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上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

CONTINUING CONNECTED TRANSACTIONS

VARIATION OF THE CROSS GUARANTEE AGREEMENT

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



KBC Bank N.V. Hong Kong Branch

A letter from the Board is set out on pages 5 to 9 of this circular, a letter from the Independent Board Committee to the Independent Shareholders is set out on page 10 of this circular, and a letter from KBC Bank, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 16 of this circular.

28th December 2009



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DEFINITIONS

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

Terms	Meaning
“Amended Cross Guarantee Arrangement”	the arrangement pursuant to the Cross Guarantee Agreement as amended by the Supplemental Agreement whereby the State-owned Management Company and Shanghai Urban Development have agreed to provide guarantees in respect of each other’s obligations under loans/facilities obtained from banks or credit unions from time to the extent of not more than RMB1,200 million (equivalent to approximately HK\$1,363 million)
“Board”	the board of Directors
“Company”	Shanghai Industrial Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Cross Guarantee Agreement”	the agreement dated 26th December 2002 entered into between the State-owned Management Company and Shanghai Urban Development in relation to the Existing Cross Guarantee Arrangement
“Directors”	the directors of the Company
“Exempt Cross Guarantee Arrangement”	the arrangement whereby the State-owned Management Company provides guarantees in respect of the loans/facilities obtained by Shanghai Urban Development from time to time as contemplated under the Amended Cross Guarantee Arrangement
“Existing Cross Guarantee Arrangement”	the arrangement pursuant to the Cross Guarantee Agreement whereby the State-owned Management Company and Shanghai Urban Development has agreed to provide guarantees in respect of each other’s obligations under loans/facilities obtained from banks or credit unions from time to time to the extent of not more than RMB700 million (equivalent to approximately HK\$795 million)
“Group”	the Company and its subsidiaries from time to time

DEFINITIONS

“Guarantee Limit”	the maximum amount of loans/facilities obtained by the State-owned Management Company and by Shanghai Urban Development respectively in respect of which the State-owned Management Company or Shanghai Urban Development (as the case may be) shall provide guarantees pursuant to the Existing Cross Guarantee Arrangement or the Amended Cross Guarantee Arrangement (as the case may be)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis, all being independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Non-exempt Guarantee Arrangement contemplated thereby
“Independent Shareholders”	the Shareholders who are not prohibited from voting in respect of the Non-exempt Guarantee Arrangement under the Listing Rules
“KBC Bank”	KBC Bank N.V., acting through its Hong Kong branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Guarantee Arrangement
“Latest Practicable Date”	23rd December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-exempt Guarantee Arrangement”	the arrangement whereby Shanghai Urban Development provides guarantees in respect of the loans/facilities obtained by the State-owned Management Company from time to time as contemplated under the Amended Cross Guarantee Arrangement
“PRC”	the People’s Republic of China

DEFINITIONS

“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Urban Development”	Shanghai Urban Development (Holdings) Co., Ltd. (上海城開(集團)有限公司), a Sino-foreign equity joint venture company established in the PRC
“Shares”	shares of HK\$0.10 each in the capital of the Company
“Shareholders”	holders of Shares
“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and the controlling Shareholder
“State-owned Management Company”	Shanghai Xuhui State-owned Assets Management Company (上海市徐匯區國有資產投資經營公司), a state-owned enterprise established under the laws of the PRC with Xuhui SAAC as the authorised representative exercising state-owned shareholder’s right over it
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 15th December 2009 entered into between Shanghai Urban Development and the State-owned Management Company to vary the terms of the Cross Guarantee Agreement as described in the section headed “Supplemental Agreement” in the section headed “Letter from the Board” of this circular
“Written Approval”	the written approval of the Non-exempt Guarantee Arrangement by 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 Limited
“Xuhui SAAC”	Xuhui District State-owned Assets Administrative Committee (上海市徐匯區國有資產監督管理委員會), a government authority authorised by and established directly under Shanghai Xuhui District People’s Government for supervising and managing state-owned assets in the possession of Xuhui District, including but not limited to, to exercise state-owned shareholders’ right over Shanghai Urban Development and a shareholder holding 41% of the equity interest in Shanghai Urban Development as at the Latest Practicable Date

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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, unless otherwise stated, amounts in RMB have been converted to HK\$ at the rate of RMB0.8804 to HK\$1 for illustration purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the relevant dates at the above rate or at any other rates or at all.

