share Issue and Asset Acquisition Agreement and by the exercise of the cash option to dispose of all of its shareholding in SI Pharmaceutical under the Share Swap Merger Agreement will eliminate possible intra-group competition as the medicine business will be concentrated on the platform of Shanghai Pharmaceutical upon completion of the Asset Restructuring. It was also stated that the Share Issue and Asset Acquisition Agreement will enable the Company to perform its undertaking made in the share reform plan of SI Pharmaceutical in 2006 to inject its shareholding in Hangzhou Qingchunbao to SI Pharmaceutical.

In view of the fact that the profit margin from the medicine division remained relatively low compared to other Group's key business segments over the past few years, the restructuring within SIIC's pharmaceutical businesses provides an opportunity for the Group to divest its pharmaceutical assets with a considerable disposal gain of approximately HK$3 billion. It was also stated that the proceeds of approximately HK$5.75 billion from the Equity Interests Transfer and the Disposal will provide an ample cashflow for subsequent expansion of the core businesses of the Group, and will facilitate acquisitions and takeovers and strengthen the Group's assets, thus creating greater profit contribution to the Group.

Having considered the above, we are of the view that the Equity Interests Transfer and the Disposal are in the interest of the Company and the Shareholders as a whole.

Financial impacts of the Equity Interests Transfer and the Disposal

Earnings

The Equity Interests Transfer and the Disposal will result in approximately HK$3 billion disposal gain to the Group upon completion of the transactions. However, the Equity Interests Transfer and the Disposal will cause the Group, in the future, to cease sharing any profit of the Asset Companies and SI Pharmaceutical. As stated in the section headed "Letter from the Board", the total net profit attributable by the Asset Companies and SI Pharmaceutical based on the respective results for the six months ended 30th June 2009 accounted for about 7.68% of the unaudited profit attributable to the shareholders of the Company during the same period. As such, we consider the impact of such one-off disposal gain from the Equity Interests Transfer and the Disposal with some HK$3 billion outweighs the future cessation of sharing profit from the Asset Companies and SI Pharmaceutical in the short run.

Net asset value

Given that the Equity Interests Transfer and the Disposal will result in about HK$3 billion disposal gain upon completion of the transactions, the Group's consolidated net asset value will then be increased by the same amount. Such increase represents approximately 12.26% of the unaudited consolidated net asset value of the Group as at 30th June 2009.

Working capital and Gearing

The Group has cash and bank balances and short term bank deposits of approximately HK$12.86 billion as at 30th June 2009. Upon completion of the Equity Interests Transfer and the Disposal, the Group will receive cash of about HK$5.75 billion from the full payment for the Equity Interests Transfer and the cash option under the Absorption Merger. The Group's cash balance will be reduced by the amount held by the Asset Companies and SI Pharmaceutical upon completion of the transactions. Accordingly, the cash position of the Group, net of applicable tax, is expected to increase by about HK$2.65 billion and this will immediately improve the Group's cash position, working capital as well as gearing.

RECOMMENDATION

Based on the above principal factors and reasons, we consider that the Equity Interests Transfer and the Disposal are on normal commercial terms, and the transactions contemplated under the Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement and the undertaking to procure Shanghai YKB to fully exercise the cash option in respect of all its shares in SI Pharmaceutical under the Absorption Merger are fair and reasonable and in 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 Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement and the aforesaid undertaking regarding the cash option under the Absorption Merger.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Michael Fok
Director

FINANCIAL AND TRADING PROSPECTS

The Group is endeavoured to optimize its business structure and build up a solid foundation for its continued development and improvement in profitability. In line with this business strategy, efforts were made to dispose of a number of non-core and non-controlling businesses this year and further investments were made to our core businesses. The Group will continue its pace of restructuring and, through mergers and acquisitions and upscaling of its investments in core businesses, sharpen its investment portfolio and optimize its business structure. This is expected to enhance the earnings capabilities of the Group and create higher values for the Shareholders.

