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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shanghai Industrial Urban Development Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Shanghai Industrial Urban Development Group Limited.

上海實業城市開發集團有限公司

SHANGHAI INDUSTRIAL URBAN DEVELOPMENT GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 563)

MAJOR TRANSACTION

ACQUISITION OF TWO RESIDENTIAL VILLA PROJECTS IN SHANGHAI

A letter from the Board is set out from pages 4 to 10 of this circular.

25 November 2016

CONTENTS

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

"Acquisition"	the acquisition of the Sale Interest under the Share Transfer Agreement
"Announcement"	the announcement of the Company dated 19 September 2016 in relation to the Acquisition
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Company"	Shanghai Industrial Urban Development Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms of the Share Transfer Agreement
"Contemporary Art Villas"	the residential project located in Shanghai owned by the Target known as 當代藝墅 (Contemporary Art Villas)
"Contemporary Splendour Villas"	the residential project located in Shanghai indirectly owned by the Target known as 當代美墅 (Contemporary Splendour Villas)
"Directors"	directors of the Company
"EIT Payment"	the enterprise income tax arising from the Acquisition payable by the Seller to the relevant PRC tax authority
"Enlarged Group"	the Group as enlarged by the Acquisition
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	23 November 2016, being the latest practicable date prior to the publication of this circular for ascertaining certain information contained herein

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Net Purchase Price"	the Total Purchase Price less the EIT Payment
"PRC"	the People's Republic of China and for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Projects"	Contemporary Art Villas and Contemporary Splendour Villas
"Properties"	the properties held by the Target Group which form the subject of the valuation report as set out in Appendix V to this circular
"Purchaser"	上海城寰企業管理諮詢有限公司 (Shanghai Chenghuan Enterprise Management Consulting Co., Ltd.), a company established in the PRC and a wholly-owned subsidiary of the Company
"Reporting Period"	the financial years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016
"Retention Amount"	RMB22,100,000 of the Total Purchase Price to be retained by the Purchaser
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interest"	the entire equity interest in the Target
"Seller"	Ferntower Investments Ltd., a company incorporated in the BVI with limited liability
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Transfer Agreement"	the agreement dated 18 September 2016 and entered into between the Purchaser and the Seller in relation to the Acquisition
"Shareholder(s)"	holder(s) of the ordinary shares of HK$0.04 each in the issued share capital of the Company

"SIHL"	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 363)
"SIIC"	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability
"SPH"	Shanghai Pharmaceuticals Holding Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 2607)
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SUD"	上海城開(集團)有限公司 (Shanghai Urban Development (Holdings) Co., Ltd.), a company incorporated in the PRC with limited liability and is owned as to 59% by the Company
"Target"	上海啟耀房地產開發有限公司 (Shanghai Qiyao Property Development Co., Ltd.), a company established in the PRC
"Target Group"	the Target and its subsidiaries
"Total Purchase Price"	the total purchase price for the Acquisition, being RMB2,350,000,000

In this circular, the terms "connected person", "subsidiary" and "substantial shareholder" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English names of Chinese entities included in this circular are unofficial translations of their Chinese names and are included for identification purposes only.

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB0.8603 to HK$1.00. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or RMB have been, could have been or may be converted at such or any other rate or at all.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

上海實業城市開發集團有限公司
SHANGHAI INDUSTRIAL URBAN DEVELOPMENT GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 563)

Executive Directors:
Ji Gang *(Chairman and President)*
Zhou Jun
Yang Jianwei
Yang Biao
Ye Weiqi
Huang Fei

Independent Non-executive Directors:
Doo Wai-Hoi, William, J.P.
Fan Ren Da, Anthony
Li Ka Fai, David

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in Hong Kong:
Suites 3003–3007
30th Floor, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

25 November 2016

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF TWO RESIDENTIAL VILLA PROJECTS IN SHANGHAI

I. INTRODUCTION

Reference is made to the announcement of the Company dated 19 September 2016, in which the Company announced that the Purchaser (being a wholly-owned subsidiary of the Company) and the Seller entered into the Share Transfer Agreement pursuant to which the Purchaser agreed to buy, and the Seller agreed to sell, 100% of the equity interest in the Target.

The purpose of this circular is to provide you with further information in relation to the Acquisition.

II. THE ACQUISITION

THE SHARE TRANSFER AGREEMENT

Date

18 September 2016

Parties

(1) Purchaser: 上海城寰企業管理諮詢有限公司 (Shanghai Chenghuan Enterprise Management Consulting Co., Ltd.), a company established in the PRC and a wholly-owned subsidiary of the Company.

(2) Seller: Ferntower Investments Ltd.

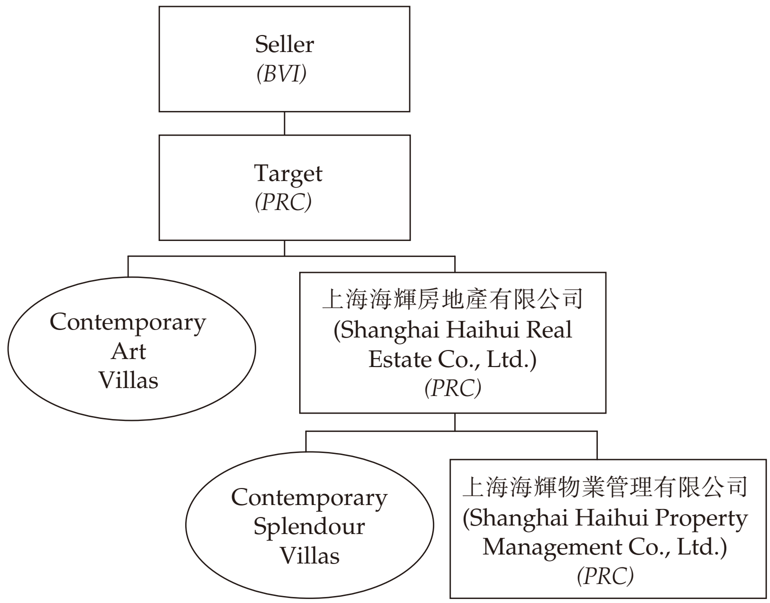
The Seller is a company incorporated in the BVI with limited liability whose principal business is investment holding. The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, the Seller and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Asset acquired

The asset acquired under the Share Transfer Agreement is the Sale Interest, representing 100% of the equity interest in the Target.

The primary assets of the Target Group are Contemporary Art Villas and Contemporary Splendour Villas, which are two residential villa projects located in Minhang District, Shanghai, China. The total site areas of the land parcels for Contemporary Art Villas and Contemporary Splendour Villas are 116,308 sq.m. and 120,512 sq.m., respectively. As at the date of Completion, the first and second phases of Contemporary Art Villas had been completed and the first phase of Contemporary Splendour Villas had been substantially completed. There is one further phase for each of the Projects and such development is still under planning.

The following diagram depicts the shareholding structure of the Target Group prior to Completion (unless otherwise specified, each subsidiary is 100% owned by its holding company):



Consideration

The Total Purchase Price for the Sale Interest is RMB2,350,000,000, which comprises the Net Purchase Price and the EIT Payment.

Net Purchase Price

The Net Purchase Price is payable by the Purchaser in cash in the following manner:

(1) within nine business days after the date on which all conditions precedent to Completion have been fulfilled, an aggregate amount equals to the Net Purchase Price less the Retention Amount; and

(2) within three business days after the expiry of 180 days from the date of Completion, an amount equals to the Retention Amount (less any deductions made in accordance with the terms of the Share Transfer Agreement, including the relative portion of the EIT Payment payable by the Seller as a result of the Acquisition relating to the Retention Amount). Pursuant to the Share Transfer Agreement, the Purchaser may deduct from the Retention Amount any actual loss incurred by the Purchaser and/or the Target Group resulting from any breach by the Seller of the terms of the Share Transfer Agreement.

EIT Payment

In addition to the Net Purchase Price, the Purchaser has agreed to pay on behalf of the Seller the EIT Payment, being the enterprise income tax arising from the Acquisition, to the relevant PRC tax authority.

The consideration of the Acquisition was determined after arm's length negotiations between the Purchaser and the Seller taking into account various factors, including but not limited to the following:

- the terms of the Share Transfer Agreement;

- the value of the Properties. The valuation of the Properties as at 30 September 2016 as valued by DTZ Cushman & Wakefield Limited was RMB4,163,000,000. Please refer to Appendix V to this circular for the valuation report in respect of the Properties prepared by DTZ Cushman & Wakefield Limited. The net book value of the Properties as at 30 June 2016 as shown in the audited consolidated financial statements of the Target Group was RMB1,956,313,000. Please refer to the paragraph headed "Property Valuation" in Appendix III to this circular for the reconciliation between the net book value of the Target Group's property interests as of 30 June 2016 and the valuation of the Properties as of 30 September 2016;

- the location of the Properties. The Properties are located in prime residential districts in Shanghai which are particularly popular among expatriate tenants;

- the current situation and prospects of the property market in Shanghai;

- that the Acquisition will provide an additional source of recurring rental income to the Group. During the Reporting Period, a majority of the properties of Contemporary Art Villa were leased and generated relatively stable rental income for the Target Group. For the years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016, revenue of the Target Group (consists of rental income and property management service income) was RMB29.1 million, RMB31.2 million, RMB28.8 million and RMB12.0 million, respectively;

- that the addition of the Projects will enhance the Group's property investment and development portfolio; and

- that the Acquisition will complement the Group's strategic goals of continuing building its property portfolio in core first-tier and second-tier cities in the PRC.

Pursuant to the terms of the Share Transfer Agreement, the Purchaser provided an amount of RMB68,000,000 as earnest money to the Target on 18 September 2016. Such amount does not form part of, and may not be used to set-off any part of, the Total Purchase Price. Such amount is repayable by the Target to the Purchaser.

Completion

Completion was conditional upon the following conditions having been satisfied within 30 days from the date of the Share Transfer Agreement (or such other date as the Seller and the Purchaser may agree):

(1) the Seller and the Purchaser have obtained the written approval of the Acquisition from the Shanghai Municipal Commission of Commerce;

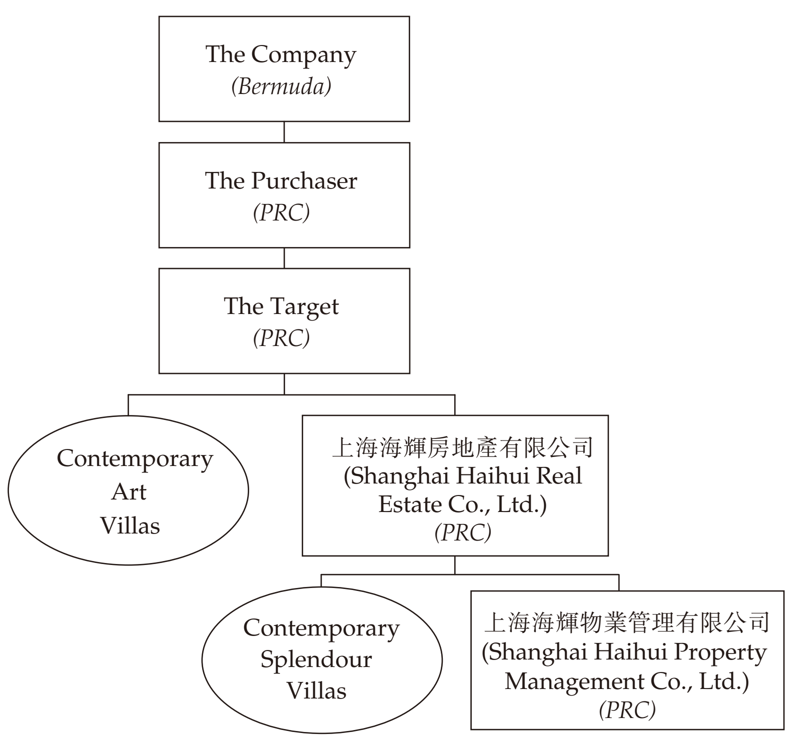
(2) the Seller and the Purchaser have completed the registration procedures for offshore RMB settlement of the Total Purchase Price;

(3) the Seller and the Purchaser have delivered to the appointed escrow agent the relevant documents required to effect the registration of the Acquisition with the relevant administration of industry and commerce; and

(4) each of the Company and SIHL (being a holding company of the Company) has obtained all approvals, authorisations and consents required under the Listing Rules in respect of the Acquisition.

All of the conditions set out above have been fulfilled and Completion took place on 24 October 2016 whereupon the Purchaser paid the Net Purchase Price (less the Retention Amount) in full to the Seller. Following Completion, the Target became a wholly-owned subsidiary of the Company.

The following diagram depicts the shareholding structure of the Target Group immediately following Completion (unless otherwise specified, each subsidiary is 100% directly or indirectly owned by its holding company):



FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is a summary of the audited consolidated net profit before and after tax and extraordinary items of the Target Group for the year ended 31 December 2014 ("**FY14**") and 31 December 2015 ("**FY15**"):

	FY14	**FY15**
	RMB'000	*RMB'000*
Consolidated net profit before taxation and extraordinary items	55,379	504,891
Consolidated net profit after taxation and extraordinary items	21,132	171,031

As at 31 December 2015, the audited consolidated net asset value of the Target Group was RMB736,124,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is a property developer in the PRC and is principally engaged in the businesses of property development, property investment and hotel operations in the PRC. The Company believes that the Acquisition represents a valuable opportunity to acquire two quality residential projects located in Shanghai where the Group has a strong foothold. The Acquisition will help the Group achieve its strategic goals of continuing building its property portfolio in core first-tier and second-tier cities in the PRC.

The Directors (including the independent non-executive Directors) consider that the Share Transfer Agreement has been made on normal commercial terms and in the ordinary and usual course of business of the Group, and that its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. LISTING RULES IMPLICATIONS

Given that one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but none of such percentage ratios is 100% or above, the Acquisition constitutes a major transaction of the Company.