LETTER FROM THE BOARD



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

Executive Directors:

Mr. Teng Yi Long (*Chairman*)

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

Mr. Lu Ming Fang

Mr. Zhou Jie (*Executive Deputy CEO*)

Mr. Qian Shi Zheng (*Deputy CEO*)

Mr. Yao Fang

Mr. Zhou Jun (*Deputy CEO*)

Mr. Qian Yi (*Deputy CEO*)

Registered office:

26th Floor

Harcourt House

39 Gloucester Road

Wanchai

Hong Kong

Independent Non-Executive Directors:

Dr. Lo Ka Shui

Prof. Woo Chia-Wei

Mr. Leung Pak To, Francis

28th December 2009

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

VARIATION OF THE CROSS GUARANTEE AGREEMENT

1. INTRODUCTION

On 15th December 2009, the Board announced that Shanghai Urban Development and the State-owned Management Company entered into the Supplemental Agreement to vary the terms of the Cross Guarantee Agreement whereby the parties thereto has conditionally agreed to increase the Guarantee Limit of each of them from RMB700 million (equivalent to approximately HK\$795 million) to RMB1,200 million (equivalent to approximately HK\$1,363 million). As regards the provision of guarantees by Shanghai Urban Development in respect of the loans/facilities obtained by the State-owned Management Company pursuant to the Amended Cross Guarantee Arrangement, since the State-owned Management Company is considered as a connected person of the Company; and since in respect of the new Guarantee Limit, not all of the applicable percentage ratios calculated in accordance with Chapters 14 and 14A of the Listing Rules are, on annual basis, less than 2.5%, it constitutes non-exempt continuing connected transactions for the Company. Accordingly, the Non-exempt Guarantee Arrangement is subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Written Approval has been obtained by the Company from companies controlled by SIIC, which together held approximately 51.10% in nominal value of the securities giving the right to attend and vote at any general meetings of the Company as at the Latest Practicable Date. So far as the Company is aware, none of the Shareholder is materially interested in the Non-exempt Guarantee Arrangement, and as such no Shareholder is required to abstain from voting if a general meeting of the Company was convened to approve the Non-exempt Guarantee Arrangement. Pursuant to Rules 14A.43 and 14A.53 of the Listing Rules, the Company has applied for, and the Stock Exchange has granted, a waiver of the requirement to hold a general meeting of the Company and the permission for the Independent Shareholders' approval of the Non-exempt Guarantee Arrangement to be given in the form of the Written Approval.

The Independent Board Committee has been established to consider and advise the Independent Shareholders on the terms of the Non-exempt Guarantee Arrangement and KBC Bank has been appointed by the Company as independent financial adviser, to provide its opinion to the Independent Board Committee and the Independent Shareholders.

The main purposes of this circular are:

- i) to provide you with the details of the Non-exempt Guarantee Arrangement;
- ii) to provide you with the letter of recommendation from the Independent Board Committee and the letter of advice from KBC Bank, the independent financial adviser, in respect of the Non-exempt Guarantee Arrangement; and
- iii) to set out other information as required by the Listing Rules,

for your information only.

2. BACKGROUND

As disclosed in the announcement of the Company dated 29th October 2007, Shanghai Urban Development (which is currently a 59% owned subsidiary of the Company) and the State-owned Management Company (which is considered as a connected person of the Company for the purposes of Chapter 14A of the Listing Rules) entered into the Cross Guarantee Agreement whereby Shanghai Urban Development and the State-owned Management Company have agreed to guarantee each other's obligation in respect of the loans/facilities which they may respectively obtain from banks or credit unions from time to time to the extent of not more than RMB700 million (equivalent to approximately HK\$795 million). The Existing Cross Guarantee Arrangement whereby Shanghai Urban Development agreed to provide guarantee in respect of loans/facilities obtained by the State-owned Management Company has become non-exempt continuing connected transactions for the Company upon Shanghai Urban Development became a subsidiary of the Company on 25th December 2007 and in respect of which the Company has, in accordance with Rule 14A.41 of the Listing Rules, complied with the reporting and announcement requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

3. SUPPLEMENTAL AGREEMENT

On 15th December 2009, Shanghai Urban Development and the State-owned Management Company entered into the Supplemental Agreement to vary the terms of the Cross Guarantee Agreement whereby the parties thereto have conditionally agreed to increase the Guarantee Limit of each of them from RMB700 million (equivalent to approximately HK\$795 million) to RMB1,200 million (equivalent to approximately HK\$1,363 million). The term of the Cross Guarantee Agreement as amended by the Supplemental Agreement shall be from 1st January 2010 to 31st December 2012 (both dates inclusive). The Supplemental Agreement is conditional upon the approval of the Non-exempt Guarantee Arrangement by the Independent Shareholders having been obtained in accordance with the requirements of the Listing Rules. Such condition has been fulfilled already.

