
THE CIRCULAR IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, 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 transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code : 0363)

PROPOSED ADOPTION OF SHARE OPTION SCHEME BY SUBSIDIARY

AND

PROPOSED GRANT OF OPTION BY SUBSIDIARY

A letter from the board of directors of Shanghai Industrial Holdings Limited (the “Company”) is set out on pages 4 to 7 of this circular. A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong at 3:30 p.m. on Friday, 28th May, 2004 (or so soon thereafter as the annual general meeting of the Company convened for the same day and place at 3:00 p.m. shall have been concluded or adjourned) is set out on pages 15 of this circular.

Whether or not you intend to attend the meeting, 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, 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 the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

10th May, 2004

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DEFINITIONS

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

“associates”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	a day (other than a Saturday or a Sunday) on which licensed banks generally are open for business in Hong Kong
“Company”	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended from time to time
“Directors”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong at 3:30 p.m. on Friday, 28th May, 2004 (or so soon thereafter as the annual general meeting of the Company convened for the same day and place at 3:00 p.m. shall have been concluded or adjourned)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	7th May, 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mergen”	Mergen Biotech Limited, a company incorporated in the British Virgin Islands with limited liability, owned as to 85% by the Company
“Mergen Board”	the board of directors of Mergen
“Mergen Group”	Mergen and its wholly owned and non-wholly owned subsidiaries
“Mergen Share Option Scheme”	the proposed share option scheme to be adopted by Mergen, a summary of the principal terms of which are set out in the Appendix to this circular

DEFINITIONS

“Mergen Share(s)”	share(s) of HK\$0.10 each in the capital of Mergen (or such other nominal amount as shall result from a subdivision, consolidation, reclassification or reconstruction of the share capital of Mergen from time to time)
“Ordinary Resolutions”	the ordinary resolutions to be passed by the Shareholders at the EGM
“Participant(s)”	any director, management, employee (whether full-time or part-time) or business consultant and professional adviser of the Mergen Group
“Share(s)”	shares of HK\$0.10 each in the capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time)
“Shareholder(s)”	holder(s) of the Shares in the Company
“Specified Limit”	the aggregate number of Mergen Shares issued and to be issued upon exercise of the options granted to such Participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Mergen Shares in issue
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning as provided in section 2 of the Companies Ordinance
“HK\$” and “\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

RESPONSIBILITY STATEMENT

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

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)

Directors

Executive Directors:

Mr. Cai Lai Xing (*Chairman*)
Mr. Lu Ming Fang (*Chief Executive Officer*)
Mr. Lu Da Yong (*Executive Deputy CEO*)
Mr. Ding Zhong De
Mr. Lu Shen
Mr. Qian Shi Zheng (*Deputy CEO*)
Mr. Lu Yu Ping (*Deputy CEO*)
Mr. Yao Fang
Mr. Ge Wen Yao

Registered Office:

26th Floor
Harcourt House
39 Gloucester Road
Hong Kong

Independent Non-executive Directors:

Mr. Lo Ka Shui
Mr. Woo Chia-Wei
Mr. Leung Pak To, Francis

10th May, 2004

To the Shareholders,

Dear Sir or Madam,

PROPOSED ADOPTION OF SHARE OPTION SCHEME BY SUBSIDIARY AND PROPOSED GRANT OF OPTION BY SUBSIDIARY

INTRODUCTION

It is proposed that subject to the approval of the Shareholders at the EGM, the Mergen Share Option Scheme will be adopted by Mergen. Subject to the Mergen Share Option Scheme becoming effective, the Board also proposes to seek the approval of the Shareholders to approve the proposed grant of options beyond the Specified Limit to a Participant as an incentive to him for his continuing contribution to Mergen.

The purpose of this circular is to provide the Shareholders with information regarding the Mergen Share Option Scheme and the proposed grant of option and to seek your approval for the Ordinary Resolutions at the EGM to be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong at 3:30 p.m. on Friday, 28th May, 2004 (or so soon thereafter as the annual general meeting of the Company convened for the same day and place at 3:00 p.m. shall have been concluded or adjourned).