IV. SHAREHOLDERS' APPROVAL

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has any material interest in the Acquisition under the Share Transfer Agreement and therefore none of them is required to abstain from voting if a general meeting was to be convened to approve the Share Transfer Agreement and the Acquisition. Pursuant to the Listing Rules, shareholders' approval is required for a major transaction. In this connection, the Company has obtained a written approval for the Share Transfer Agreement and the Acquisition in accordance with Rule 14.44 of the Listing Rules from Smart Charmer Limited, a Shareholder holding

3,365,883,000 ordinary shares of the Company, representing approximately 69.96% of the issued share capital of the Company as at the date of the Announcement. Smart Charmer Limited has the right to attend and vote at the general meeting (if convened) to approve the Share Transfer Agreement and the Acquisition. As such, the Company is not required to convene a special general meeting to consider and approve the Share Transfer Agreement and the Acquisition as permitted under Rule 14.44 of the Listing Rules.

V. RECOMMENDATION

Although no general meeting will be convened for approving the Share Transfer Agreement, the Directors (including the independent non-executive Directors) believe that the transactions contemplated under the Share Transfer Agreement are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, if a general meeting was convened for approving the Share Transfer Agreement and the transactions contemplated therein, the Directors would have recommended the Shareholders to vote in favour of the Share Transfer Agreement and the transactions contemplated therein.

VI. FURTHER INFORMATION

Your attention is drawn to other parts of this circular, which contain further information on the Group, the Target Group and other information required to be disclosed under the Listing Rules.

Yours faithfully,
By order of the Board of
Shanghai Industrial Urban Development Group Limited
Ji Gang
Chairman

THREE-YEAR FINANCIAL INFORMATION OF THE COMPANY

The Company is required to set out or refer to in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group. The financial information of the Group is disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.siud.com):

- The audited consolidated financial statements of the Group for the year ended 31 December 2015 are set out in the annual report of the Company (pages 83 – 173) published on 13 April 2016. Please also see below link to the Annual Report 2015:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0413/LTN20160413448.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2014 are set out in the annual report of the Company (pages 83 – 165) published on 13 April 2015. Please also see below link to the Annual Report 2014:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0413/LTN20150413807.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2013 are set out in the annual report of the Company (pages 79 – 160) published on 14 April 2014. Please also see below link to the Annual Report 2013:

  http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0414/LTN20140414251.pdf

INDEBTEDNESS

At the close of business on 30 September 2016, being the latest practicable date for the sole purpose of determining this statement of indebtedness and contingent liabilities of the Enlarged Group prior to the date of this circular, the Enlarged Group had the total borrowings amounted to approximately HK$25,067,617,000, details of which are as follows:

	HK$'000
Bank borrowings	
Secured and guaranteed	7,561,613
Secured and unguaranteed	4,723,986
Unsecured and guaranteed	477,696
Unsecured and unguaranteed	1,452,981
	14,216,276
Other borrowings	
Unsecured and unguaranteed	8,723,257
Amounts due to other related companies, unsecured and unguaranteed *(note)*	367,469
Amounts due to non-controlling shareholders, unsecured and unguaranteed	1,638,013
Amounts due to former shareholders of the Company's former subsidiaries, unsecured and unguaranteed	122,602
Total	**25,067,617**

Note: Other related companies represent companies related to the Group other than Shanghai Industrial Investment (Holdings) Company Limited and SIHL Finance Limited.

Mortgage and charge

As at 30 September 2016, the bank borrowings of the Enlarged Group of approximately:

(a) HK$7,561,613,000 were (i) secured by certain Group's assets including investment properties, properties under development and pledged bank deposits or the entire issued share capital of a subsidiary of the Company and (ii) guaranteed by Xuhui District State-owned Assets Supervision and Administrative Committee (the "**Xuhui SASAC**"), a non-controlling shareholder of a subsidiary of the Company, to the extent of RMB70,000,000 (equivalent to approximately HK$81,367,000), an intermediate holding company of a non-controlling shareholder of a subsidiary of the Company, to the extent of US$116,037,000 (equivalent to approximately HK$905,089,000) and certain third parties, to the extent of RMB4,800,000,000 (equivalent to approximately HK$5,579,449,000);

(b) HK$4,723,986,000 were secured by certain Group's assets including properties under development, properties held-for-sale, hotel properties, land use rights and/or investment properties of the Group located in the PRC, pledged bank deposits and trade receivables generated from operations of an investment property of the Group located in the PRC; and

(c) HK$234,802,000 were guaranteed by Xuhui SASAC to the extent of RMB202,000,000, HK$240,016,000 were guaranteed by 上海梅隴資產投資經營有限公司 (Shanghai Meilong Asset Investment Operations Company Limited), a state-owned enterprise ultimately owned by the Shanghai Municipal People's Government, to the extent of RMB41,297,000, and HK$2,878,000 were guaranteed by an individual to the extent of RMB2,476,000.

Contingent liabilities

As at 30 September 2016, the Group had the following contingent liabilities:

(a) Guarantees given to banks in respect of banking facilities utilised by an entity controlled by Xuhui SASAC

As at 30 September 2016, the Company had entered into agreements with banks to provide corporate guarantees with respect to bank borrowings granted to an entity controlled by Xuhui SASAC. The maximum liability of the Company as at 30 September 2016 under such guarantees is the outstanding amount of the bank borrowings to the entity controlled by Xuhui SASAC of RMB166,000,000 (equivalent to approximately HK$192,956,000).

(b) Guarantees given to a bank in respect of banking facilities utilised by an entity and its subsidiary as a group jointly held by a joint venture entity of the Group

As at 30 September 2016, the Company had entered into agreements with a bank to provide corporate guarantees with respect to bank borrowings granted to an entity and its subsidiary as a group jointly held by a joint venture entity of the Group. The maximum liability of the Company as at 30 September 2016 under such guarantees is the total outstanding amount of the bank borrowings to the entity and its subsidiary as a group jointly held by a joint venture entity of the Group of RMB221,000,000 (equivalent to approximately HK$256,887,000).

(c) Guarantees in respect of mortgage facilities of certain property buyers

The Group has entered into agreements with certain banks with respect to mortgage loans provided to buyers of the Group's property units and has made deposits as security to and given guarantees on mortgage loans provided to the buyers by these banks under the agreements. Pursuant to the terms of guarantees, upon default in payments of mortgage instalments by these buyers, the Group is responsible to repay the remaining outstanding mortgage principals together with accrued interest and penalty owed by the defaulted buyers, after netting off the pledged bank deposits, to the banks and the Group is entitled to take over the legal title and possession of the related properties. The pledged bank deposits and guarantees will be released when the property title deeds are pledged to banks as security for the respective mortgage loans, which generally take place within one year after the property title deeds are passed to the buyers. As at 30 September 2016, the total outstanding mortgages guaranteed by the Group were RMB2,071,761,000 (equivalent to approximately HK$2,408,186,000).

(d) Warranty against defects of properties

Properties purchased by buyers are provided with various warranties with terms ranging from one to two years against certain specified defects as stipulated by either sales and purchase agreements of properties or the relevant PRC laws and regulations.

Except as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have, as at 30 September 2016, any other debt securities issued or outstanding, and authorised or otherwise created but unissued, terms loans, other borrowings and indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchases commitments, mortgages, charges, guarantees or other material contingent liabilities.

WORKING CAPITAL

Taking into account present financial resources available to the Enlarged Group, including internally generated funds and available facilities, the effect of the Acquisition and in the absence of unforeseen circumstances, the Directors are of the opinion that the Enlarged Group will have sufficient funds to meet its working capital requirements for at least the next 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is a property developer in the PRC and is principally engaged in the businesses of property development, property investment and hotel operations. In the first half of 2016, the Report on the Work of the Government of the PRC introduced the guideline of "adopting different policies in different cities" to destock real estate market inventory, as well as the need to increase the proportion of monetary resettlement in shanty town renovation schemes. The report also proposed to improve the taxation and credit policies for the support of reasonable housing consumption from residents, rigid housing demand and demand for living standard improvement, and to establish a housing system that encourages both renting and purchasing. Due to the city-specific destocking measures actively introduced in the PRC, the property market maintained an upward trend in the first half of 2016, with both transaction volume and housing prices climbing up, and the Company expects the trend to continue in the current financial year. In addition, the central bank of the PRC led the steady and moderate growth of the monetary and credit markets, while creating promising prospects for the healthy development of the property industry by announcing the first deposit reserves reduction in March 2016. In addition to the two projects in Xi'an and Changsha, in the second half of

2016, the Group launched key residential projects such as Grand Mansion and Urban Cradle in Shanghai. In addition to residential projects, the Group expects that the future completion of investment property landmarks including TODTOWN and Binjiang U Center in Shanghai, coupled with ShanghaiMart, which is undergoing adjustment and upgrading, and Chongqing K-Mall, which has commenced trial operation, will consolidate and refine the Group's investment property portfolio and generate stable rental income for the Group. Completion of the Acquisition will further add to the Group's investment property portfolio two quality residential projects in Shanghai, which comprise completed villas that generate recurring rental income as well as further land bank for future development.

As at the date of Completion, the first two phases of Contemporary Art Villas have been completed. So far, only the first phase of Contemporary Splendour Villas has been substantially completed. In line with the Group's strategies for property development in Shanghai and other first-tier cities in the PRC, the Target Group also plans to develop the next phases of the Projects.

For the years ended 31 December 2013, 2014 and 2015, the Target Group recorded profit for the year of RMB54.0 million, RMB21.1 million and RMB171.0 million, respectively. For the six months ended 30 June 2016, the Target Group recorded loss for the period of RMB14.9 million, primarily due to (i) a loss on disposal of investment properties resulting from the sale of certain properties in Contemporary Art Villas at a discount during the period; and (ii) an increase in general and administrative expenses mainly attributable to certain ad hoc allowances provided to staff during the period. As these were one-off events, the Company expects the Target Group to return to profit making in the longer term. Please refer to Appendix III to this circular for the management discussion and analysis of the financial results of the Target Group for the Reporting Period.

NO MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up).

EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Following completion of the Acquisition, the financial results of the Target Group will be consolidated with those of the Group and the earnings of the Group will be affected by the performance of the Target Group.

Further details of the financial effect of the Acquisition are set out in Appendix IV to this circular and as follows:

(a) Assets

As of 30 June 2016, the consolidated total assets of the Group were HK$62,647.2 million. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total assets of the Enlarged Group would have been increased to HK$64,421.8 million.

(b) Liabilities

As of 30 June 2016, the consolidated total liabilities of the Group were HK$43,075.6 million. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have been increased to HK$44,855.3 million.

(c) Total equity

As of 30 June 2016, the total equity of the Group was HK$19,571.6 million. According to the unaudited pro forma financial information, the unaudited pro forma total equity of the Enlarged Group would remain steady at HK$19,566.6 million.

(d) Earnings

For the year ended 31 December 2015, the consolidated net profit of the Group was HK$540.0 million and according to the accountants' report of the Target Group as set out in Appendix II to this circular, the audited consolidated net profit of the Target Group for the year ended 31 December 2015 was RMB171.0 million (approximately HK$198.8 million). The Directors believe the Target Group will be able to continue to generate profit attributable to the Shareholders in the future.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte. 德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

25 November 2016

The Directors
Shanghai Industrial Urban Development Group Limited
Suite 3003-3007, 30th Floor,
Great Eagle Centre,
23 Harbour Road,
Wan Chai, Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Shanghai Qiyao Property Development Co., Ltd. (the "**Target**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**") for each of the three years ended 31 December 2015 and the six months ended 30 June 2016 (the "**Relevant Periods**") (the "**Financial Information**") for inclusion in the circular of Shanghai Industrial Urban Development Group Limited (the "**Company**") dated 25 November 2016 (the "**Circular**") issued in connection with the acquisition of two residential villa projects in Shanghai of the People's Republic of China (the "**PRC**") through the acquisition of entire equity interest in the Target (the "**Acquisition**").

The Target was established in the PRC on 28 April 1993 and registered as a wholly foreign owned enterprise ("**WOFE**") with limited liability. The Target has registered capital of United States dollars 12,000,000. Its parent company is Ferntower Investments Ltd, which is a company incorporated in the British Virgin Islands with limited liability, whose principal business is investment holding. The Target is an investment holding company and its principal activities are property development, property investment and property management. As of the end of each of the respective reporting periods and the date of this report, particulars of the Target's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation	Place of operation	Form of business structure	Registered capital	Equity interest attributable to the Target				At date of this report	Principal activities
					31 December			30 June		
					2013	2014	2015	2016		
上海海輝房地產有限公司 Shanghai Haihui Real Estate Co., Ltd. ("**Haihui Real Estate**")	The PRC 21 November 2000	The PRC	Domestic limited liability company ("**DLLC**")	Renminbi ("**RMB**") 5,000,000	90%	90%	90%	100%	100%	Inactive
上海海輝物業管理有限公司 Shanghai Haihui Property Management Co., Ltd. ("**Haihui Property Management**")	The PRC 13 May 2003	The PRC	DLLC	RMB500,000	90%	90%	90%	100%	100%	Property management
上海正哲投資諮詢有限公司 Shanghai Zheng Zhe Investment Advisory Co., Ltd. ("**Zheng Zhe Advisory**")	The PRC 14 December 2001	The PRC	DLLC	RMB1,000,000	100%	100%	100%	100%	–	Inactive (deregistered at date of this report)

The financial statements of the Target, Haihui Real Estate, Haihui Property Management and Zheng Zhe Advisory for each of the three years ended 31 December 2015 were prepared in accordance with relevant accounting principles and regulations in the PRC. The financial statements of the Target and Haihui Real Estate were audited by Shanghai Ming Rui Certified Public Accountants registered in the PRC for each of the three years ended 31 December 2015. The financial statements of Haihui Property Management were not audited for each of the three years ended 31 December 2015 as they were not required for audit under relevant regulations in the PRC. The financial statements of Zheng Zhe Advisory were not audited for each of the three years ended 31 December 2015 as it has no actual business since its date of establishment.