4. INFORMATION REGARDING EXISTING GUARANTEES

As at 31st October 2009, the total amount of loans/facilities of Shanghai Urban Development guaranteed by the State-owned Management Company amounted to RMB680 million (equivalent to approximately HK\$772 million).

As at 31st October 2009, the total amount of loans/facilities of the State-owned Management Company guaranteed by Shanghai Urban Development amounted to RMB661 million (equivalent to approximately HK\$751 million).

5. REASON FOR AND BENEFITS OF THE AMENDED CROSS GUARANTEE ARRANGEMENT AND THE AMENDMENT

The reason for the Existing Cross Guarantee Arrangement is to enable the State-owned Management Company and Shanghai Urban Development to obtain certain loans/facilities which are required to meet their respective funding needs. Due to the expansion in the scope and scale of the respective businesses of Shanghai Urban Development and the State-owned Management Company, their respective funding needs have increased thus resulting in the need to obtain additional loans/facilities from banks or credit unions to finance such increased funding needs. Cross guarantee arrangements would much simplify and shorten the needs for pledge of assets. Since the Guarantee Limit under the Existing Cross Guarantee Arrangement will not be enough to meet the anticipated increased funding needs of the State-owned Management Company and Shanghai Urban Development, therefore they have entered into the Supplemental Agreement to vary the Existing Cross Guarantee Arrangement by increasing the Guarantee Limit.

6. PRINCIPAL ACTIVITIES OF THE GROUP AND STATE-OWNED MANAGEMENT COMPANY

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

The State-owned Management Company is a state-owned enterprise established under the laws of the PRC and is principally engaged in investment, asset management and project financing. The operation of the State-owned Management Company is authorized by Xuhui

LETTER FROM THE BOARD

SAAC and Xuhui SAAC exercises the authority as the state-owned shareholder (國有股東) of the State-owned Management Company. The State-owned Management Company is considered as a connected person of the Company for the purposes of Chapter 14A of the Listing Rules for so long as Xuhui SAAC remains as a substantial shareholder of Shanghai Urban Development and Shanghai Urban Development remains as a subsidiary of the Company.

7. LISTING RULES IMPLICATIONS

Pursuant to Rule 14A.41 of the Listing Rules, the Company is required to comply in full all applicable reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules upon any variation of the Cross Guarantee Agreement.

As regards the provision of guarantees by the State-owned Management Company in respect of the loans/facilities obtained by Shanghai Urban Development, no security over the assets of Shanghai Urban Development or the Group was granted in respect thereof and the Directors (including the independent non-executive Directors) are of the view that the terms upon which the guarantees are/are to be provided by the State-owned Management Company are on normal commercial terms. As such, pursuant to Rule 14A.65(4) of the Listing Rules, the provision of guarantees by the State-owned Management Company in respect of the loans/facilities obtained by Shanghai Urban Development pursuant to the Amended Cross Guarantee Arrangement is exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

As regards the provision of guarantees by Shanghai Urban Development in respect of the loans/facilities obtained by the State-owned Management Company pursuant to the Amended Cross Guarantee Arrangement, since in respect of the new Guarantee Limit, not all of the applicable percentage ratios calculated in accordance with Chapters 14 and 14A of the Listing Rules are, on annual basis, less than 2.5%, it constitutes non-exempt continuing connected transactions for the Company. Accordingly, the Non-exempt Guarantee Arrangement is subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules. The Guarantee Limit of Shanghai Urban Development pursuant to the Non-exempt Guarantee Arrangement for each of the three years ending 31st December 2012 is subject to a cap amount of RMB1,200 million (equivalent to approximately HK\$1,363 million).