LETTER FROM THE BOARD

MERGEN SHARE OPTION SCHEME

Mergen is a 85% owned subsidiary of the Company, with the remaining 15% interests owned by an independent third party not connected with the Directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or their respective associates. The principal asset of Mergen is its 73.26% stake in Shanghai Sunway Biotech Co., Ltd. ("Sunway Biotech"). In the circumstances, the Company, together with a 8.14% interest held by its wholly owned subsidiary directly in Sunway Biotech, has an effective interest of 70.41% in Sunway Biotech. Sunway Biotech is principally engaged in the development and production of anti-tumour drugs. Mergen does not have in place a share option scheme. It is proposed that Mergen will adopt a share option scheme to provide the Participants with the opportunity to acquire proprietary interests in it, which will encourage the grantees of such options to work towards enhancing the value of Mergen and for the benefit of the Group as a whole.

Subject to the approval of the Ordinary Resolutions by the Shareholders at the EGM, the Mergen Board will have the right to grant to the Participants options to subscribe for Mergen Shares, which when aggregated with any securities to be granted subject to any other share option schemes of Mergen shall not in aggregate exceed 10% of the total number of Mergen Shares in issue as at the date of the approval of the Mergen Share Option Scheme. Notwithstanding any other provisions of the Mergen Share Option Scheme, the maximum number of Mergen Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Mergen Share Option Scheme and other share option scheme(s) of Mergen shall not exceed 10% of the total number of Mergen Shares in issue from time to time.

In addition:

1. Any grant of options under the Mergen Share Option Scheme to any Participant who is also a Director, chief executive or substantial shareholder of the Company or their respective associates shall also be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the option).
2. Where any grant of options to an independent non-executive Director or a substantial shareholder of the Company or any of their respective associates would result in the shares which may be issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under such scheme in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the share capital of Mergen in issue and having an aggregate net asset value, assuming such options were exercised and based on the latest audited accounts of Mergen, in excess of HK\$5 million, such grant of options shall be subject to prior approval by the Shareholders (voting by way of poll). All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour at such general meeting.
3. Any alteration of the rules of Mergen Share Option Scheme to the advantage of the grantees shall comply with the requirements under the Listing Rules and also be subject to the approval by the Shareholders.

LETTER FROM THE BOARD

A summary of the principal terms of the Mergen Share Option Scheme is set out in the Appendix to this circular.

The Mergen Board and the shareholders of Mergen in general meeting have already given approval for the adoption of the Mergen Share Option Scheme. The adoption of the Mergen Share Option Scheme is however conditional on the approval by the Shareholders at the EGM.

Copies of the Mergen Share Option Scheme will be available for inspection at the registered office of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong during normal business hours from 10th May, 2004 up to and including 28th May, 2004 and at the EGM.

GRANT OF OPTION UNDER THE MERGEN SHARE OPTION SCHEME

Subject to the Mergen Share Option Scheme becoming effective, the Board proposes to seek the approval of the Shareholders at the EGM to approve the proposed grant of options beyond the Specified Limit to Mr. Hu Fang, a director of Sunway Biotech, as an incentive to him for his continuing contribution to Mergen who has over the past 5 years dedicated great efforts towards the development and growth of Mergen. Mr. Hu Fang is not a Director and has confirmed to the Company that neither he nor his associates holds any Shares or any Mergen Shares as at the date of this circular.