Infrastructure Facilities

The alteration and widening of the Xinsong section of the Hu-Hang Expressway (Shanghai Section) is progressing well and is expected to be completed by March 2010 before the opening of the Shanghai World Expo. The expressway is entitled to government compensations for the project. The Hu-Ning Expressway (Shanghai Section) and Hu-Hang Expressway (Shanghai Section) wholly-owned by the Group accounted for approximately 40% of the total revenue from toll roads in Shanghai.

Looking ahead, the Group will continue to allocate further resources on the infrastructure facilities segment and speed up its investment. The Group is also planning to acquire a third toll road in Shanghai and expects to increase its market share in toll roads to about 55%. Such moves are expected to bring stable investment gains to the Group and strengthen its recurring cash flow.

General Water of China Co., Ltd. has been ranked by H2O-China.com as one of the Top Ten Influential Water Service Companies for six consecutive years since inception, further securing its leading position in the industry. The Group aims to, under the current strategic direction, further enhance the operation of capital, and is endeavoured to broaden its scope of business and create new earning drivers.

Consumer Products

Nanyang Tobacco and Wing Fat Printing continue to deliver stable income and cash flow for the Group. Nanyang Tobacco focused on high value added products and has achieved satisfactory results in restructuring its product portfolio and recorded rapid growth in profit. Trial operation of production of expanded cut tobacco production has begun. The new expanded technology is able to reduce the use of cut tobacco, tar and other harmful substances and thus make the production more economical. The company will continue to exercise cost control and modify products and market structure in order to enhance product quality and maintain sustainable business development.

Overall performance of Wing Fat Printing has remained stable. Prices in the market have resumed since the second half of the year, and the 300,000 tonnes A grade containerboard production line of Hebei Yongxin Paper Co. Ltd. commenced in April this year. Production capacity has been greatly enhanced and the paper manufacturing business of the company shows signs of recovery. The newly developed packaging business for drugs has also brought about a new growth driver for the company.

Real Estate

Property sales of Shanghai Urban Development has been favourable and the launching of “Urban Crade – Lounge City” apartments have been well received. Profit contribution from Shanghai Urban Development, without taking property revaluation into account, increased more than one fold during the first half of 2009 over the same period last year. The company has a land bank of a total gross floor area of up to 3,260,000 square meters.

The Group further expanded its land resources in 2009 and acquired from Glorious Property four residential blocks of “Shanghai Bay” under development with a total gross floor area of approximately 100,000 square meters situated along the riverside of Huangpu River and adjacent to the Shanghai World Expo venues. In return, the Group will receive a total guaranteed profit return of approximately HK$1 billion in three years. Glorious Property is given an option to buy back the properties at the original consideration.

The Group further acquired a development site (land lots D and E) located by the lakeside of the Dianshan Lake, at Zhujiajiao in the southwest of the Qingpu District, Shanghai from its parent company. The acquired site has a total land area of approximately 950,000 square meters and is available for the Group to develop (either on its own or with other parties) into low density mid to high-end luxury residential buildings and villas. The Group will pursue acquisition of the adjacent parcels of land for development purpose.

Affected by reduced demand from overseas visitors, price competition among high-end hotels in Shanghai has been intensified. Room rates of the Four Seasons Hotel Shanghai remained at a high level compared to its peers while banquet and conference business has continued to be strong. In autumn this year, new spa facilities have been enhanced to meet the demand of high-end customers and to increase the competitiveness of the hotel in the industry.

Business outlook

The Group is committed to optimize its business structure and strengthen its core businesses, with a focus on the infrastructure and real estate segments, making them key growth drivers and sources of income of the Group in the future. Efforts will be devoted to maintain stable development of the consumer products business, which will continue to bring steady profit contribution and recurring cash flow for the Group. Capitalizing on its Shanghai background and the opportunity of state-owned assets restructuring, the Group will continue to look for opportunities for acquisition of quality assets, and strive to optimize its business and capital structure in order to increase its earnings capabilities and enhance the overall quality of its businesses for the sustainable development of the Group.