Since the Supplemental Agreement covers both the Exempt Guarantee Arrangement and the Non-exempt Guarantee Arrangement and as disclosed above, the Supplemental Agreement is conditional upon the approval of the Non-exempt Guarantee Arrangement by the Independent Shareholders having been obtained in accordance with the requirements of the Listing Rules, the Exempt Guarantee Arrangement is also dependent on the Independent Shareholders' approval of the Non-exempt Guarantee Arrangement having been obtained.

So far as the Company is aware, none of the Shareholders is materially interested in the Non-exempt Guarantee Arrangement and, as such, no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the Non-exempt Guarantee Arrangement. Pursuant to Rules 14A.43 and 14A.53 of the Listing

LETTER FROM THE BOARD

Rules, the Company has applied for, and the Stock Exchange has granted, a waiver of the requirement to hold a general meeting of the Company and the permission for the Independent Shareholders' approval of the Non-exempt Guarantee Arrangement to be given in the form of the Written Approval. Accordingly, the condition of the Supplemental Agreement mentioned above has been fulfilled.

The Independent Board Committee comprising all three independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the Non-exempt Guarantee Arrangement is fair and reasonable and in the interests of the Company and the Shareholders as a whole. KCB Bank has been appointed by the Company to provide its opinion to the Independent Board Committee and the Independent Shareholders in this regard.

The executive Directors consider that the non-exempt Guarantee Arrangement is on normal commercial terms, and is fair and reasonable so far as the Company and the Shareholders as a whole are concerned. The views of independent non-executive Directors are set out in their letter to the Independent Shareholders included in this circular.

8. SHAREHOLDERS' APPROVAL

Written Approval has been obtained from the companies controlled by SIIC which together held approximately 51.10% in nominal value of the securities giving the right to attend and vote at any general meetings of the Company as at the Latest Practicable Date. These companies are Shanghai Investment Holdings Ltd. (which held 466,644,371 Shares as at the Latest Practicable Date), SIIC Capital (B.V.I.) Ltd. (which held 80,000,000 Shares as at the Latest Practicable Date), South Pacific International Trading Ltd. (which held 1,746,000 Shares as at the Latest Practicable Date), SIIC Treasury (B.V.I.) Ltd. (which held 1,632,000 Shares as at the Latest Practicable Date), SIIC Trading Co. Ltd. (which held 1,161,000 Shares as at the Latest Practicable Date), The Tien Chu (Hong Kong) Co. Ltd. (which held 383,000 Shares as at the Latest Practicable Date), SIIC CM Development Funds Ltd. (which held 95,000 Shares as at the Latest Practicable Date), Billion More Investments Ltd. (which held 60,000 Shares as at the Latest Practicable Date) and SIIC CM Development Limited (which held 10,000 Shares as at the Latest Practicable Date) are all wholly-owned subsidiaries of SIIC except The Tien Chu (Hong Kong) Co. Ltd., which was owned as to 90.57% by SIIC as at the Latest Practicable Date and they constitute a closely allied group of Shareholders under Rule 14A.43 of the Listing Rules.

9. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee, the text of which is set out on page 10 of this circular; (ii) the letter from KBC Bank, the text of which is set out on pages 11 to 16 of this circular; and (iii) the information set out in the appendices to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 363)

28th December 2009

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

VARIATION OF THE CROSS GUARANTEE AGREEMENT

We refer to the circular dated 28th December 2009 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider and to advise you in connection with the Non-exempt Guarantee Arrangement, details of which are set out in the letter from the Board in the Circular.

Having considered the terms of the Non-exempt Guarantee Arrangement and the advice of KBC Bank in relation thereto as set out on pages 11 to 16 of the Circular, we are of the opinion that the Non-exempt Guarantee Arrangement is on normal commercial terms and is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The Stock Exchange has granted a waiver to the Company from complying with the requirement to hold a general meeting and the permission for the independent shareholder’s approval in respect of the Non-exempt Guarantee Arrangement to be given in the form of the Written Approval. As such, the Non-exempt Guarantee Arrangement is not required to be approved at a general meeting of the Company. However, had the Non-exempt Guarantee Arrangement been required to be put forward for consideration and approval at a general meeting of the Company, we would recommend the Independent Shareholders to approve it.

Yours faithfully,

Dr. Lo Ka Shui
Independent
Non-Executive Director

Prof. Woo Chia-Wei
Independent
Non-Executive Director

Mr. Leung Pak To, Francis
Independent
Non-Executive Director

LETTER FROM KBC BANK

The following is the full text of a letter received from KBC Bank setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Guarantee Arrangement for inclusion in this circular.