It has been proposed by the Mergen Board on 15th April, 2004 that, subject to the Mergen Share Option Scheme becoming effective, and obtaining the approval of the Shareholders at the EGM, an option will be granted to Mr. Hu Fang entitling him to subscribe for 39,000 Mergen Shares (exceeding the Specified Limit of 7,800 Mergen Shares by 31,200 Mergen Shares), representing 5% of the issued share capital of Mergen as at the Latest Practicable Date, at an exercise price of not less than US\$8.22 (or its equivalent in HK\$) per Mergen Share. The number of Mergen Shares in issue as at the Latest Practicable Date is 780,000. There will be no performance target which must be achieved before the option granted to Mr. Hu Fang can be exercised and the consideration payable for the grant of the option to Mr. Hu Fang will be HK\$1.00. Both the exact vesting period (which, under the Mergen Share Option Scheme, shall not exceed 10 years) in respect of the option granted to Mr. Hu Fang and the exact amount of Mergen Shares in respect of which the option is granted during the said vesting period will be determined at the absolute discretion of the Mergen Board.

PROCEDURES FOR DEMANDING A POLL

Pursuant to the existing Article 73 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

- (a) by the Chairman; or
- (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

LETTER FROM THE BOARD

- (d) by any member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

EGM

The notice of EGM convening the EGM is set out on pages 15 of this circular.

An announcement will be published by the Company in relation to the outcome of the EGM on the business day immediately thereafter.

RECOMMENDATION

The Directors believe that the proposed adoption of the Mergen Share Option Scheme is in the best interests of the Company and the Shareholders as a whole and that the proposed grant of option to Mr. Hu Fang which exceeds the Specified Limit will serve to provide an incentive to him for his continuing contribution to Mergen.

Accordingly, the Directors recommend that all Shareholders should vote in favour of the Ordinary Resolutions to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Board
Cai Lai Xing
Chairman

1. PURPOSE OF THE MERGEN SHARE OPTION SCHEME

The purpose of the Mergen Share Option Scheme is to provide incentives to the Participants to contribute to Mergen and to enable Mergen to recruit high-calibre employees and attract human resources that are valuable to the Mergen Group.

2. CONDITIONS

The Mergen Share Option Scheme will take effect upon satisfaction of the following conditions:

- (a) the Mergen Share Option Scheme being approved by the Shareholders at its general meeting; and
- (b) the passing of an ordinary resolution approving the adoption of the Mergen Share Option Scheme by the shareholders of Mergen in general meeting and authorising the Mergen Board to grant options to subscribe for shares thereunder and to allot and issue of shares pursuant to the exercise of any options granted under the Mergen Share Option Scheme.

3. WHO MAY JOIN

The participants of the Mergen Share Option Scheme include any director, management, employee (whether full-time or part-time) or business consultant and professional adviser of the relevant member of the Mergen Group. The right to exercise an option is not subject to or conditional upon the achievement of any performance target.

4. PERIOD OF THE MERGEN SHARE OPTION SCHEME

The Mergen Share Option Scheme will remain valid for a period of 10 years commencing on the date of its adoption, being the date on which the conditions set out in paragraph (2) above are satisfied, after which period no further options will be granted or accepted but the provisions of the Mergen Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted and accepted prior thereto.

5. TIME OF EXERCISE OF OPTION

An option may be exercised in accordance with the terms of the Mergen Share Option Scheme at any time during a period (the "Option Period") to be notified by the Mergen Board to each grantee. The Option Period shall not be more than 10 years from the date upon which the grant of an option is made to a Participant in accordance with the Mergen Share Option Scheme but subject to the provisions for early termination contained therein.

6. ADMINISTRATION

The Mergen Share Option Scheme shall be administered by the Mergen Board and the decisions of the Mergen Board shall be final and binding on all parties. The Mergen Board shall have the power from time to time to make or vary regulations for the administration and operation of the Mergen Share Option Scheme provided that the same are not inconsistent with the provisions of the Mergen Share Option Scheme.

7. GRANT OF OPTION

On and subject to the terms of the Mergen Share Option Scheme and the requirements of the Listing Rules, the Mergen Board shall be entitled at any time and from time to time within 10 years from the adoption date of the Mergen Share Option Scheme to grant to any Participant, an option to subscribe for such number of Mergen Shares as the Mergen Board may determine at the subscription price (as stipulated in paragraph 9 below). In determining the basis of eligibility of each Participant, the Mergen Board may take into account such factors as the Mergen Board at its discretion considers appropriate.