For the purpose of this report, the directors of the Target have prepared consolidated financial statements of the Target Group for the Relevant Periods in accordance with accounting policies as set out in note 3 to the Financial Information, which conforms with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by HKICPA. We have also examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA. The Financial Information of the Target Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments to the Underlying Financial Statements are considered necessary in the preparation of this report for inclusion in the Circular.

The preparation of the Underlying Financial Statements is the responsibility of the directors of the Target who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Target Group as at 31 December 2013, 2014, 2015 and 30 June 2016 and of the consolidated financial performance and cash flows for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the Target Group for the six months ended 30 June 2015 together with the notes thereon have been extracted from the Target Group's unaudited consolidated financial information for the same period (the "**30 June 2015 Financial Information**"), which was prepared by the directors of the Target solely for the purpose of this report. We conducted our review of the 30 June 2015 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 30 June 2015 Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conforms with HKFRSs.

(I) FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Notes	**2013**	**2014**	**2015**	**2015**	**2016**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*6*	29,084	31,156	28,764	14,514	12,016
Cost of sales		(6,249)	(7,512)	(6,236)	(2,784)	(6,962)
Gross profit		22,835	23,644	22,528	11,730	5,054
Other income		141	17	350	345	11
Other expenses, gains and losses, net	*7*	927	(101)	(1,833)	17	(57,917)
Fair value changes on investment properties	*14*	145,000	46,000	498,000	140,000	66,804
Distribution and selling expenses		(81)	(99)	(90)	(27)	(27)
General and administrative expenses		(14,576)	(14,071)	(14,053)	(7,477)	(10,765)
Finance costs	*8*	(262)	(11)	(11)	(5)	(6)
Profit before tax	*9*	153,984	55,379	504,891	144,583	3,154
Income tax	*11*	(100,030)	(34,247)	(333,860)	(95,526)	(18,016)
Profit (loss) for the year/period		53,954	21,132	171,031	49,057	(14,862)
Profit (loss) and total comprehensive income (expense) for the year/period attributable to:						
Owners of the Target		54,066	21,132	171,028	49,068	(14,862)
Non-controlling interests		(112)	–	3	(11)	–
		53,954	21,132	171,031	49,057	(14,862)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 30 June
	Notes	**2013**	**2014**	**2015**	**2016**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Equipment	*13*	1,373	1,050	1,017	806
Investment properties	*14*	1,257,000	1,303,000	1,801,000	1,759,000
		1,258,373	1,304,050	1,802,017	1,759,806
Current assets					
Trade and other receivables	*15*	2,578	3,469	2,856	7,913
Inventories	*16*	155,150	176,284	193,062	197,313
Amounts due from related parties	*17*	3,160	10,513	11,729	3,361
Bank balances and cash	*18*	2,839	3,004	1,933	10,104
		163,727	193,270	209,580	218,691
Current liabilities					
Trade and other payables	*19*	17,566	23,535	30,138	38,753
Amounts due to related parties	*17*	36,384	36,361	38,132	46,824
Bank borrowings	*20*	–	–	–	825
Other borrowings	*20*	11,748	12,077	12,405	12,393
Income tax and land appreciation tax payables		3,685	7,280	10,231	44,198
Dividend payables		–	–	–	37,418
		69,383	79,253	90,906	180,411
Net current assets		94,344	114,017	118,674	38,280
Total assets less current liabilities		1,352,717	1,418,067	1,920,691	1,798,086

	Notes	At 31 December 2013 RMB'000	At 31 December 2014 RMB'000	At 31 December 2015 RMB'000	At 30 June 2016 RMB'000
Non-current liabilities					
Bank borrowings	20	–	331	2,476	1,651
Amounts due to related parties	17	40,258	53,583	52,173	–
Deferred tax liabilities	21	768,498	799,060	1,129,918	1,113,951
		808,756	852,974	1,184,567	1,115,602
Net assets		543,961	565,093	736,124	682,484
CAPITAL AND RESERVES					
Paid up capital	22	69,120	69,120	69,120	69,120
Reserves		474,486	495,618	666,646	613,364
Equity attributable to owners of the Target		543,606	564,738	735,766	682,484
Non-controlling interests		355	355	358	–
Total equity		543,961	565,093	736,124	682,484

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target						
	Paid up capital *RMB'000*	Other reserve *RMB'000* *(note (ii))*	Statutory reserve *RMB'000* *(note (i))*	Accumulated profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance as at 1 January 2013	69,120	–	3,983	416,437	489,540	467	490,007
Profit and total comprehensive income for the year	–	–	–	54,066	54,066	(112)	53,954
Balance as at 31 December 2013	69,120	–	3,983	470,503	543,606	355	543,961
Profit and total comprehensive income for the year	–	–	–	21,132	21,132	–	21,132
Balance as at 31 December 2014	69,120	–	3,983	491,635	564,738	355	565,093
Profit and total comprehensive income for the year	–	–	–	171,028	171,028	3	171,031
Balance as at 31 December 2015	69,120	–	3,983	662,663	735,766	358	736,124
Loss and total comprehensive expense for the period	–	–	–	(14,862)	(14,862)	–	(14,862)
Acquisition of additional interests in subsidiaries	–	(1,002)	–	–	(1,002)	(358)	(1,360)
Transfer to statutory reserve	–	–	4,158	(4,158)	–	–	–
Dividends declared *(Note 28)*	–	–	–	(37,418)	(37,418)	–	(37,418)
Balance as at 30 June 2016	69,120	(1,002)	8,141	606,225	682,484	–	682,484
For the six months ended 30 June 2015 (Unaudited)							
Balance as at 1 January 2015	69,120	–	3,983	491,635	564,738	355	565,093
Profit and total comprehensive income for the period	–	–	–	49,068	49,068	(11)	49,057
Balance as at 30 June 2015	69,120	–	3,983	540,703	613,806	344	614,150

Notes:

(i) Statutory reserve represents appropriations from the profit after taxation of the Target Group's entities established in the PRC. In accordance with the PRC Company Law and the Articles of Association of these PRC entities, they are required to appropriate an amount at a minimum of 10% of their profit after taxation each year to a reserve account until it reaches 50% registered capital of these entities.

(ii) Other reserve represents a premium contributed by the owners of the Target on acquiring the remaining 10% interests of Haihui Real Estate and Haihui Property Management from non-controlling shareholders. These acquisitions, without changing the Target Group's control over Haihui Real Estate and Haihui Property Management, were accounted for as equity transactions. The difference between the fair value of cash consideration of RMB1,360,000 and 10% share of net assets held by the non-controlling shareholders of RMB358,000 in these two entities amounting to RMB1,002,000 was recognised directly in equity as other reserve and attributable to owners of the Target.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities					
Profit before tax	153,984	55,379	504,891	144,583	3,154
Adjustments for:					
Finance costs	262	11	11	5	6
Depreciation	367	323	187	94	117
Interest income	(11)	(12)	(9)	(4)	(16)
Increase in fair value of investment properties	(145,000)	(46,000)	(498,000)	(140,000)	(66,804)
Loss on disposal of investment properties	–	–	–	–	57,216
Loss on disposal of equipment	12	–	115	8	70
Unrealised exchange (gains) losses	(951)	101	1,716	(25)	631
Operating cash flows before movements in working capital	8,663	9,802	8,911	4,661	(5,626)
Decrease (increase) in trade and other receivables	1,416	(891)	613	352	543
Increase in inventories	(20,346)	(16,488)	(11,659)	(5,275)	(2,566)
Increase in trade and other payables	2,581	5,969	6,603	4,017	8,615
Cash (used in) generated from operations	(7,686)	(1,608)	4,468	3,755	966
Income tax paid	(93)	(90)	(51)	(50)	(16)
Net cash (used in) from operating activities	(7,779)	(1,698)	4,417	3,705	950
Investing activities					
Purchase of equipment	–	–	(298)	–	(25)
Advances to related parties	–	(7,353)	(1,216)	(592)	–
Repayments from related parties	6,289	–	–	–	8,368
Interest received	11	12	9	4	16
Proceeds from disposal of investment properties	–	–	–	–	45,988
Proceeds from disposal of equipment	5	–	29	29	49
Net cash from (used in) investing activities	6,305	(7,341)	(1,476)	(559)	54,396

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Financing activities					
Interest paid	–	–	(137)	(68)	(69)
Payment for acquisition of additional interest in subsidiaries	–	–	–	–	(1,360)
Proceeds from bank borrowings	–	331	2,145	2,121	–
Repayments of bank and other borrowings	(3,300)	–	–	–	(175)
Advances from related parties	5,530	8,896	1,771	–	8,692
Repayments to related parties	–	(23)	(7,791)	(6,233)	(54,263)
Net cash from (used in) financing activities	2,230	9,204	(4,012)	(4,180)	(47,175)
Net increase (decrease) in cash and cash equivalents	756	165	(1,071)	(1,034)	8,171
Cash and cash equivalents at beginning of year/period	2,083	2,839	3,004	3,004	1,933
Cash and cash equivalents at end of year/period, represented by bank balances and cash	2,839	3,004	1,933	1,970	10,104

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Target was established in the PRC and registered as a WOFE with limited liability. The address of its registered office and principal place of business is room A530, number 66 of Miao Jing Road, Min Hang District, Shanghai, the PRC. In the opinion of the directors of the Target, the immediate holding company which is also the ultimate holding company of the Target is Ferntower Investments Ltd., which is a company incorporated in the BVI with limited liability, throughout the Relevant Periods. The Target is an investment holding company and principally engaged in property development, property investment and property management.

The Financial Information are presented in RMB which is the same as the functional currency of the Target.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has applied HKFRSs issued by the HKICPA which are effective for the financial period beginning on 1 January 2016 and consistently applied throughout the Relevant Periods.

At the date of this report, the Target Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers[1]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRS 2	Clarifications and measurement of share-based payment transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from contracts with customers[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Target anticipate that the application of HKFRS 9 in the future may result in potential early recognition of credit losses based on the expected loss model in relation to the Target Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 "Revenue from contracts with customers"

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

Having considered the sales transactions with customers entered into by the Target Group during the Relevant Periods, the directors of the Target anticipate that the application of HKFRS 15 will have no material impact on the Financial Information.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statements of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 25, total operating lease arrangements and commitments of the Target Group in respect of certain properties as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 amounted to HK$5,760,000, HK$6,192,000, HK$4,284,000 and HK$1,410,000 respectively. The directors of the Target do not expect the adoption of HKFRS 16 would result in significant impact on the Target Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

The directors of the Target anticipates that the application of other new and amendments to HKFRSs will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, except for investment properties which are measured at fair values at end of each reporting period, and in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies adopted are set out below.

Basis of consolidation

The Financial Information incorporate the financial statements of the Target and its subsidiaries. Control is achieved when the Target:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Target and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies into line with the Target Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services rendered in the normal course of business, net of sales related taxes.

Property management service income are recognised when the services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Target Group's policy for the recognition of revenue from operating lease is described in the accounting policy for leasing below.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Target Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Equipment

Equipment is stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Properties under development for sale

Properties under development which are intended to be sold in the ordinary course of business upon completion of development are classified as current assets, and carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion. Costs include the related land cost, development expenditure incurred and, where appropriate, borrowing costs capitalised.

Properties under development for sale are transferred to completed properties for sale upon completion.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is determined based on prevailing market conditions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items and on the retranslation of non-monetary items carried at fair value are recognised in profit or loss in the period in which they arise.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the financial assets have been affected.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liability or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities. Equity instruments issued by the Target Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to related parties, dividend payables and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Interest expense is recognised on an effective interest basis.

Derecognition

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiary, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Retirement benefit costs

Payment to state-managed retired benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

4. CRITICAL JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3, the directors of the Target are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment in applying accounting policies

The following is the critical judgments, apart from those involving estimations (see below), that the directors of the Target have made in the process of applying the Target Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the directors of the Target have reviewed the Target Group's investment property portfolios and concluded that the Target Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over the time. Therefore, in measuring the Target Group's deferred taxation on investment properties, the directors of the Target have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Target Group has further recognised deferred taxes on changes in fair value of investment properties in relation to the PRC's land appreciation tax.

Details about the Target Group's investment properties and deferred taxation in relation to changes of fair value of investment properties are set out in notes 14 and 21 respectively.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Estimation of fair value of investment properties

The valuations of investment properties were arrived at by reference to comparable sales transactions available in the relevant market. The fair value is determined based on the current prices in an active market for similar properties. If the current prices in an active market for similar properties are not available for the purpose of estimation of fair value of investment properties, the Target Group considers information from a variety of sources, including:

(a) Current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and

(b) Recent transaction prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Notwithstanding that the management employs independent professionally qualified valuers not connected to the Target Group to perform fair value assessments based on these assumptions, the fair value of these investment properties may be higher or lower depending on the future market conditions.

Details about the Target Group's investment properties are set out in note 14.

5. SEGMENT INFORMATION

The Target Group's operations are solely derived from property investment and property management in the PRC. The directors of the Target, being chief operating decision maker, only reviews the overall results and financial position of the Target Group, which are prepared based on the same accounting policies set out in note 3, for the purposes of resource allocation and performance assessment. Accordingly, the Target Group presents only one single operating segment and no further analysis is presented.

The Target Group's operation is located in Shanghai of the PRC. Accordingly, the revenue are generated and non-current assets are located in the PRC. No revenue from a single customer or a group of customers under common control contributed 10% or more of the Target Group's revenue during the Relevant Periods.