39th Floor
Central Plaza
18 Harbour Road
Hong Kong

28 December 2009

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS VARIATION OF THE CROSS GUARANTEE AGREEMENT

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 Non-exempt Guarantee Arrangement, details of which, among other things, are set out in the section headed "Letter from the Board" as contained in the circular dated 28 December 2009 (the "Circular"), of which this letter forms a part. Unless otherwise defined herein, terms used in this letter shall have the same meanings as those defined in the Circular.

As disclosed in the announcement of the Company dated 29 October 2007, Shanghai Urban Development, a 59% owned subsidiary of the Company, entered into the Cross Guarantee Agreement with the State-owned Management Company on 26 December 2002. Pursuant to the Cross Guarantee Agreement, Shanghai Urban Development and the State-owned Management Company agreed to guarantee each other's obligations in respect of certain loans/facilities obtained from banks or credit unions by them respectively from time to time to the extent of not more than RMB700 million (equivalent to approximately HK\$795 million). In view of the increasing future funding needs resulting from the expansion in the scope and scale of the respective businesses of Shanghai Urban Development and the State-owned Management Company, Shanghai Urban Development and the State-owned Management Company on 15 December 2009 entered into the Supplemental Agreement to increase the Guarantee Limit under the Existing Cross Guarantee Arrangement to RMB1,200 million (equivalent to approximately HK\$1,363 million).

Since Shanghai Urban Development is held by the Company and Xuhui SAAC as to 59% and 41% respectively and Xuhui SAAC exercises the authority as the state-owned shareholder of the State-owned Management Company, the transactions contemplated under the Amended Cross Guarantee Arrangement constitute continuing connected transactions of the Company under the Listing Rules. Since the transactions contemplated under the Exempt Guarantee Arrangement are exempt from the reporting, announcement and independent

LETTER FROM KBC BANK

shareholders' approval requirements of Chapter 14A of the Listing Rules, it is not part of our assignment to express opinion on the Exempt Guarantee Arrangement. On the other hand, not all of the relevant percentage ratios under the Listing Rules in respect of the amended cap amount of guarantee provided by Shanghai Urban Development in respect of certain loans/facilities obtained by the State-owned Management Company under the Non-exempt Guarantee Arrangement are less than 2.5% on an annual basis, therefore, the entering into of the Non-exempt Guarantee Arrangement constitutes a non-exempt continuing connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Stock Exchange has granted a waiver of the requirement of the Independent Shareholders' approval to the Non-exempt Guarantee Arrangement given by a majority vote at a general meeting of the Shareholders and accepted a written Independent Shareholders' approval pursuant to Rules 14A.43 and 14A.53 of the Listing Rules because (i) no Shareholder has a material interest in the Non-exempt Guarantee Arrangement and thus no Shareholder is required to abstain from voting if the Company is to convene a general meeting to approve the Non-exempt Guarantee Arrangement; and (ii) the Company has obtained the Written Approval dated 9 December 2009 from a closely allied group of Shareholders which together hold approximately 51.10% of the total issued Shares as at the Latest Practicable Date giving the right to attend and vote at any general meetings.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Dr. Lo Ka Shui, Prof. Woo Chia-Wei and Mr. Leung Pak To, Francis, has been formed to advise the Independent Shareholders in respect of the Non-exempt Guarantee Arrangement. We, KBC Bank N.V. Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the entering into of the Non-exempt Guarantee Arrangement is in the ordinary and usual course of the business of the Group and whether the terms of the Non-exempt Guarantee Arrangement are fair and reasonable in so far as the Independent Shareholders are concerned.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have reviewed, inter alia, the Cross Guarantee Agreement, the Supplemental Agreement, the annual report (the "Annual Report") and the interim report (the "Interim Report") of the Company for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively, and the unaudited management accounts (the "Management Accounts") of the State-owned Management Company for the nine months ended 30 September 2009. We have assumed that all information and facts supplied to us by the Company are true, complete and accurate in all material aspects and we have relied on the same. Also, we have relied on the representations made by the management of the Company that having made all due enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information, statements and representations made or referred to in other parts of the Circular, which have been provided to us by the Company, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

LETTER FROM KBC BANK

We consider that we have reviewed sufficient information to enable us to reach an informed view to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company and its respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to the entering into of the Non-exempt Guarantee Arrangement and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders in this regard, we have taken into account the following principal factors and reasons:

1. Background of the Existing Cross Guarantee Arrangement

The Company, as the Hong Kong listed flagship of SIIC, a conglomerate controlled by the Shanghai Municipal Government, has invested in and operated three key business segments, namely, real estate, infrastructure facilities and consumer products.