8. PAYMENT ON ACCEPTANCE OF OPTION OFFER

HK\$1.00 is payable by the Participants to Mergen on acceptance of the option offer as consideration of the grant.

9. SUBSCRIPTION PRICE

The subscription price shall be determined by the Mergen Board and shall not be less than US\$8.22 (or its equivalent in HK\$) per Mergen Share.

The subscription price of options granted after the Company has contemplated a separate listing of Mergen on the Main Board or the Growth Enterprise Market (“GEM”) of the Stock Exchange or any overseas stock exchange and up to the date of listing of the Mergen Shares shall not be lower than the new issue price of the Mergen Shares on listing. Without prejudice to the foregoing, any options granted during the period commencing 6 months before the lodgement of Form A1 (or its equivalent for listing on GEM or any overseas exchange) are subject to the above requirement. The subscription price of any options granted during such period shall be adjusted at the absolute discretion of the Mergen Board to a price not lower than the new issue price of the Mergen Shares on listing.

10. RIGHTS ARE PERSONAL TO GRANTEE

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell or transfer in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle Mergen to cancel any outstanding option, or any part thereof, in favour of such grantee.

11. RIGHTS ON DEATH

If the grantee of an option ceases to be a Participant by reason of death before exercising the option in full and none of the events which would be a ground for termination of his employment, directorship, office or appointment under paragraph 17 below occurs, the personal representative(s) of the grantee shall be entitled to exercise the option (to the extent not already exercised) in full or in part until the last day of the period of 12 months from the date of death or such longer period as the Mergen Board may determine.

12. RIGHTS ON CEASING TO BE A PARTICIPANT

If the grantee of an option ceases to be a Participant for any reason, other than death or termination of his employment, directorship, office or appointment on one or more of the grounds specified in paragraph 17 below, the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent not already exercised) within the period of 1 month following the date of such cessation, which date shall be the last actual working day with the relevant member of the Mergen Group. The date of cessation as determined by the board of directors or governing body of the relevant member of the Mergen Group shall be conclusive.

13. RIGHTS ON TAKEOVER

If a general offer to acquire the Mergen Shares is made to all the shareholders of Mergen (or all such holders of shares other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer, having been approved in accordance with applicable laws and regulatory requirements and by the shareholders of Mergen, then the grantee (or his personal representative(s)) shall be entitled to exercise the option, in full or in part, by giving a notice in writing to Mergen within 21 days after the date on which the offer is approved.

14. RIGHTS ON WINDING-UP

In the event a notice is given by Mergen to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up Mergen, Mergen shall on the same date as or soon after it despatches such notice to convene the shareholders' meeting, give notice thereof to all grantees and each grantee (or his personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 7 Business Days prior to the proposed general meeting of Mergen by giving notice in writing to Mergen, accompanied by a remittance for the full amount of the aggregate subscription price for the Mergen Shares in respect of which the notice is given, whereupon Mergen shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Mergen Shares to the grantee as fully paid.

15. RIGHTS ON COMPROMISE OR ARRANGEMENT

If a compromise or arrangement between Mergen and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of Mergen or its amalgamation with any other company or companies, Mergen shall give notice therefor to all grantees on the same date as it despatches to each member or creditor of Mergen a notice summoning the meeting to consider such a compromise or arrangement, and each grantee (or his personal representative(s)) may forthwith and until the expiry of the period commencing on such date and ending on the earlier of 2 calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court, exercise all or any of his options, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised

under the Mergen Share Option Scheme. Mergen may require the grantee (or his personal representative(s)) to transfer or otherwise deal with the Mergen Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Mergen Shares been subject to such compromise or arrangement.

16. RANKING OF SHARES

The Mergen Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of Mergen for the time being in force and will rank *pari passu* in all respects with the fully paid Mergen Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment of the relevant Mergen Shares.