INDEBTEDNESS

Borrowings

As at the close of business on 31st August 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowings:

	HK$'000
Bank loans	
– secured	4,457,312
– unsecured *(note)*	8,682,172
	13,139,484
Other loans	
– secured	19,139
– unsecured	136
	19,275
	13,158,759

Note: Included in unsecured bank loans is approximately HK$772,376,000 which is guaranteed by a minority shareholder of a subsidiary.

	HK$'000
Other	
– amount due to Xuhui District Stated-owned Assets Administrative Committee ("Xuhui SAAC")	681,116

The maturity of the bank loans and other loans are as follows:

	HK$'000
Within one year	3,760,590
More than one year	9,398,169
	13,158,759

Pledge of assets

As at 31st August 2009, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

a. investment properties with a carrying value of approximately HK$1,911,290,000;

b. plant and machinery with a carrying value of approximately HK$599,750,000;

c. leasehold land and buildings with a carrying value of approximately HK$360,390,000;

d. motor vehicles with a carrying value of approximately HK$42,000;

e. properties under development held for sale with a carrying value of approximately HK$2,965,962,000;

f. properties held for sale with a carrying value of approximately HK$130,179,000;

g. toll road operating right with a carrying value of approximately HK$5,769,987,000;

h. other inventories with a carrying value of approximately HK$64,914,000;

i. trade receivables with a carrying value of approximately HK$34,901,000; and

j. bank deposits of approximately HK$925,533,000.

Contingent liabilities

As at 31st August 2009, the Group had given guarantees to banks in respect of banking facilities utilized by:

	HK$'000
– an entity controlled by Xuhui SAAC	750,795
– associates	55,130
– outsiders	398,133
	1,204,058

DISCLAIMER

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31st August 2009 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors (including the independent non-executive Directors) are of the opinion that the Group will have sufficient working capital for its present requirements.

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. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
2,000,000,000	Shares of HK$0.1 each	200,000,000
Issued and fully paid up:		
1,079,765,000	Shares of HK$0.1 each	107,976,500

All of the Shares rank pari passu in all respects, including as to dividends, voting and capital.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchanges.

3. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interest or short positions of the Directors and the chief executive of the Company in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Capacity	Nature of interests	Number of issued Shares held	Approximate percentage of total issued share capital
Cai Yu Tian	Beneficial owner	Personal	693,000	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	195,000	0.02%

Note: All interests stated above represented long positions.

(ii) Interests in shares of SI Pharmaceutical

Name of Director	Capacity	Nature of interests	Number of issued shares held	Approximate 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%

Note: 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 of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	**Capacity**	**Number of issued Shares held**	**Approximate percentage of total issued share capital**
SIIC	Interests held by controlled corporations	551,328,855 *(Note 1)*	51.06%
JPMorgan Chase & Co.	Beneficial owner	563,000	0.05%
	Investment manager	8,657,000	0.8%
	Custodian corporation/ approved lending agent	58,312,865	5.4%

Notes:

1. SIIC through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Ltd., SIIC Capital (B.V.I.) Ltd., SIIC Treasury (B.V.I.) Ltd., South Pacific International Trading Ltd., SIIC Trading Co., Ltd., The Tien Chu (Hong Kong) Co., Ltd., SIIC CM Development Funds Ltd., Billion More Investments Ltd. and SIIC CM Development Ltd. held 466,644,371 Shares, 80,000,000 Shares, 1,632,000 Shares, 1,342,000 Shares, 1,161,000 Shares, 103,000 Shares, 95,000 Shares, 60,000 Shares, 10,000 Shares and 281,484 underlying Shares respectively, and is accordingly deemed to be interested in the respective Shares held by the aforementioned companies.

2. All interests stated above represented long positions.

(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

Save as disclosed above, as at the Latest Practicable Date, 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 for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by any relevant member of the Group within one year without payment of compensation, other than statutory compensation).

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31st December 2008, being the date to which the latest published audited accounts of the Group were made up.

6. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far so was known to the Directors, none of the Directors, and their respective associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there was not 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.