6. REVENUE

Revenue represents rental income received and receivable and value of services rendered during the year/period, net of the PRC business tax, and is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Rental income	29,380	31,253	28,765	14,609	12,456
Property management service income	1,446	1,708	1,719	790	654
	30,826	32,961	30,484	15,399	13,110
PRC business tax charged on rental income and services rendered	(1,742)	(1,805)	(1,720)	(885)	(1,094)
	29,084	31,156	28,764	14,514	12,016

7. OTHER EXPENSES, GAINS AND LOSSES, NET

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Exchange gains (losses), net	951	(101)	(1,716)	25	(631)
Loss on disposal of equipment	(12)	–	(115)	(8)	(70)
Loss on disposal of investment properties *(Note 14)*	–	–	–	–	(57,216)
Others	(12)	–	(2)	–	–
	927	(101)	(1,833)	17	(57,917)

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest on:					
Bank borrowings	–	–	137	68	69
Amounts due to related parties	3,068	4,328	4,665	2,245	1,459
Other borrowings	388	329	328	163	163
Total borrowing costs	3,456	4,657	5,130	2,476	1,691
Less: Amount capitalised into properties under development	(3,194)	(4,646)	(5,119)	(2,471)	(1,685)
	262	11	11	5	6

9. PROFIT BEFORE TAX

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit before tax has been arrived after charging (crediting):					
Auditor's remuneration	30	30	30	15	15
Directors' remuneration *(Note 10(a))*	354	354	354	177	177
Depreciation of property, plant and equipment	367	323	187	94	117
Minimum lease payments paid under operating leases in respect of an office premise and staff quarters	1,797	1,454	2,390	1,429	872
Interest income on bank deposits	(11)	(12)	(9)	(4)	(16)
Gross rental income from investment properties, net of PRC business tax	27,767	29,518	27,187	13,798	11,386
Less: Direct operating expenses incurred for investment properties that generated rental income during the year/period	(5,214)	(6,271)	(5,006)	(2,153)	(3,446)
	22,553	23,247	22,181	11,645	7,940
Staff costs (including directors' remuneration):					
Salaries and other benefits *(note)*	3,528	3,525	3,420	1,674	3,972
Retirement benefits scheme contributions	852	851	863	412	417
	4,380	4,376	4,283	2,086	4,389

Note: Included in the salaries and other benefits for the six months ended 30 June 2016, there are an amount of RMB2,290,000 which represents provision for severance payments to staff of the Target Group who would be laid-off due to the Acquisition.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the three directors, including the chief executive, during the Relevant Periods are as follows:

For the year ended 31 December 2013

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors:				
Mr. Ruan Yun Zhe	–	118	–	118
Ms. Yang Lili	–	118	–	118
Ms. Ruan Xiang Yi	–	118	–	118
Total	–	354	–	354

For the year ended 31 December 2014

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors:				
Mr. Ruan Yun Zhe	–	118	–	118
Ms. Yang Lili	–	118	–	118
Ms. Ruan Xiang Yi	–	118	–	118
Total	–	354	–	354

For the year ended 31 December 2015

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors:				
Mr. Ruan Yun Zhe	–	118	–	118
Ms. Yang Lili	–	118	–	118
Ms. Ruan Xiang Yi	–	118	–	118
Total	–	354	–	354

For the six months ended 30 June 2015 (unaudited)

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors:				
Mr. Ruan Yun Zhe	–	59	–	59
Ms. Yang Lili	–	59	–	59
Ms. Ruan Xiang Yi	–	59	–	59
Total	–	177	–	177

For the six months ended 30 June 2016

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors:				
Mr. Ruan Yun Zhe	–	59	–	59
Ms. Yang Lili *(Note 10(b)(i))*	–	59	–	59
Ms. Ruan Xiang Yi *(Note 10(b)(ii))*	–	59	–	59
Total	–	177	–	177

Mr. Ruan Yun Zhe was also the chief executive of the Target. His emoluments disclosed above include those for services rendered by him as the chief executive. The directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Target and the Target Group.

(b) Directors' material interests in transactions, arrangements or contracts

(i) During the six months ended 30 June 2016, the Target and Ms. Yang Lili entered into a sale and purchase agreement for a residential villa. Pursuant to the agreement, the Target agreed to sell and Ms. Yang Lili agreed to purchase a residential villa, which is classified as investment properties, for a consideration of RMB6,469,000. The consideration paid for the residential villa is lower than its estimated fair value of RMB13,738,000. The transaction has been completed before 30 June 2016.

(ii) During the six months ended 30 June 2016, the Target and Ms. Ruan Xiang Yi entered into a sale and purchase agreement for a residential villa. Pursuant to the agreement, the Target agreed to sell and Ms. Ruan Xiang Yi agreed to purchase a residential villa, which is classified as investment properties, for a consideration of RMB6,492,000. The consideration paid for the residential villa is lower than its estimated fair value of RMB13,841,000. The transaction has been completed before 30 June 2016.

(c) Employees' emoluments

For the Relevant Periods, of the five individuals with the highest emoluments in the Target Group, three were directors of the Target whose emoluments are included in note (a) above. The emoluments of the remaining two individuals are as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	247	247	247	124	124
Contributions to retirement benefits scheme	27	26	26	13	13
	274	273	273	137	137

During the six months ended 30 June 2016, the Target and a key management personnel entered into a sale and purchase agreement for a residential villa. Pursuant to the agreement, the Target agreed to sell and a key management personnel agreed to purchase a residential villa, which is classified as investment properties, for a consideration of RMB6,492,000. The consideration paid for the residential villa is lower than its estimated fair value of RMB13,841,000. The transaction has been completed before 30 June 2016.

The emoluments of those individuals are within the following bands:

	Number of individuals			**Six months ended 30 June**	
	2013	**2014**	**2015**	**2015** (unaudited)	**2016**
Nil to HK$500,000 (approximately nil to RMB428,449)	2	2	2	2	2

During the Relevant Periods, no emoluments were paid by the Target Group to the directors of the Target and the five highest paid individuals of the Target Group as an inducement to join or upon joining the Target Group or as compensation for loss of office.

11. INCOME TAX

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax:					
PRC enterprise income tax ("**EIT**")	3,696	3,685	3,002	2,513	10,935
PRC land appreciation tax ("**LAT**")	–	–	–	–	23,048
	3,696	3,685	3,002	2,513	33,983
Deferred tax *(Note 21)*	96,334	30,562	330,858	93,013	(15,967)
Income tax for the year/period	100,030	34,247	333,860	95,526	18,016

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC entities is 25%.

Under the Provisional Regulations of LAT (《中華人民共和國土地增值稅暫行條例》) effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (《中華人民共和國土地增值稅暫行條例實施細則》) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, being the proceeds of sales of properties less deductible expenditures including borrowing costs and property development expenditures in relation to the gains arising from sales of properties in the PRC effective from 1 January 2004, with an exemption provided for property sales of ordinary residential properties (普通標準住宅) if their appreciation values do not exceed 20% of the sum of the total deductible items.

The income tax for the year/period can be reconciled to the profit before tax per consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before tax	153,984	55,379	504,891	144,583	3,154
Tax at the PRC EIT rate of 25%	38,496	13,845	126,223	36,146	789
Tax effect of expenses not deductible for tax purposes	1,450	1,340	1,279	26	629
Provision for LAT for the year/period	–	–	–	–	23,048
Tax effect of LAT deductible for PRC EIT	–	–	–	–	(5,762)
Deferred tax recognised (reversal of deferred tax) on LAT in respect of investment properties	60,084	19,062	206,358	59,354	(688)
Income tax for the year/period	100,030	34,247	333,860	95,526	18,016

Details of deferred tax are set out on note 21.

12. EARNINGS PER SHARE

Earnings per share of the Target Group for the Relevant Periods are not presented as such information is not considered meaningful in the context of this report.

13. EQUIPMENT

	Office equipment, furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
COST			
At 1 January 2013	957	4,281	5,238
Disposals	–	(166)	(166)
At 31 December 2013 and 2014	957	4,115	5,072
Additions	–	298	298
Disposals	(905)	(581)	(1,486)
At 31 December 2015	52	3,832	3,884
Additions	–	25	25
Disposals	–	(1,196)	(1,196)
At 30 June 2016	52	2,661	2,713
DEPRECIATION			
At 1 January 2013	831	2,650	3,481
Provided for the year	14	353	367
Eliminated on disposal	–	(149)	(149)
At 31 December 2013	845	2,854	3,699
Provided for the year	11	312	323
At 31 December 2014	856	3,166	4,022
Provided for the year	7	180	187
Eliminated on disposal	(819)	(523)	(1,342)
At 31 December 2015	44	2,823	2,867
Provided for the period	2	115	117
Eliminated on disposal	–	(1,077)	(1,077)
At 30 June 2016	46	1,861	1,907
CARRYING VALUES			
At 31 December 2013	112	1,261	1,373
At 31 December 2014	101	949	1,050
At 31 December 2015	8	1,009	1,017
At 30 June 2016	6	800	806

The above items of equipment are depreciated on a straight-line basis, after taking into account of their estimated residual value, over the following years:

Furniture and fixtures	5 to 10 years
Office equipment	5 to 10 years
Motor vehicles	5 to 10 years

14. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2013	1,112,000
Fair value gain on investment properties	145,000
At 31 December 2013	1,257,000
Fair value gain on investment properties	46,000
At 31 December 2014	1,303,000
Fair value gain on investment properties	498,000
At 31 December 2015	1,801,000
Fair value gain on investment properties	66,804
Disposal	(108,804)
At 30 June 2016	1,759,000

Unrealised gains on revaluation of investment properties included in profit or loss for the year ended 31 December 2013, 31 December 2014, 31 December 2015 and the six months ended 30 June 2015 (unaudited) and 30 June 2016 are RMB145,000,000, RMB46,000,000, RMB498,000,000, RMB140,000,000 and RMB62,131,000 respectively.

The carrying value of investment properties shown above comprises residential villa which are situated on land in the PRC.

During the six months ended 30 June 2016, the Target Group disposed of seven units of investment properties for an aggregate consideration, net of value added tax, of RMB51,588,000. The fair values of these investment properties were approximately RMB108,804,000 at the date of disposal. The difference between the fair values and the aggregate consideration amounting to RMB57,216,000 was recognised in profit or loss and included in "other expenses, gains and losses, net" line item of the consolidated statements of profit or loss and other comprehensive income for the six months ended 30 June 2016. Six out of seven units of investment properties were sold to the Target's directors, key management personnel and their close family members for an aggregate consideration, net of value added tax, of RMB42,445,000. Details about disposal of investment properties for a consideration lower than their fair values to directors and key management personnel of the Target are set out in note 10.

All of the Target Group's investment properties are held under operating leases to earn rental income and are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Target Group's investment properties as at 1 January 2013, 31 December 2013, 31 December 2014, 31 December 2015, 30 June 2016 have been arrived at on the basis of a valuations carried out on the respective dates by DTZ Cushman & Wakefield Limited ("DTZ"), an independent qualified professional valuer not connected to the Target Group. DTZ has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The address of DTZ is 16/F Jardine House, 1 Connaught Place, Central, Hong Kong. The Target Group's investment properties were valued individually, on market value basis, which conforms to HKIS Valuation Standards 2012 Edition published by the Hong Kong Institutes of Surveyors. The fair value was arrived at by reference to comparable sales transactions available in the relevant market.

In estimating the fair value of the investment properties, the directors of the Target has considered that the highest and best use of the properties is their current use upon the application of HKFRS 13 "Fair value measurement". There has been no change of the valuation technique during the Relevant Periods.

All of the Target Group's investment properties are located in the PRC and classified as level 3 in the fair value hierarchy as at 1 January 2013, 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016.

There were no transfers into or out of Level 3 during the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and six months ended 30 June 2016.

At the end of each reporting period, the directors of the Target works closely with DTZ to establish and determine the appropriate valuation techniques and inputs for level 3 fair value measurements. Where there is a material change in fair value of the assets, the causes of the fluctuations will be reported to the directors the Target.

The following table shows the valuation techniques used in the determination of fair values of investment properties and the key unobservable inputs used in the valuation models.

Description	Fair value as at 31 December 2013 *RMB'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Residential villa	1,257,000	Direct comparison approach	Unit price per square metre based on gross floor area using direct market comparables from the surrounding areas and taking into account of property market trend	RMB26,000 per square metre to RMB31,000 per square metre	The higher the adjusted price, the higher the fair value

Description	Fair value as at 31 December 2014 *RMB'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Residential villa	1,303,000	Direct comparison approach	Unit price per square metre based on gross floor area using direct market comparables from the surrounding areas and taking into account of property market trend	RMB27,000 per square metre to RMB32,000 per square metre	The higher the adjusted price, the higher the fair value

Description	Fair value as at 31 December 2015 *RMB'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Residential villa	1,801,000	Direct comparison approach	Unit price per square metre based on gross floor area using direct market comparables from the surrounding areas and taking into account of property market trend	RMB37,500 per square metre to RMB43,500 per square metre	The higher the adjusted price, the higher the fair value

Description	Fair value as at 30 June 2016 *RMB'000*	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Residential villa	1,759,000	Direct comparison approach	Unit price per square metre based on gross floor area using direct market comparables from the surrounding areas and taking into account of property market trend	RMB38,000 per square metre to RMB48,000 per square metre	The higher the adjusted price, the higher the fair value

15. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	1,847	2,652	2,021	1,842
Other receivables *(note)*	205	263	138	5,785
Prepayments and deposits	526	554	697	286
Total	2,578	3,469	2,856	7,913

Note: Included in other receivables as at 30 June 2016, there is an amount of RMB5,600,000 representing receivable from disposal of investment properties.

The following is an analysis of trade receivables by age presented based on the invoice date, which approximated the revenue recognition date.