17. LAPSE OF OPTION

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in paragraphs 11, 12 or 13, respectively;
- (iii) subject to the sanctioning of a compromise or arrangement between Mergen and its members or creditors for the purposes of or in connection with a scheme for the reconstruction of Mergen or its amalgamation with any other company or companies, the expiry of the period referred to in paragraph 15;
- (iv) the date on which the grantee of an option ceases to be a Participant by reason of the termination of his employment (whether full-time or part-time), directorship, office or appointment on grounds specified in the Mergen Share Option Scheme including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence involving his integrity or honesty;
- (v) the earlier of the close of business on the seventh Business Day prior to the general meeting referred to in paragraph 14 or the date of the commencement of the winding-up of Mergen; or
- (vi) the date on which the grantee sells or transfers any interest in favour of any third party over or in relation to any option in breach of the Mergen Share Option Scheme.

18. MAXIMUM NUMBER OF MERGEN SHARES AVAILABLE FOR SUBSCRIPTION

The limit on the total number of Mergen Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Mergen Share Option Scheme and other share option scheme(s) of Mergen must not exceed 10% of the number of Mergen Shares in issue from time to time (the “Scheme Limit”). No options will be granted under the Mergen Share Option Scheme at any time if such grant will result in the Scheme Limit being exceeded.

Subject always to the Scheme Limit, the total number of Mergen Shares which may be issued upon exercise of all options to be granted under the Mergen Share Option Scheme and any other share option schemes of Mergen must not in aggregate exceed 10% of the Shares in issue as at the date of the approval of the Mergen Share Option Scheme (the “Scheme Mandate Limit”). Options lapsed in accordance with the terms of the Mergen Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

No Participant shall be granted an option which, if accepted and exercised in full, would result in such Participant becoming entitled to subscribe for such number of Mergen Shares as, when aggregated with the total number of Mergen Shares already issued and which may be issued upon exercise of all options granted and to be granted to him, in any 12-month period (including exercised, cancelled and outstanding options), would exceed the Specified Limit as at the proposed grant date.

Any further grant of options (including exercised, cancelled and outstanding options) in excess of the Specified Limit must be subject to approval of the Mergen Board and separate shareholders’ approval in general meeting of the Company with such grantee and his associates (as such term is defined in the Listing Rules) abstaining from voting. A circular with relevant information as required under the Listing Rules must be sent to the Shareholders disclosing, amongst others, the identity of the grantee and the number and terms of the options granted and proposed to be granted. The number and terms (including the subscription price) of options to be granted to such grantee must be fixed before the Shareholders’ approval is sought and the date of the board meeting of Mergen for proposing such further grant should be taken as the date of grant.

19. EFFECTS OF REORGANISATION OF CAPITAL

In the event of any alteration in the capital structure of Mergen whilst any option granted under the Mergen Share Option scheme remains exercisable, whether by way of consolidation, sub-division or reduction of the share capital of Mergen, such corresponding alterations (if any) will be made to (i) the number or nominal amount of Mergen Shares subject to the option so far as unexercised; or (ii) the subscription price, provided that an independent financial adviser or the auditors for the time being of Mergen shall have confirmed in writing to the directors of Mergen and shall give a grantee the same proportion of the issued share capital of Mergen as that to which the grantee was previously entitled but so that no such alterations shall be made to effect that any Mergen Share would be issued at less than its nominal value.

20. CANCELLATION OF OPTIONS GRANTED

The Mergen Board may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as the Mergen Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation.

Where Mergen cancels any options granted but not exercised and grants new options to the same grantee, such grant of new options may only be made under the Mergen Share Option Scheme if there is available unissued options (excluding the cancelled options) within the Scheme Mandate Limit referred to paragraph 18 above.

21. TERMINATION OF THE MERGEN SHARE OPTION SCHEME

Mergen by resolution passed at a general meeting of its shareholders or at a meeting of the Mergen Board may at any time terminate the operation of the Mergen Share Option Scheme and in such event no further options will be granted or accepted but the provisions of the Mergen Share Option Scheme shall remain in force in all other respects. All options granted and accepted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Mergen Share Option Scheme.