9. EXPERTS

(a) The following are the qualifications of the experts who have given its report, opinion or advice which are contained in this circular:

Name	Qualification
Anglo Chinese	A corporation licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO
Yuan Tai Law Offices	PRC legal advisers

(b) As at the Latest Practicable Date, each of Anglo Chinese and Yuan Tai Law Offices:

(i) was not interested beneficially or non-beneficially in any shares in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.

(ii) did not have any direct or indirect interest in any assets which had been since 31st December 2008 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.

Each of Anglo Chinese and Yuan Tai Law Offices has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 30th October 2009 or reference to its letter of advice, and the references to its name included herein in the form and context in which they respectively appear.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within two years preceding the date of this circular and which are or may be material:

(i) the sale and purchase agreement dated 26th May 2008 entered into among S.I. Information Technology Holdings Ltd. as vendor and SIIC CM Development Ltd. as purchaser and SIIC as the purchaser's guarantor in relation to the disposal of the entire issued share capital in and shareholders' loan to Active Services Group Ltd.;

(ii) the share transfer contract dated 17th June 2008 entered into between SI United Group Pharmaceutical Co., Ltd. as the purchaser and Jin Jiang International (Holdings) Ltd. as the vendor in relation to the disposal of 30% interest in SI United Changcheng Pharmaceutical Co., Ltd.;

(iii) the conditional sale and purchase agreement dated 21st July 2008 and the supplemental agreement dated 5th August 2008 both entered into among the Company, South Pacific Hotel Holdings Ltd. and SIIC in relation to the acquisition by the Company of the entire issued share capital in and shareholders' loan to Good Cheer Enterprises Ltd.;

(iv) the conditional sale and purchase agreement dated 21st July 2008 and the supplemental agreement dated 5th August 2008 both entered into among SIIC CM Development Ltd., S.I. Infrastructure Holdings Ltd. and SIIC in relation to the acquisition by S.I. Infrastructure Holdings Ltd. of the entire issued share capital in and shareholders' loan to S.I. Hu Hang Development Ltd.;

(v) the facility agreement dated 15th October 2008 entered into among the Company, SIHL Finance Ltd. and a syndicate of banks and financial institutions for 3-year term loan facilities of up to HK$2,200 million;

(vi) the facility agreement dated 8th December 2008 entered into among the Company, SIHL Finance Ltd. and a syndicate of banks and financial institutions for 3-year term loan facilities of up to HK$670 million;

(vii) the equity interest transfer agreement dated 12th December 2008 entered into among Wing Fat Printing (Dongguan) Co., Ltd. as the purchaser, Tianjin Tiannan Trading Co. Ltd. as the vendor and Xinnan Tianjin Paper Co., Ltd. as the vendor in relation to the acquisition of the aggregate of 12.13% equity interest in Hebei Yongxin Paper Co., Ltd.;

(viii) the widening construction agreement dated 16th January 2009 entered into between Shanghai Road-Bridge Development Co., Ltd. and Shanghai Public Road Construction Co. in relation to the appointment of Shanghai Public Road Construction Co. to implement the widening and alteration construction of the Xin-Song Section of Hu-Hang Expressway (Shanghai Section);

(ix) the equity transfer agreement dated 21st January 2009 entered into among SI Pharmaceutical as the vendor, Shanghai Hua Rui Investment Co., Ltd. as the vendor and Bailian Group Co., Ltd. as the purchaser in relation to the transfer of the entire equity interest in Shanghai Industrial United (Group) Commercial Network Development Co. Ltd. to the purchaser;

(x) the acquisition agreement dated 11th June 2009 and the supplemental agreement dated 30th July 2009 both entered into among Bright New Investments Ltd. as the vendor, S.I. Properties Holdings Ltd. as the purchaser, Mr. Zhang Zhi Rong as the Guarantor and the Company in relation to the acquisition of the entire issued share capital in and shareholders' loan to Better Score Ltd.;

(xi) the share transfer agreement dated 26th June 2009 entered into between SIMST MedTech as the vendor and Shanghai ZJ Hi-Tech Investment Corporation as the purchaser in relation to the disposal of the entire interest in SIIC MedTech Health Products Ltd.;