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	1,705	2,440	1,934	1,806
Within 91–180 days	142	212	87	36
	1,847	2,652	2,021	1,842

Included in the Target Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB1,847,000, RMB2,652,000, RMB2,021,000 and RMB1,842,000 as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 respectively, which are past due as at the reporting date for which the Target Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Target Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	1,705	2,440	1,934	1,806
Within 91–180 days	142	212	87	36
	1,847	2,652	2,021	1,842

16. INVENTORIES

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development for sale *(note)*	152,125	173,259	190,037	194,288
A property held-for-sale	3,025	3,025	3,025	3,025
Total	155,150	176,284	193,062	197,313

Note: Properties under development for sale at end of each reporting period are not expected to be realised within one year.

All of the properties under development for sale and property held-for-sale are located in the PRC.

17. AMOUNTS DUE FROM (TO) RELATED PARTIES

Included in the amounts due from related parties at the end of each reporting period is an amount of RMB100,000 due from a close family member of a key management personnel of the Target and the remaining balance represented amounts due from key management personnel of the Target. The entire balance of the amounts due from related parties at the end of each reporting period is non-trade in nature, unsecured, interest free and repayable on demand.

The amounts due to related parties for the end of each reporting period represented amounts due to directors and key management personnel of the Target and an entity controlled by the directors of the Target. The amounts due to related parties recognised as non-current liabilities at end of each reporting period are non-trade in nature, unsecured, carry fixed interest rate at 10% per annum and mature on 18 June 2018 in pursuant to the terms set out in the facility agreement signed 18 June 2008 which granted a maximum facility of RMB50,000,000 to Haihui Real Estate. The amounts due to related parties recognised as current liabilities at the end of each reporting period are non-trade in nature, unsecured, interest free and repayable on demand.

Included in the amounts due to related parties recognised as current liabilities as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 are amounts of RMB27,930,000, RMB28,042,000, RMB29,770,000 and RMB30,407,000 respectively denominated in United States dollar ("USD") which are foreign currency of respective companies of the Target Group.

18. BANK BALANCES AND CASH

Bank balances which include saving deposits with maturity less than three months carry interest at market rates which is 0.35% per annum during the Relevant Periods.

Included in the bank balances at the end of each reporting period are amounts of RMB11,000 denominated in USD which are foreign currency of respective companies of the Target Group.

19. TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2	2	1,868	1,868
Other payables	1,716	1,912	1,649	4,520
Other taxes payables *(note)*	9,786	14,841	19,350	26,041
Rental deposits and receipt in advance from tenants	5,981	6,735	7,206	6,063
Accruals	81	45	65	261
	17,566	23,535	30,138	38,753

Note: Other taxes payables comprise urban real estate tax payable, city maintenance and construction tax payable and business tax payable.

The following is an aging analysis of the Target Group's trade payables presented based on the invoice date at end of the reporting period.

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	2	2	1,868	–
Within 181–365 days	–	–	–	1,868
	2	2	1,868	1,868

20. BANK BORROWINGS/OTHER BORROWINGS

	At 31 December			At 30 June
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowing – unsecured and variable-rate	–	331	2,476	2,476
Carrying amount repayable:				
within one year	–	–	–	825
more than one year, but not exceeding two years	–	–	1,651	1,651
more than two years, but not more than five years	–	331	825	–
	–	331	2,476	2,476
Effective interest rate	–	6.6%	6.6%	5.2%

The Target Group has variable-rate borrowings which are unsecured and carry floating interest at 110% of People's Bank of China Benchmark Lending Rate (the "PBOC Rate"). The undrawn borrowing facilities of the Target Group as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 are nil, RMB14,669,000, RMB12,524,000 and RMB12,524,000 respectively.

Included in other borrowings at end of each reporting period, there is an amount due to an individual and an amount due to a PRC entity. The amount due to an individual as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 are RMB2,414,000, RMB2,479,000, RMB2,542,000 and RMB2,398,000 respectively. The amount due to an individual, it was matured on 25 November 2012, unsecured and carried fixed interest at 3% per annum pursuant to the borrowing agreement dated 30 October 2011. The amount due to a PRC entity as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 are RMB9,334,000, RMB9,598,000, RMB9,863,000 and RMB9,995,000 respectively. The amount due to a PRC entity, it was matured on 10 August 2012, unsecured and carried fixed interest at 3% per annum pursuant to the borrowing agreement dated 10 August 2011. In view of no extension agreement was signed and no repayment was requested by the lenders, these amounts were regarded as repayable on demand and classified as current liabilities at end of each reporting period.

21. DEFERRED TAX LIABILITIES

The following is the major deferred tax liability recognised and movements thereon during the current and prior years:

	Fair value changes in investment properties *RMB'000*
At 1 January 2013	672,164
Charge to profit or loss for the year	96,334
At 31 December 2013	768,498
Charge to profit or loss for the year	30,562
At 31 December 2014	799,060
Charge to profit or loss for the year	330,858
At 31 December 2015	1,129,918
Credit to profit or loss for the period	(15,967)
At 30 June 2016	1,113,951

22. PAID UP CAPITAL

	Amount *RMB'000*
Issued and fully paid:	
At 1 January 2013, 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016	69,120

23. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity balance. The Target Group's overall strategy remained unchanged throughout the Relevant Periods.

The capital structure of the Target Group consists of net debt, which includes bank and other borrowings and amounts due to related parties, net of cash and cash equivalents and equity attributable to owners of the Target, comprising issued share capital and reserves.

The directors of the Target actively and regularly review the capital structure. As part of this review, the directors of the Target consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Target, the Target Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

24. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

		At 31 December		At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	8,051	16,432	15,821	21,092
Financial liabilities				
Amortised cost	90,108	104,266	108,703	105,499

b. Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, bank balances and cash, amounts due from related parties, trade and other payables, amounts due to related parties, dividend payables and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Target manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Target Group has certain financial assets and liabilities that are denominated in the USD. As a result, the Target Group is exposed to fluctuations in exchange rates of USD against RMB. The Target Group did not enter into any derivative contracts nor did it have a foreign currency hedging policy aimed at minimising exchange rate risks during the year/period. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Target Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	Assets			
	At 31 December			**At 30 June**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD				
Bank balances	11	11	11	11

	Liabilities			
	At 31 December			**At 30 June**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD				
Amounts due to related parties	27,930	28,042	29,770	30,407

Sensitivity analysis

The sensitivity analysis below includes foreign currency denominated monetary items at the end of each reporting period and has been determined based on the exposure to exchange rates of USD against RMB. For a 5% weakening of USD against RMB and all other variables being held constant during the period ended 30 June 2016, the Target Group's post-tax loss would decrease by RMB1,140,000. For a 5% weakening of USD against RMB and all other variables being held constant during the years ended 31 December 2013, 31 December 2014 and 31 December 2015, the post-tax profit would increase by RMB1,047,000, RMB1,051,000 and RMB1,116,000 respectively. There would be an equal and opposite impact on the post-tax profit/loss for the year/period where the USD strengthens against RMB by 5%.

In the opinion of the directors of the Target, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the year/period.

Interest rate risk

The Target Group are exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 20 for details) and bank balances. It is the Target Group's policy to keep their borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Target Group is also exposed to fair value interest rate risk in relation to fixed-rate other borrowings and amounts due to related parties. The Target Group currently does not enter into any hedging instrument for fair value interest rate risks.

The Target Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Target Group's cash flow interest rate risk is mainly concentrated on the fluctuations of the PBOC Rate arising from the Target Group's RMB denominated bank borrowings.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings, at the end of each reporting period. The analysis is prepared using their balances outstanding as at the end of each reporting period. A 50 basis points increase or decrease during the Relevant Periods is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates have been 50 basis points higher or lower and all other variables were held constant during the Relevant Periods, the Target Group's post-tax profit for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 would decrease/increase accordingly and the Target Group's post-tax loss for the period ended 30 June 2016 would increase/decrease accordingly. This is mainly attributable to the Target Group's exposure to interest rates on its floating rate bank borrowings which is not hedged. The following analysis shows the Target Group's sensitivity to interest rates exposure.

Increase in interest rates basis points by:

	Decrease in profit			**Increase in loss**
	Year ended 31 December			**Six months ended 30 June**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
50 basis points	–	1	9	5

No interest rate sensitivity analysis in relation to interest bearing bank balances of the Target Group is presented since the directors of the Target consider that the interest rate risk exposure on the interest bearing financial assets is insignificant.

Credit risk

The Target Group are exposed to credit risk in relation to financial assets as stated in the consolidated statements of financial position. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk, deposits are mainly placed with high-credit quality financial institutions. In addition, it has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. The Target Group has no significant concentration of credit risks.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors of the Target to finance their operations and mitigate the effects of fluctuations in cash flows. The directors of the Target monitor the utilisation of bank borrowings and ensures compliance with loan covenants.

Liquidity risk analysis

The following tables detail the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Target Group can be required to pay. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

	Weighted average interest rate	Repayable on demand	Less than 1 year	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount at 31 December 2013
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2013							
Financial liabilities							
Trade and other payables	–	–	1,718	–	–	1,718	1,718
Other borrowings	3	11,748	–	–	–	11,748	11,748
Amounts due to related parties	10	–	–	–	56,980	56,980	40,258
Amounts due to related parties	–	36,384	–	–	–	36,384	36,384
		48,132	1,718	–	56,980	106,830	90,108

	Weighted average interest rate	Repayable on demand	Less than 1 year	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount at 31 December 2014
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2014							
Financial liabilities							
Trade and other payables	–	–	1,914	–	–	1,914	1,914
Bank borrowings	6.6	–	22	22	353	397	331
Other borrowings	3	12,077	–	–	–	12,077	12,077
Amounts due to related parties	10	–	–	–	69,735	69,735	53,583
Amounts due to related parties	–	36,361	–	–	–	36,361	36,361
		48,438	1,936	22	70,088	120,484	104,266

	Weighted average interest rate	Repayable on demand	Less than 1 year	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount at 31 December 2015
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015							
Financial liabilities							
Trade and other payables	–	–	3,517	–	–	3,517	3,517
Bank borrowings	6.6	–	163	1,787	853	2,803	2,476
Other borrowings	3	12,405	–	–	–	12,405	12,405
Amounts due to related parties	10	–	–	–	62,173	62,173	52,173
Amounts due to related parties	–	38,132	–	–	–	38,132	38,132
		50,537	3,680	1,787	63,026	119,030	108,703

	Weighted average interest rate	Repayable on demand	Less than 1 year	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amount at 30 June 2016
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2016							
Financial liabilities							
Trade and other payables	–	–	6,388	–	–	6,388	6,388
Bank borrowings	5.2	–	955	1,715	–	2,670	2,476
Other borrowings	3	12,393	–	–	–	12,393	12,393
Amounts due to related parties	–	46,824	–	–	–	46,824	46,824
Dividend payables	–	–	37,418	–	–	37,418	37,418
		59,217	44,761	1,715	–	105,693	105,499

c. **Fair value**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Target consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their fair values.

25. OPERATING LEASE

The Target Group as lessor

Certain investment properties held by the Target Group have committed tenants for terms ranging from one to three years with an option to renew the lease after that date at which time all terms are renegotiated.

At the end of each reporting period, the Target Group had contracted with tenants for the following future minimum lease payments:

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	20,120	20,832	18,088	20,186
In the second to fifth year, inclusive	9,279	8,194	7,096	10,589
	29,399	29,026	25,184	30,775

The Target Group as lessee

At the end of each reporting period, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	1,440	1,908	1,908	1,170
In the second to fifth year, inclusive	4,320	4,284	2,376	240
	5,760	6,192	4,284	1,410

Operating lease payments represent rentals payable by the Target Group for certain of its office premises and staff quarters. Leases are negotiated for a term ranging from five to ten years.

26. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Target Group participates in state-managed retirement schemes (the "Schemes") operated by the relevant local government authorities whereby the Target Group is required to make contributions to the Schemes at prescribed rates of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees while the Target Group's only obligation is to make the specified contributions.

The Target Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

27. RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Remuneration for key management personnel of the Target Group during the year/period, including amounts paid to the directors of the Target as disclosed in note 10, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Short-term benefits	601	601	601	301	301
Post employment benefits	27	26	26	13	13
	628	627	627	314	314
Rentals and building management fee	1,254	1,277	2,540	1,504	872
Sales of investment properties	–	–	–	–	42,445

The remuneration of directors and other key management personnel of the Target is determined by the directors of the Target having regard to the performance of individuals and market trends.

Rentals and building management fee were paid to a director of the Target in respect of an office premise and a staff quarter leased from him.

Income was generated from disposal of investment properties to directors and other key management personnel of the Target and their close family members. Details about the disposal of investment properties are set out in note 14.

(b) Balances with related parties

Details of balances with related parties as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 are set out in note 17.

28. DIVIDEND

Pursuant to the resolution of board of directors meeting dated 30 June 2016, a final dividend in respect of years 2001 to 2014 of RMB37,418,000 has been proposed by the directors of the Target and approved by the shareholders of the Target on the same date. At the date of this report has been authorised for issue, an amount of RMB21,229,000 has been paid.

(II) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target and any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2016.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Set out below is the management discussion and analysis of the Target Group for the three financial years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. The discussion and analysis relate to the consolidated results and financial position of the Target Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

OVERVIEW

The Target Group is primarily engaged in property investment, development and management. The primary assets of the Target Group are Contemporary Art Villas and Contemporary Splendour Villas, which are two residential villa projects located in Minhang District, Shanghai, China, with total site areas of 116,308 sq.m. and 120,512 sq.m., respectively.