22. ALTERATIONS TO THE MERGEN SHARE OPTION SCHEME

The Mergen Board may from time to time in its absolute discretion waive or amend such of the provisions of the Mergen Share Option Scheme as it deems desirable, provided that the Mergen Board may not amend to the advantage of Participants any of the provisions of the Mergen Share Option Scheme relating to the definitions of “grantee”, “Option Period” and “Participants”, paragraphs 4 to 21 above and this paragraph without the prior approval of the Shareholders in general meeting. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the shareholders of Mergen under the articles of association for the time of Mergen being for a variation of the rights attached to the Mergen Shares.

Any alterations to the terms and conditions of the Mergen Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Mergen Board and approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Mergen Share Option Scheme. The Mergen Share Option Scheme so altered must still comply with Chapter 17 of the Listing Rules.

23. GRANT OF OPTIONS TO CONNECTED PERSONS

Where any grant of options is proposed to be made to any Participant who is also a Director, chief executive or substantial shareholder of the Company, or their respective associates, such offer must first be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of such options).

Where any offer of the grant of options is proposed to be made to a Participant who is an independent non-executive Director or a substantial shareholder of the Company, or any of their respective associates, which would result in the Mergen Shares issued and which may fall to be issued upon the exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Mergen Share Option Scheme and any other share option scheme(s) of Mergen in the 12-month period up to and including the proposed grant date for such options representing in aggregate over 0.1% of the number of Mergen Shares then in issue and having an aggregate net asset value, assuming such options were exercised and based on the latest audited accounts of Mergen, in excess of HK\$5 million, then such grant of options must first be approved by the Shareholders in general meeting with all the connected persons of the Company abstaining from voting in favour on the relevant resolution. Any vote taken at the meeting to approve the proposed grant of such options must be taken on a poll. A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms (including the subscription

price) of the options to be granted and containing a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to independent Shareholders on whether or not to vote in favour of the proposed grant and such other information required under the Listing Rules. The date of the board meeting for proposing such further grant should be taken as the grant date for the purpose of calculating the subscription price.

Any proposed change in the terms of options granted to a Participant who is an independent non-executive Director, or any of his associates, must also first be approved by the Shareholders in general meeting as described above.

NOTICE OF EGM

上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0363)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Shanghai Industrial Holdings Limited (the “Company”) will be held at the Conference Room, 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong at 3:30 p.m. on Friday, 28th May, 2004 (or so soon thereafter as the annual general meeting of the Company convened for the same day and place at 3:00 p.m. shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1. “THAT the share option scheme of Mergen Biotech Limited (the “Mergen Share Option Scheme”), the terms of which are contained in the document marked “A” and a summary of which is set out in a circular dated 10th May, 2004 (the “Circular”) and despatched to the shareholders of the Company marked “B” of which the notice convening this meeting forms part and both produced to the meeting and for the purpose of identification signed by the Chairman thereof, be and is hereby approved and the directors of the Company be and are hereby authorised to execute all such documents and take such action as they deem appropriate to give effect to the Mergen Share Option Scheme.”
2. “THAT subject to the passing of the resolution set out as resolution number 1 in the notice convening this meeting and the Mergen Share Option Scheme becoming effective, the proposed grant of an option to Mr. Hu Fang pursuant to the Mergen Share Option Scheme which would entitle him, upon full exercise thereof, to subscribe for an aggregate number of 39,000 shares in Mergen Biotech Limited (as such specific grant is more particularly described in the Circular) be and is hereby approved.”

By Order of the Board
Roger L.C. Leung
Company Secretary

Hong Kong, 10th May, 2004

Notes:

- (1) A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and on a poll, vote in his stead. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed.
- (3) To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the registered office of the Company at 26th Floor, Harcourt House, 39 Gloucester Road, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (4) This notice and the enclosed form of proxy are also available for viewing on the website of each of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> and the Company at <http://www.sihl.com.hk>.