Shanghai Urban Development, which is principally engaged in real estate development and consultancy services, resettlement work, ancillary construction equipment, construction material, industrial investment, domestic trading (specially regulated ones excepted) and property sale, leasing and management, is a subsidiary of the Company owned as to 59% by the Company and as to the remaining 41% by Xuhui SAAC. Xuhui SAAC is a government authority authorized by and established directly under Shanghai Xuhui District People's Government for supervising and managing state-owned assets in the possession of Xuhui District, including but not limited to, to exercise state-owned shareholders' right over the State-owned Management Company, a state-owned enterprise established under the laws of the PRC and principally engaged in investment, asset management and project financing.

In the PRC, cross guarantee arrangements would much simplify and shorten the needs for pledge of assets. Shanghai Urban Development and the State-owned Management Company have been providing guarantees to each other in respect of certain loans/facilities obtained from banks or credit unions by them respectively to the extent of not more than RMB700 million since 2002 for facilitating their respective obtaining of loans/facilities from financial institutions for each other's business operations and development.

On 15 December 2009, Shanghai Urban Development and the State-owned Management Company entered into the Non-exempt Guarantee Arrangement to increase the Guarantee Limit. Given that Shanghai Urban Development and the State-owned Management Company have been providing cross guarantee on bank loans/facilities for

LETTER FROM KBC BANK

each other since 2002, we consider that the entering into of the Non-exempt Guarantee Arrangement is an extension of the business relationship between the two companies and thus is conducted in the ordinary and usual course of the business of the Group.

2. Reasons for entering into the Non-exempt Guarantee Arrangement

As stated in the section headed “Letter from the Board” of the Circular, in order to cope with the anticipated increasing funding needs of Shanghai Urban Development and the State-owned Management Company for expansion in the scope and scale of their respective businesses, Shanghai Urban Development and the State-owned Management Company agreed to enter into the Supplemental Agreement to increase the Guarantee Limit under the Existing Cross Guarantee Arrangement to RMB1,200 million, which represents an increase of approximately 71.43% from the existing Guarantee Limit of RMB700 million and set the term of the Cross Guarantee Agreement from 1 January 2010 to 31 December 2012 (both dates inclusive).

The Directors have confirmed that the new Guarantee Limit was arrived at after arm’s length negotiation between Shanghai Urban Development and the State-owned Management Company and was determined with reference to, among other things, the funding needs of Shanghai Urban Development and the State-owned Management Company for future business expansion and their historical utilisation of the existing Guarantee Limit. As at 30 October 2009, the total amount of loans/facilities obtained by Shanghai Urban Development on the guarantee provided by the State-owned Management Company and vice versa amounted to RMB680 million and RMB661 million, respectively, representing approximately 97.1% and 94.4% of the existing Guarantee Limit.

Given the intention of Shanghai Urban Development for additional funding to finance its business development and its high historical utilisation rate of the Guarantee Limit, we are of the view that the terms of the Non-exempt Guarantee Arrangement are fair and reasonable in so far as the Independent Shareholders are concerned.

3. Financial status of the State-owned Management Company

With respect to the previous borrowings of the State-owned Management Company which Shanghai Urban Development has provided guarantees, Shanghai Urban Development has not been requested by any lender to honour its guarantee obligations. We have reviewed the Management Accounts and discussed with the management of the Company about the funding needs of the State-owned Management Company from 2010 to 2012. We noted from the Management Accounts that the State-owned Management Company had a net asset value of more than three times the incremental portion of the new Guarantee Limit as at 30 September 2009. The management of the Company also represented that the State-owned Management Company has always received the full support from Xuhui SAAC. In addition, the management of the Company has confirmed that the Company has, from time to time, reviewed the financial information of the State-owned Management Company so as to closely monitor and assess the risk that may arise from the provision of guarantee by

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Shanghai Urban Development. As such, we consider that the Company has adequate access to remain updated on the financial status of the State-owned Management Company on a regular basis.