Financial review

Revenue

Revenue of the Target Group represents rental income received and receivable and invoiced value of services rendered net of PRC business tax. During the Reporting Period, rental income of the Target Group comprised entirely of rental income generated from the leasing of residential properties of Contemporary Art Villas. The first phase of the Contemporary Splendour Villas was substantially completed in 2016 and no properties in the Contemporary Splendour Villas had been rented as at 30 June 2016. In addition, the Target Group also generated revenue from providing property management services. Set out below is a breakdown of the Target Group's revenue for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income	29,380	31,253	28,765	14,609	12,456
Property management service income	1,446	1,708	1,719	790	654
	30,826	32,961	30,484	15,399	13,110
PRC business tax charged on rental income and services rendered	(1,742)	(1,805)	(1,720)	(885)	(1,094)
	29,084	31,156	28,764	14,514	12,016

Revenue of the Target Group increased by 7.2% from RMB29.1 million in 2013 to RMB31.2 million in 2014 primarily due to increased rental income, which was mainly attributable to an increase in the number of properties in Contemporary Art Villas leased during the year. Revenue of the Target Group subsequently decreased by 7.7% from RMB31.2 million in 2014 to RMB28.8 million in 2015 primarily as a result of decreased rental income, which was mainly due to a decrease in the number of properties in Contemporary Art Villas leased during the year.

For the six months ended 30 June 2016, revenue of the Target Group decreased by 17.2% to RMB12.0 million from RMB14.5 million for the corresponding period in 2015. The decrease was primarily due to decreased rental income, which was again mainly attributable to a decrease in the number of properties in Contemporary Art Villas leased during the period.

During the Reporting Period, rental income per property in the Contemporary Art Villas remained stable.

Cost of sales

Cost of sales of the Target Group primarily consists of maintenance costs for up-keeping the rental properties, costs of recreational and social events organised for the tenants in Contemporary Art Villas and commission paid to agents or third parties for successful introduction of tenants to Contemporary Art Villas.

Cost of sales of the Target Group increased by 21% from RMB6.2 million in 2013 to RMB7.5 million in 2014, which was in line with the increase in rental income for the corresponding years. Cost of sales of the Target Group subsequently decreased by 17.0% from RMB7.5 million in 2014 to RMB6.2 million in 2015, which corresponded with the decrease in rental income.

For the six months ended 30 June 2016, cost of sales of the Target Group increased by 150% to RMB7.0 million from RMB2.8 million for the corresponding period in 2015. The increase was primarily due to an increased number of recreational and social events organised for the tenants in Contemporary Art Villas to attract and retain tenants, and higher level of commission paid to agents and third parties to encourage more tenant introduction.

Other income

Other income of the Target Group primarily consists of income generated from the sale of certain minor non-current assets.

For 2013, 2014 and 2015 and the six months ended 30 June 2016, other income of the Target Group amounted to RMB141,000, RMB17,000, RMB350,000 and RMB11,000, respectively. Due to its nature, the Target Group's other income during the Reporting Period had not been material.

Other expenses, gains and losses (net)

Other expenses, gains and losses (net) of the Target Group consist of net exchange gains or losses, loss on disposal of equipment and others. During the Reporting Period, the exchange gains or losses of the Target Group were primarily due to the USD denominated amounts due to related parties. The carrying amounts of such amounts due to related parties as at 31 December 2013, 2014 and 2015 and 30 June 2016 were RMB27.9 million, RMB28.0 million, RMB29.8 million and RMB30.4 million, respectively.

Set out below is a breakdown of the Target Group's other expenses, gains and losses (net) for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Exchange gains (losses), net	951	(101)	(1,716)	25	(631)
Loss on disposal of equipment	(12)	–	(115)	(8)	(70)
Loss on disposal of investment properties	–	–	–	–	(57,216)
Others	(12)	–	(2)	–	–
	927	(101)	(1,833)	17	(57,917)

The Target Group's other expenses, gains and losses (net) decreased from a net gain of RMB0.9 million in 2013 to a net loss of RMB0.1 million in 2014 and further decreased to a net loss of RMB1.8 million in 2015, primarily due to the weakening of RMB against USD.

The Target Group's other expenses, gains and losses (net) decreased from a net gain of RMB17,000 for the six months ended 30 June 2015 to a net loss of RMB57,917,000 for the corresponding period in 2016, primarily attributable to the loss on disposal of investment properties due to the sale of such properties at a discount to market value during the period and the weakening of RMB against USD.

Fair value changes on investment properties

Investment properties of the Target Group comprise the residential properties of the Projects held by the Target Group for rent. The fair values of the Target Group's investment properties as at 1 January 2013, 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016 have been arrived at on the basis of a valuation carried out on the respective dates by DTZ Cushman & Wakefield Limited, an independent valuer. The fair value changes on investment properties are based on such valuations.

The Target Group recorded a fair value gain on investment properties of RMB145.0 million, RMB46.0 million and RMB498.0 million in 2013, 2014 and 2015, respectively. Such gains are in line with the property market in the areas surrounding the Projects in Shanghai.

Fair value gain on investment properties for the six months ended 30 June 2016 was RMB66.8 million compared to RMB140.0 million for the corresponding period in 2015, which was generally in line with market trend but was also affected by the reduced number of investment properties of the Target Group as at 30 June 2016 following the sale of a number of properties in Contemporary Art Villas.

Distribution and selling expenses

Distribution and selling expenses of the Target Group remained relatively stable and amounted to RMB81,000, RMB99,000 and RMB90,000 for the years ended 31 December 2013, 2014 and 2015, respectively. For the six months ended 30 June 2015 and 2016, distribution and selling expenses of the Target Group remained at RMB27,000.

General and administrative expenses

General and administrative expenses of the Target Group primarily consist of depreciation expenses, staff salaries, travel, housing and other allowances provided to staff.

General and administrative expenses for 2013, 2014 and 2015 remained relatively stable at RMB14.6 million, RMB14.1 million and RMB14.1 million, respectively, as the number of employees and their salaries remain stable during the Reporting Period. General and administrative expenses increased by 44.0% from RMB7.5 million for the six months ended 30 June 2015 to RMB10.8 million for the six months ended 30 June 2016, primarily due to certain ad hoc allowances provided to staff during the period.

Finance costs

Finance costs of the Target Group are total borrowing costs less the amount capitalised into properties under development. Total borrowing costs consist of interest on bank borrowings, interest on amounts due to related parties and interest on other borrowings. Set out below is a breakdown of the Target Group's finance costs for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest on:					
Bank borrowings	–	–	137	68	69
Amounts due to related parties	3,068	4,328	4,665	2,245	1,459
Other borrowings	388	329	328	163	163
Total borrowing costs	3,456	4,657	5,130	2,476	1,691
Less: Amount capitalised into properties under development	(3,194)	(4,646)	(5,119)	(2,471)	(1,685)
	262	11	11	5	6

Total borrowing costs of the Target Group increased by 34.3% from RMB3.5 million in 2013 to RMB4.7 million in 2014, primarily attributable to an increase in the interest on the amounts due to related parties that were denominated in USD. Such amounts due to related parties are recognised as non-current liabilities and carried interest rate at 10% per annum. As RMB weakened in 2014, the interest amount on the USD denominated amounts due to related parties increased. Total borrowing costs increased by 8.5% from RMB4.7 million in 2014 to RMB5.1 million in 2015, primarily attributable to an increase in the amounts due to related parties as accrued interest in prior periods was added to the such amounts, and increased amounts of other borrowings. Total borrowing costs decreased by 32% from RMB2.5 million for the six months ended 30 June 2015 to RMB1.7 million for the six months ended 30 June 2016, primarily attributable to decreased amounts due to related parties, which was partially offset by increased amounts of other borrowings.

As the borrowings of the Target Group during the Reporting Period was primarily used to finance the development of the Projects, most of the finance costs had been capitalised into properties under development.

Profit before tax

As a result of the foregoing, profit before tax of the Target Group decreased by 64.0% from RMB154.0 million in 2013 to RMB55.4 million in 2014, and increased to RMB504.9 million in 2015. Profit before tax decreased by 97.8% from RMB144.6 million for the six months ended 30 June 2015 to RMB3.2 million for the six months ended 30 June 2016.

Income tax

Income tax of the Target Group consists of current tax, which includes PRC enterprise income tax and PRC land appreciation tax and deferred tax. For 2013, 2014 and 2015, income tax expense amounted to RMB100.0 million, RMB34.2 million and RMB333.9 million, respectively. For the six months ended 30 June 2015 and 2016, income tax expense of the Target Group amounted to RMB95.5 million and RMB18.0 million, respectively. The changes in income tax expense are primarily attributable to changes in deferred tax, which was mainly due to fair value changes in investment properties.

Profit (loss) for the year/period

For 2013, 2014 and 2015, net profit of the Target Group amounted to RMB54.0 million, RMB21.1 million and RMB171.0 million, respectively. For the six months ended 30 June 2015, the Target Group recorded net profit of RMB49.1 million and for the six months ended 30 June 2016, the Target Group recorded net loss of RMB14.9 million.

Liquidity, financial resources and capital structure

As of 31 December 2013, 2014 and 2015 and 30 June 2016, the current assets of the Target Group were RMB163.7 million, RMB193.3 million, RMB209.6 million and RMB218.7 million, respectively, and the current liabilities of the Target Group were RMB69.4 million, RMB79.3 million, RMB90.9 million and RMB180.4 million, respectively. As of 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group recorded net current assets in the amount of RMB94.3 million, RMB114.0 million, RMB118.7 million and RMB38.3 million, respectively.

The Target Group primarily finances its operations with cash flows generated from its operating activities and borrowings.

For the years 2013, 2014 and 2015 and the six months ended 30 June 2016, net cash (used in) generated from operating activities amounted to (RMB7.8 million), (RMB1.7 million), RMB4.5 million and RMB1.0 million, respectively.

The Target Group's borrowings consist of bank borrowings, amounts due to related parties and other borrowings. Set out below is a breakdown of the Target Group's bank borrowings by type and maturity profile as of the dates indicated:

	At 31 December			At 30 June
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowing – unsecured and variable-rate	–	331	2,476	2,476
Carrying amount repayable:				
within one year	–	–	–	825
more than one year, but not exceeding two years	–	–	1,651	1,651
more than two years, but not more than five years	–	331	825	–
	–	331	2,476	2,476
Effective interest rate	–	6.6%	6.6%	5.2%

As of 31 December 2013, 2014 and 2015 and 30 June 2016, amounts due to related parties that are recognised as non-current liabilities amounted to RMB40.3 million, RMB53.6 million, RMB52.2 million and nil, respectively, and amounts due to related parties that are recognised as current liabilities amounted to RMB36.4 million, RMB36.4 million, RMB38.1 million and RMB46.8 million, respectively. Amounts due to related parties that are recognised as non-current liabilities at the end of each reporting period are non-trade in nature, unsecured, carry interest rate at 10% per annum and mature on 18 June 2018. The amounts due to related parties recognised as current liabilities at the end of each reporting period are non-trade in nature, unsecured, interest free and repayable on demand.

Other borrowings at of 31 December 2013, 2014 and 2015 and 30 June 2016 an amount of RMB2.4 million, RMB2.5 million, RMB2.5 million and RMB2.4 million was due to an individual respectively and an amount of RMB9.3 million, RMB9.6 million, RMB9.9 million and RMB10.0 million was due to a PRC entity respectively, both of which were matured, unsecured and carry fixed interest rate at 3% per annum. As no extension agreement was signed and no repayment was requested by the lenders, these amounts were regarded as repayable on demand.

Gearing ratio of the Target Group, which was calculated as total borrowings divided by total equity, was 2.2%, 2.2%, 2.0% and 2.2% as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, demonstrating a stable trend.

Material acquisitions and disposals

The Target Group did not have any material acquisitions of subsidiaries and associated companies in the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

Foreign currency exposure

The Target Group reports its financial information in RMB. During the Reporting Period, the Target Group had certain bank balances and amounts due to related parties that are denominated in the USD. As a result, the Target Group was exposed to fluctuations in exchange rates of USD against RMB. The carrying amounts of the Target Group's foreign currency denominated monetary assets and liabilities at the date indicated are as follows:

	Assets			
	At 31 December			**At 30 June**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD				
Bank balances	11	11	11	11

	Liabilities			
	At 31 December			**At 30 June**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD				
Amounts due to related parties	27,930	28,042	29,770	30,407

The Target Group did not enter into any derivative contracts nor did it have a foreign currency hedging policy aimed at minimising exchange rate risks during the Reporting Period. Subsequent to the Reporting Period and prior to Completion, the amounts due to related parties, save for the interests accrued thereon, had been repaid by the Target Group in full.

Contingent liabilities and capital commitments

As of 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group had no capital commitments.

The Target Group did not have any material contingent liabilities and capital commitments.

Pledge of assets

As of 31 December 2013, 2014 and 2015 and 30 June 2016, none of the Target Group's investment properties were pledged to secure any bank or third party borrowings.

Employees and remuneration policies

The Target Group remunerated its employees by reference to their qualification, experience, responsibilities, profitability of the Target Group and market conditions. The remuneration of the employees comprises basic salary, discretionary bonus, other allowances and retirement benefit scheme contributions.

As of 31 December 2013, 2014 and 2015 and 30 June 2016, the Target Group had 116, 111, 111 and 111 employees, respectively. For the years 2013, 2014 and 2015, staff costs of the Target Group amounted to RMB4.4 million, RMB4.4 million and RMB4.3 million, respectively. For the six months ended 30 June 2015 and 2016, staff costs of the Target Group amounted to RMB2.1 million and RMB4.4 million, respectively.

Pursuant to the relevant labour rules and regulations in the PRC, the Target Group participates in state-managed retirement schemes (the "**Schemes**") operated by the relevant local government authorities whereby the Target Group is required to make contributions to the Schemes at prescribed rates of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees while the Target Group's only obligation is to make the specified contributions. The Target Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

PROPERTY VALUATION

DTZ Cushman & Wakefield Limited, an independent property valuer, has valued the Projects as of 30 September 2016. The full text of the letter and valuation certificate issued by DTZ Cushman & Wakefield Limited is included in Appendix V to this circular. The table below sets out the reconciliation between the net book value of the Target Group's property interests, which comprise investment properties, properties under development and properties held for sale, as of 30 June 2016 and the valuation of the Properties as of 30 September 2016:

	RMB'000
Net book value of property interests of the Target Group as of 30 June 2016	
Investment properties	1,759,000
Properties under development	194,288
Properties held-for-sale	3,025
Net book value as of 30 September 2016	1,956,313
Net valuation surplus(1)	2,206,687
Valuation as of 30 September 2016(2)	4,163,000

Notes:

(1) There is a net valuation surplus, representing the excess market value of the Properties over their carrying value, which will not be included in the Group's consolidated financial statements pursuant to the Group's current accounting policies.