(xii) the share transfer agreement dated 30th June 2009 entered into between Shanghai Hu-Ning Expressway (Shanghai Section) Co. Ltd. as the purchaser and SIIC Investment (Shanghai) Co. Ltd. as the vendor in relation to the transfer of 20% interest in Shanghai Galaxy Investments Ltd.;

(xiii) the sale and purchase agreement dated 27th July 2009 entered into between Shanghai Industrial Financial (Holdings) Co., Ltd. as purchaser and the Company as vendor in relation to the disposal of the entire issued share capital in and shareholders' loan to S. I. Technology Production Holdings Ltd.;

(xiv) the conditional agreement dated 12th August 2009 entered into between Glory Shine Holdings Ltd. as vendor and S.I. Urban Development Holdings Ltd. as purchaser in relation to the acquisition of the entire issued share capital in and shareholders' loan to S.I. Feng Mao Properties (BVI) Ltd. and S.I. Feng Qi Properties (BVI) Ltd.;

(xv) the Share Issue and Asset Acquisition Agreement; and

(xvi) the Share Swap Merger Agreement.

11. 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.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong during normal business hours up to and including 16th November 2009:

(a) the memorandum and articles of association of the Company;

(b) the annual report of the Company for each of the two years ended 31st December 2008;

(c) the Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement, and the Shanghai Pharmaceutical Group Agreement and the undertaking by the Company to Shanghai Pharmaceutical and SI Pharmaceutical dated 15th October 2009 in relation to the exercise of the cash option by Shanghai YKB for its shares in SI Pharmaceutical under the Absorption Merger;

(d) the contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(e) written consents referred to in the paragraph headed "Experts" of this appendix;

(f) the letter of advice from Anglo Chinese, the text of which is set out on pages 41 to 59 of this circular; and

(g) all of the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31st December 2008.

13. 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, 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 and 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 member of the Association of Chartered Certified Accountants, 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.

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, 16th November 2009 at 11:00 a.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) the share issue and asset acquisition agreement dated 15th October 2009 entered into among the Company, SIIC Shanghai Holdings Co. Ltd. and Shanghai Pharmaceutical Co., Ltd. in relation to the Equity Interests Transfer (as defined and described in the circular of the Company dated 30th October 2009 (the "**Circular**") upon the terms and subject to the conditions therein contained, a copy of which is produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification (the "**Share Issue and Asset Acquisition Agreement**"), and all transactions contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, confirmed and/or ratified;

(b) the agreement dated 15th October 2009 entered into among Shanghai Pharmaceutical Co., Ltd., Shanghai Industrial Pharmaceutical Investment Co., Ltd. and Shanghai Zhongxi Pharmaceutical Co., Ltd. in relation to the Absorption Merger (as defined and described in the Circular) upon the terms and subject to the conditions therein contained, a copy of which is produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification, (the "**Share Swap Merger Agreement**") and all transactions contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, confirmed and/or ratified;

(c) the letter of undertaking issued by the Company to Shanghai Pharmaceutical Co., Ltd. and Shanghai Industrial Pharmaceutical Investment Co., Ltd. dated 15th October 2009 in relation to the exercise of the cash option by Shanghai Industrial YKB Ltd. in respect of its entire shareholding in Shanghai Industrial Pharmaceutical Investment Co., Ltd. under the Absorption Merger, a copy of which is produced to the meeting marked "C" and signed by the chairman of the meeting for the purpose of identification, (the "**Undertaking**") and all transactions contemplated thereunder and in connection therewith and any other ancillary documents, be and are hereby approved, confirmed and/or ratified; and

(d) 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 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 Share Issue and Asset Acquisition Agreement, the Share Swap Merger Agreement and the Undertaking 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, 30th October 2009

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

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, to vote instead of him. A 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 is present at the EGM 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.

(3) The Register of Members of the Company will be closed from Friday, 13th November 2009 to Monday, 16th November 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 Thursday, 12th November 2009.

(4) A form of proxy for use at the EGM 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 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 set out above will be determined by way of 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.