4. Financial effects of the Non-exempt Guarantee Arrangement

As disclosed in the Interim Report, as at 30 June 2009, the guarantees given to banks by the Group in respect of banking facilities utilised by an entity controlled by Xuhui SAAC, associates and outsiders amounted to approximately HK\$1,090 million. The provision of an additional guarantee amount for bank loans and facilities to the State-owned Management Company will not have a direct impact on the Group's liquidity position but will constitute an additional contingent obligation of Shanghai Urban Development. In the event that the State-owned Management Company fails to meet its obligation to repay part or all of the relevant bank loans and facilities (together with the interest thereon), Shanghai Urban Development shall, by virtue of its provision of the guarantees, assume the full obligation thereof. The Independent Shareholders should note that any default of repayment by the State-owned Management Company of any bank loans and facilities drawn on the guarantee provided by Shanghai Urban Development would have an adverse impact on the liquidity position and the net asset value of the Group. However, the aforesaid impact may vary depending on different maturities of the loans as stipulated under each of the loan agreements entered or will be entered into between the State-owned Management Company and the banks and credit unions.

According to the Annual Report, the Group had audited consolidated net assets of approximately HK\$23.40 billion as at 31 December 2008 and, accordingly, the incremental portion of the new Guarantee Limit represents approximately 11.42% and 2.43% of the audited consolidated net asset value of Shanghai Urban Development and the Group, respectively, as at 31 December 2008. As such, any default of repayment by the State-owned Management Company of any of the bank loans and facilities drawn on the incremental portion of the guarantee provided by Shanghai Urban Development would not have a significant adverse impact on the Group.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the entering into of the Non-exempt Guarantee Arrangement is in the ordinary and usual course of the business of the Group and the Non-exempt Guarantee Arrangement are fair and reasonable in so far as the Independent Shareholders are concerned.

The Stock Exchange has granted a waiver to the Company from complying with the requirement to hold a shareholders' meeting and the permission for the independent shareholders' approval in respect of the Non-exempt Guarantee Arrangement to be given in the form of the Written Approval. As such, the Non-exempt Guarantee Arrangement is not required to be approved at a general meeting of the Company. However, had the

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Non-exempt Guarantee Arrangement been required to be put forward for consideration and approval at a general meeting of the Company, we would recommend the Independent Board Committee to advise the Independent Shareholders to approve it.

Yours faithfully,

For and on behalf of

KBC Bank N.V. Hong Kong Branch

Kenneth Chan

Head of Corporate Finance, Greater China

Gaston Lam

Corporate Finance

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

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

(i) Interests in Shares and underlying Shares

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	622,000	0.06%
Lu Ming Fang	Beneficial owner	Personal	586,000	0.05%
Zhou Jie	Beneficial owner	Personal	333,000	0.03%
Qian Shi Zheng	Beneficial owner	Personal	679,000	0.06%
Zhou Jun	Beneficial owner	Personal	195,000	0.02%

Note: All interests stated above represented long positions.

(ii) **Interests in shares of Shanghai Industrial Pharmaceutical Investment Co. Ltd.**

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%

Note: The interest stated above represented long position.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were 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. 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.

3. 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).

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were 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.

5. DIRECTORS' INTERESTS IN CONTRACTS

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

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

7. 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.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice in this circular:

Name	Qualification
KBC Bank N.V. Hong Kong Branch	acting through its Hong Kong branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, KBC Bank:

- (a) did not have any shareholding directly or indirectly in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were 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.

KBC Bank has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name in the form and context in which they respectively appear.

9. GENERAL

- (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, The Hong Kong Institute of Chartered Secretaries, The Chartered Institute of Management Accountants and the Hong Kong Institute of Certified Public Accountants.
- (d) The qualified accountant of the Company is Mr. Lee Kim Fung, Edward who is a Fellow of the Association of the Chartered Certified Accountant and the Hong Kong Institute of Certified Public Accountants.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's registered office in Hong Kong at 26th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong up to and including 11th January 2010:

- (a) the Cross Guarantee Agreement;
- (b) the Supplemental Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 10 of this circular;
- (d) the letter from KBC Bank, the text of which is set out on pages 11 to 16 of this circular; and
- (e) the written consent referred to in the section headed "Expert and consent" in this Appendix.