(2) The indicated value is extracted from the valuation report prepared by DTZ Cushman & Wakefield Limited as set out in Appendix V to this circular.

(A) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

In connection with the major acquisition of two residential villa projects in Shanghai through the acquisition of the entire equity interest in the Target (the "**Acquisition**") by Shanghai Chenghuan Enterprise Management Consulting Co., Ltd, a wholly-owned subsidiary of the Company, the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Consolidated Statement of Assets and Liabilities**") has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules and is solely for the purpose to illustrate the effect of the Acquisition on the Group's financial position as at 30 June 2016 as if the Acquisition had been completed on 30 June 2016.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities is prepared based on (i) the unaudited condensed consolidated statement of assets and liabilities of the Group as at 30 June 2016 which has been extracted from the Group's interim report for the six months ended 30 June 2016 issued on 30 August 2016; and (ii) the audited consolidated statement of financial position of the Target Group as at 30 June 2016 which has been extracted from the accountants' report thereon set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been undertaken as at 30 June 2016.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities is prepared by the Directors based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities has been prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group. Accordingly, the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities does not purport to describe the financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2016, nor to predict the future financial position of the Enlarged Group.

	The Group As at 30.6.2016 *HK$'000* *(note i)*	The Target Group As at 30.6.2016 *RMB'000* *(note ii)*	The Target Group As at 30.6.2016 *HK$'000* *(note ii)*	Pro forma Adjustment *HK$'000* *(note iii)*	*HK$'000* *(note iv)*	The Enlarged Group As at 30.6.2016 *HK$'000*
Non-current assets						
Investment properties	11,589,101	1,759,000	2,052,753			13,641,854
Property, plant and equipment	1,869,214	806	941			1,870,155
Prepaid lease payments	223,739	–	–			223,739
Intangible assets	59,517	–	–			59,517
Interests in associates	1,188,611	–	–			1,188,611
Interest in a joint venture	65,718	–	–			65,718
Other receivables	213,094	–	–			213,094
Available-for-sale investments	284,104	–	–			284,104
Pledged bank deposits	23,439	–	–			23,439
Deferred tax assets	353,489	–	–			353,489
	15,870,026	1,759,806	2,053,694			17,923,720
Current assets						
Inventories	25,896,063	197,313	230,264	1,945,993		28,072,320
Trade and other receivables	1,452,272	7,913	9,234		3,922	1,465,428
Amounts due from related companies	313,054	–	–			313,054
Amounts due from related parties	–	3,361	3,922		(3,922)	–
Prepaid lease payments	4,958	–	–			4,958
Prepaid income tax and land appreciation tax	459,678	–	–			459,678
Financial assets at fair value through profit or loss	4,104	–	–			4,104
Pledged bank deposits	69,640	–	–			69,640
Bank balances and cash	11,962,262	10,104	11,791	(2,480,203)		9,493,850
	40,162,031	218,691	255,211			39,883,032
Assets classified as held-for-sale	6,615,093	–	–			6,615,093
	46,777,124	218,691	255,211			46,498,125

	The Group As at 30.6.2016 HK$'000 (note i)	The Target Group As at 30.6.2016 RMB'000 (note ii)	The Target Group As at 30.6.2016 HK$'000 (note ii)	Pro forma Adjustment HK$'000 (note iii)	Pro forma Adjustment HK$'000 (note iv)	The Enlarged Group As at 30.6.2016 HK$'000
Current liabilities						
Trade and other payables	6,223,258	38,753	45,225		54,644	6,323,127
Amounts due to related companies	2,024,216	–	–			2,024,216
Amounts due to related parties	–	46,824	54,644		(54,644)	–
Amounts due to associates	37,135	–	–			37,135
Consideration payables for acquisition of subsidiaries	70,020	–	–	262,247		332,267
Pre-sale proceeds received on sales of properties	7,963,583	–	–			7,963,583
Bank and other borrowings	1,116,867	13,218	15,425			1,132,292
Income tax and land appreciation tax payables	2,079,837	44,198	51,579			2,131,416
Dividend payable	8,427	37,418	43,667			52,094
Dividend payable to non-controlling shareholders	64,115	–	–			64,115
	19,587,458	180,411	210,540			20,060,245
Liabilities classified as held-for-sale	5,634,816	–	–			5,634,816
	25,222,274	180,411	210,540			25,695,061
Net current assets	21,554,850	38,280	44,671			20,803,064
Total assets less current liabilities	37,424,876	1,798,086	2,098,365			38,726,784
Non-current liabilities						
Bank and other borrowings	14,328,430	1,651	1,927			14,330,357
Deferred tax liabilities	3,524,882	1,113,951	1,299,981			4,824,863
	17,853,312	1,115,602	1,301,908			19,155,220
	19,571,564	682,484	796,457			19,571,564

Notes:

(i) Figures are extracted from the published interim report of the Group for the six months ended 30 June 2016 issued on 30 August 2016.

(ii) The balances are extracted from the accountants' report of the Target Group as set out in Appendix II to this circular and translated into HK$ at the exchange rate of Renminbi ("**RMB**") 1 to HK$1.167 prevailing at the close of business on 30 June 2016. No representation is made that RMB amounts have been, could have been or could be converted to HK$, or vice versa, at that rate or at any other rates or at all.

(iii) The adjustment represents the acquisition of the Target Group under the Share Transfer Agreement. The primary assets of the Target Group are two residential villa projects located in Minhang District, Shanghai of the People's Republic of China (the "**PRC**"), which comprise investment properties, properties under development and a property held-for-sale. The total site areas of the land parcels for these projects are 236,820 sq.m., which are not fully developed, and the Group plans to further develop these land parcels.

The primary assets acquired from the Acquisition are investment properties and land parcels which are not fully developed and the Acquisition has been accounted for as assets acquisition.

For the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, assuming that the Acquisition had taken place on 30 June 2016, the fair values of investment properties is based on the carrying amounts of investment properties as at 30 June 2016 extracted from the accountants' report of the Target Group adopting fair value model and the carrying amounts of other assets and liabilities as at 30 June 2016 approximate to their fair values, except for the land parcels which are presented as inventories. Based on the estimation by the Directors, the excess of the consideration over the pro forma fair value of the identified assets and liabilities other than land parcels acquired represents the fair value adjustment to the land parcels acquired and is adjusted to the carrying amount of inventories as follows:

	HK$'000
Consideration *(note a)*	2,742,450
Less: Pro forma fair value of identified net assets acquired (other than inventories) and inventories at carrying amount	(796,457)
Adjustment to carrying amount of inventories	1,945,993

(a) The consideration for the Acquisition as set out in the Share Transfer Agreement comprises purchase price of RMB2,350,000,000 (equivalent to approximately HK$2,742,450,000 translated by the rate of RMB1 to HK$1.167). Directors estimated that the amount of legal and professional fee in relation to the Acquisition is immaterial and is not considered in preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities. The estimated consideration is to be settled by cash of HK$2,742,450,000, in which the enterprise income tax arising from the Acquisition of HK$262,247,000 payable by the Seller will be withheld by the Group to the relevant PRC tax authority and is presented as consideration payables for acquisition of subsidiaries in the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities. No representation is made that RMB amounts have been, could have been or could be converted to HK$, or vice versa, at that rate or at any other rates or at all.

(b) The fair value of the identifiable assets and liabilities of the Target Group will be re-assessed at the completion date of the Acquisition, and therefore, the amounts are subject to changes from the pro forma amounts shown above.

(iv) After the Acquisition, the amounts due from related parties amounting to HK$3,922,000 and amounts due to related parties amounting to HK$54,644,000 as stated in the Target Group's consolidated statement of financial position as at 30 June 2016 are reclassified as other receivables and other payables respectively as those counterparties no longer meet the definition of related parties as defined in accordance with Hong Kong Accounting Standard 24.

(v) No adjustments have been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2016.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this circular, in respect of the unaudited pro forma financial information of the Enlarged Group.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Shanghai Industrial Urban Development Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shanghai Industrial Urban Development Group Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2016 and related notes as set out on pages IV-1 to IV-4 of the circular issued by the Company dated 25 November 2016 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-4 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of two residential villa projects in Shanghai of the People's Republic of China through acquisition of entire equity interest in Shanghai Qiyao Property Development Co., Ltd. (the "**Target**") (the "**Acquisition**") on the Group's financial position as at 30 June 2016 as if the Acquisition had taken place as at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated statement of financial position for the six months ended 30 June 2016, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition as at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 November 2016

The following is the text of a letter, a summary of valuations and valuation certificates prepared for the purpose of incorporation in this circular received from DTZ Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values in existing state of the Properties held by the Target Group in the PRC as at 30 September 2016.

DTZ CUSHMAN & WAKEFIELD 戴德梁行

16/F Jardine House
1 Connaught Place
Central
Hong Kong

25 November 2016

The Board of Directors
Shanghai Industrial Urban Development Group Limited
Suites 3003-3007, 30th Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

Instructions, Purpose & Valuation Date

In accordance with the instructions from Shanghai Industrial Urban Development Group Limited (the "**Company**") for us to carry out the valuation of the market values of the properties ("**Properties**") held by 上海啟耀房地產開發有限公司 (Shanghai Qiyao Property Development Co., Ltd.) (the "**Target**") and its subsidiaries (together the "**Target Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market values of the Properties in existing state as at 30 September 2016 (the "**valuation date**").

Definition of Market Value

Our valuations of the Properties represent its Market Value. The definition of Market Value adopted in The HKIS Valuation Standards 2012 Edition follows the International Valuation Standards published by the International Valuation Standards Council ("**IVSC**"). Market Value is defined by the IVSC as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion".

Valuation Basis & Assumptions

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

In the course of our valuations of the Properties held by the Target Group in the PRC, with reference to the PRC legal opinion of the legal adviser, Grandall Law Firm (Shanghai), we have prepared our valuation on the basis that transferable land use rights in respect of the Properties for its specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and the PRC legal opinion of the Company's legal adviser, dated 21 November 2016, regarding the titles to the Properties and the interests in the Properties. In valuing the Properties, we have prepared our valuation on the basis that the owners have enforceable title to the Properties and have free and uninterrupted rights to use, occupy or assign the Properties for the whole of the unexpired terms as granted.

No allowance has been made in our valuation for any charges, pledges or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is valued on the basis that the Properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

Method of Valuation

In valuing the Properties in Group I and II which are held by the Target Group for sale and future development respectively in the PRC, we have adopted the Direct Comparison Approach by making reference to comparable sales evidence as available in the relevant market.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institutes of Surveyors.

Source of Information

We have relied to a very considerable extent on the information given by the Company and the opinion of the PRC legal adviser as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of Properties, particulars of occupancy, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Title Investigation

We have been provided by the Company with copies or extracts of documents. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

Our DTZ PRC Office valuer, Ms Nicola Zhou of Shanghai office, has inspected the exterior and, wherever possible, the interior of the Properties in October 2016. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor area of the Properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

Currency

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

We attach herewith a summary of valuations and valuation certificates.

Yours faithfully,
For and on behalf of
DTZ Cushman & Wakefield Limited
Philip C Y Tsang
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Director

Note: Mr. Philip C Y Tsang is Registered Professional Surveyor who has over 23 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATIONS

Property	Market Value in existing state as at 30 September 2016 *RMB*
Group I – Properties held by the Target Group for sale in the PRC	
1. The unsold 21 houses and 103 semi-detached houses in the first and second phases of 當代藝墅 (Contemporary Art Villas), No.1081 Gudai Road, Minhang District, Shanghai, the PRC	1,714,000,000
2. The unsold 82 semi-detached houses of the first phase of 當代美墅 (Contemporary Splendour Villas), 1 Qiu, 675 Block, Zhuanqiao Town Minhang District, Shanghai, the PRC	639,000,000
3. No.123, Lane 2099, Dushi Road 1 Qiu, 867 Block, Zhuanqiao Town Minhang District, Shanghai, the PRC	14,000,000
Sub-total:	2,367,000,000

Property	Market Value in existing state as at 30 September 2016 *RMB*
Group II – Properties held by the Target Group for future development in the PRC	
4. The vacant land of 當代藝墅 (Contemporary Art Villas), No.1081 Gudai Road, Minhang District, Shanghai, the PRC	242,000,000
5. The vacant land of 當代美墅 (Contemporary Splendour Villas), 1 Qiu, 675 Block, Zhuanqiao Town Minhang District, Shanghai, the PRC	1,554,000,000
Sub-total:	1,796,000,000
Grand total:	4,163,000,000

VALUATION CERTIFICATE

Group I – Properties held by the Target Group for sale in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
1.	The unsold 21 houses and 103 semi-detached houses in the first and second phases of當代藝墅 (Contemporary Art Villas), No.1081 Gudai Road, Minhang District, Shanghai, the PRC	Contemporary Art Villas is a residential development including houses, semi-detached houses and townhouses and a clubhouse erected on a parcel of land with a site area of 116,308 sq.m. The first and second phases of Contemporary Art Villas were completed in 2001 and 2006 respectively. According to the information provided by the Company, the Property comprises the unsold 18 houses and 95 semi-detached houses (with Shanghai Certificate of Real Estate Ownership) in the first and second phases of Contemporary Art Villas with a total gross floor area of 40,117.21 sq.m.; and the unsold 3 houses and 8 semi-detached houses (without Shanghai Certificate of Real Estate Ownership) in the second phase of Contemporary Art Villas with a total gross floor area of 3,859.03 sq.m. The Property is located at south of Gudai Road, west of A20 Expressway in Shanghai. Developments nearby are mainly commercial and residential development. According to the Company, the Property is planned for residential use; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Property. The land use rights of the Property have been granted for a term from 15 March 1993 to 14 March 2063 for residential use.	Portion of the Property with a total gross floor area of 18,392.86 sq.m. is subject to variable tenancies with the latest expiry date on 30 June 2019 at a total monthly rent of approximately HKD1,900,000. The remaining portion of the Property is currently vacant.	RMB1,714,000,000 Please see note (1)

Notes:

(1) We noted that no Shanghai Certificate of Real Estate Ownership of the portion of the Property with a total gross floor area of 3,859.03 sq.m. has been obtained, we are on the assumption that all relevant Shanghai Certificates of Real Estate Ownership will be issued in due course and the related fee has been fully settled, the Market Value of the portion of the Property in existing state as at 30 September 2016 was RMB168,000,000.

(2) According to Shanghai Certificate of Real Estate Ownership No. (2001)002665 dated 17 April 2001, the land use rights of the Property, comprising a total site area of approximately 116,308 sq.m., for a term from 15 March 1993 to 14 March 2063 for garden apartment residential use and the building ownership rights of the Property, comprising a gross floor area of approximately 24,059.84 sq.m., have been vested in the Target.

According to Shanghai Certificate of Real Estate Ownership No. (2006)025520 dated 17 April 2006, the land use rights of the Property, comprising a total site area of approximately 116,307 sq.m., for a term from 15 March 1993 to 14 March 2063 for residential use and the building ownership rights of the Property, comprising a gross floor area of approximately 47,762.61 sq.m., have been vested in the Target.

The Property is part of the said gross floor area.

(3) According to Business Licence No. 310000400044259, the Target was established as a limited liability company with a registered capital of USD12,000,000 for a valid operation period from 28 April 1993 to 27 April 2033.

(4) According to the PRC legal opinion:

(i) the Target is legally established;

(ii) the Target has land use rights and building ownership rights of the Property, the Target has the rights to use, transfer, lease and pledge the land use rights of the Property; and

(iii) the Property is not subject to pledge, seizure or other rights restrictions.

(5) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Shanghai Certificate of Real Estate Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group I – Properties held by the Target Group for sale in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
2.	The unsold 82 semi-detached houses of the first phase of 當代美墅 (Contemporary Splendour Villas), 1 Qiu, 675 Block, Zhuanqiao Town Minhang District, Shanghai, the PRC	Contemporary Splendour Villas is a residential development including semi-detached houses and a clubhouse erected on a parcel of land with a site area of 120,512 sq.m. The first phase of Contemporary Splendour Villas (comprising 82 residences) has been newly completed in 2016. According to the information provided by the Company, the Property comprises the unsold 82 semi-detached houses of the first phase of Contemporary Splendour Villas with a total gross floor area of 17,275.00 sq.m.. The Property is located at east of Dushi Road, south of Denghui Road in Shanghai. Developments nearby are mainly residential development. According to the Company, the Property is planned for residential and commercial uses; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Property. The land use rights of the Property have been granted for a term from 24 June 2005 to 23 June 2075 for residential use.	The Property is vacant.	RMB639,000,000

Notes:

(1) According to Shanghai Certificate of Real Estate Ownership No. (2005)074846 dated 20 October 2005, the land use rights of the Property, comprising a total site area of approximately 120,512 sq.m., for a term from 24 June 2005 to 23 June 2075 for residential use, has been vested in 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.), a wholly owned subsidiary of the Target. The Property is part of the said site area.

(2) According to Planning Permit for Construction Works No. (2010)FA31011220100150 dated 15 January 2010, the construction works of the Property, comprising a total gross floor area of approximately 26,549 sq.m., was in compliance with the requirement of urban planning and was permitted to be developed with the development scheme. The Property is part of the said gross floor area.

(3) According to Permit for Commencement of Construction Works No. 310112200811102919 dated 17 August 2011, the construction works of the Property was in compliance with the requirement of work commencement and was permitted to be developed with a gross floor area of approximately 26,548.50 sq.m.. The Property is part of the said gross floor area.

(4) According to Business Licence No. 9131011270304240XD, 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) was established as a limited liability company with a registered capital of RMB120,000,000 for a valid operation period from 21 November 2000 to 20 November 2020.

(5) According to the PRC legal opinion:

(i) 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) is legally established;

(ii) 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) has land use rights of the Property, 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) has the rights to use, transfer, lease and pledge the land use rights of the Property;

(iii) 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) has obtained the Planning Permit for Construction Works and Permit for Commencement of Construction Works; and

(iv) the Property is not subject to pledge, seizure or other rights restrictions.

(6) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Shanghai Certificate of Real Estate Ownership	Yes (land only)
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group I – Properties held by the Target Group for sale in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
3.	No.123, Lane 2099, Dushi Road 1 Qiu, 867 Block, Zhuanqiao Town Minhang District, Shanghai, the PRC	The Property comprises a 2-storey villa which was competed in 2005. According to the information provided by the Company, the Property has a gross floor area of 297.70 sq.m. The Property is located at west of Dushi Road, south of Xiangyang Road in Shanghai. Developments nearby are mainly residential development. According to the Company, the Property is planned for residential and commercial uses; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Property. The land use rights of the Property have been granted for an unspecified term for residential use.	The Property is currently vacant.	RMB14,000,000

Notes:

(1) According to Shanghai Certificate of Real Estate Ownership No. (2007)000668 dated 19 December 2006, the land use rights of the Property, comprising a site area of approximately 430 sq.m. and the building ownership rights of the Property, comprising a gross floor area of approximately 297.70 sq.m., have been vested in the Target.

(2) According to Business Licence No. 310000400044259, the Target was established as a limited liability company with a registered capital of USD12,000,000 for a valid operation period from 28 April 1993 to 27 April 2033.

(3) According to the PRC legal opinion:

(i) the Target is legally established;

(ii) the Target has land use rights and building ownership rights of the Property, the Target has the rights to use, transfer, lease and pledge the land use rights of the Property; and

(iii) the Property is not subject to pledge, seizure or other rights restrictions.

(4) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Shanghai Certificate of Real Estate Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group II – Properties held by the Target Group for future development in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
4.	The vacant land of 當代藝墅 (Contemporary Art Villas), No.1081 Gudai Road, Minhang District, Shanghai, the PRC	Contemporary Art Villas is a residential development including houses, semi-detached houses and townhouses, and a clubhouse erected on a parcel of land with a site area of 116,308 sq.m. The first and second phases of Contemporary Art Villas (comprising 126 residences) were completed in 2001 and 2006 respectively. According to the information provided by the Company, the Property comprises a parcel of vacant land of Contemporary Art Villas with a site area of 13,285.00 sq.m. The Property has a planned total gross floor area of 6,600.00 sq.m.. The Property is located at south of Gudai Road, west of A20 Expressway in Shanghai. Developments nearby are mainly commercial and residential development. According to the Company, the Property is planned for residential use; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Property. The land use rights of the Property have been granted for a term from 15 March 1993 to 14 March 2063 for residential use.	The Property is currently vacant pending development.	RMB242,000,000

Notes:

(1) According to Shanghai Certificate of Real Estate Ownership No. (2001)002665 dated 17 April 2001, the land use rights of the Property, comprising a total site area of approximately 116,308 sq.m., for a term from 15 March 1993 to 14 March 2063 for garden apartment residential use and the building ownership rights of the Property, comprising a gross floor area of approximately 24,059.84 sq.m., have been vested in the Target.

According to Shanghai Certificate of Real Estate Ownership No. (2006)025520 dated 17 April 2006, the land use rights of the Property, comprising a total site area of approximately 116,307 sq.m., for a term from 15 March 1993 to 14 March 2063 for residential use and the building ownership rights of the Property, comprising a gross floor area of approximately 47,762.61 sq.m., have been vested in the Target.

The Property is part of the said site area.

(2) According to Business Licence No. 310000400044259, the Target was established as a limited liability company with a registered capital of USD12,000,000 for a valid operation period from 28 April 1993 to 27 April 2033.

(3) According to the PRC legal opinion:

(i) the Target is legally established;

(ii) the Target has land use rights of the Property, the Target has the rights to use, transfer, lease and pledge the land use rights of the Property; and

(iii) the Property is not subject to pledge, seizure or other rights restrictions.

(4) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Shanghai Certificate of Real Estate Ownership	Yes (land only)
Business Licence	Yes

VALUATION CERTIFICATE

Group II – Properties held by the Target Group for future development in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
5.	The vacant land of 當代美墅 (Contemporary Splendour Villas), 1 Qiu, 675 Block, Zhuanqiao Town Minhang District, Shanghai, the PRC	Contemporary Splendour Villas is a residential development including semi-detached houses and a clubhouse erected on a parcel of land with a site area of 120,512 sq.m.. The first phase of Contemporary Splendour Villas (comprising 82 residences) has been newly completed in 2016. According to the information provided by the Company, the Property comprises a parcel of vacant land of Contemporary Splendour Villas with a site area of 91,386.00 sq.m. The Property has a planned total gross floor area of 47,389.00 sq.m.. The Property is located at east of Dushi Road, south of Denghui Road in Shanghai. Developments nearby are mainly residential development. According to the Company, the Property is planned for residential and commercial uses; there is no environmental issues and litigation dispute; there is no plan for renovation or change the use of the Property. The land use rights of the Property have been granted for a term from 24 June 2005 to 23 June 2075 for residential use.	The Property is currently vacant pending for future development.	RMB1,554,000,000

Notes:

(1) According to Shanghai Certificate of Real Estate Ownership No. (2005)074846 dated 20 October 2005, the land use rights of the Property, comprising a total site area of approximately 120,512 sq.m., for a term from 24 June 2005 to 23 June 2075 for residential use, has been vested in 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.), a wholly owned subsidiary of the Target. The Property is part of the said site area.

(2) According to Business Licence No. 9131011270304240XD, 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) was established as a limited liability company with a registered capital of RMB120,000,000 for a valid operation period from 21 November 2000 to 20 November 2020.

(3) According to the PRC legal opinion:

(i) 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) is legally established;

(ii) 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) has land use rights of the Property, 上海海輝房地產有限公司 (Shanghai Haihui Real Estate Co., Ltd.) has the rights to use, transfer, lease and pledge the land use rights of the Property; and

(iii) the Property is not subject to pledge, seizure or other rights restrictions.

(4) The status of the title and grant of major approvals and licence in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Shanghai Certificate of Real Estate Ownership	Yes (land only)
Business Licence	Yes

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

INTERESTS OF DIRECTORS

As of the Latest Practicable Date, the interests and short positions of the Directors, including the chief executive of the Company, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code, were as set out below.

Long positions in the shares and underlying shares of the Company

Name of Directors	Capacity	Number of shares held	Number of underlying shares held subject to options granted[1]	Approximate % of the issued share capital of the Company
Zhou Jun	Beneficial owner	–	7,000,000	0.15%
Yang Biao	Beneficial owner	–	7,000,000	0.15%
Ye Weiqi	Beneficial owner	–	6,000,000	0.12%
Huang Fei	Beneficial owner	–	6,000,000	0.12%
Doo Wai-Hoi, William, J.P.	Beneficial owner	–	1,000,000	0.02%
Fan Ren Da, Anthony	Beneficial owner	–	1,000,000	0.02%
Li Ka Fai, David	Beneficial owner	–	1,000,000	0.02%

Note:

(1) These interests represent the interests in the underlying shares of the Company in respect of options granted by the Company to these Directors as beneficial owners.

Long positions in the shares and underlying shares of associated corporations

Name of Directors	Name of associated corporations	Capacity	Total number of shares held	Total number of underlying shares subject to options granted	Approximate % of interest in the corporation
Zhou Jun	SIHL	Beneficial owner	195,000	–	0.02%
Ji Gang	SPH	Beneficial owner	50,000	–	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, persons (other than the Directors and the chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below.

Name of substantial shareholders	Capacity	Number of shares held(1)	Approximate % of the issued share capital of the Company
SIHL	Held by controlled corporation	3,415,883,000(L)(2)(3)	71.00%
SIIC	Held by controlled corporation	3,427,683,000(L)(2)(3)(4)	71.24%

Notes:

(1) L denotes long position.

(2) 3,365,883,000 shares of the Company were held by Smart Charmer Limited. 50,000,000 shares of the Company are deemed to be held by Novel Good Limited under the pledge described in note 3 below. Smart Charmer Limited and Novel Good Limited are both wholly-owned subsidiaries of SIHL.

(3) These interests include 50,000,000 shares of the Company (short positions) held by Invest Gain Limited (a company beneficially and wholly owned by Mr. Li Song Xiao who ceased to be a substantial shareholder of the Company during the year ended 31 December 2011) which are pledged to Novel Good Limited. Therefore, SIHL and SIIC are deemed or taken to be interested in these 50,000,000 shares of the Company.

(4) SIIC through its subsidiaries, namely Shanghai Investment Holdings Limited, SIIC Capital (B.V.I.) Limited, SIIC Treasury (B.V.I.) Limited, Shanghai Industrial Financial (Holdings) Company Limited, South Pacific International Trading Limited, SIIC Trading Company Limited, The Tien Chu Ve Tsin (Hong Kong) Company Limited, SIIC CM Development Funds Limited, South Pacific Hotel (Hong Kong) Limited and SIIC CM Development Limited held approximately 58.59% of the shares of SIHL. Therefore, SIIC is deemed or taken to be interested in the 3,415,883,000 Shares held by SIHL for the purpose of the SFO. Separately, 11,800,000 shares of the Company were held by SIIC Trading Company Limited, a subsidiary of SIIC.

(5) Mr. Ji Gang is a director of SIIC. Mr. Zhou Jun is an executive director, vice chairman and chief executive officer of SIHL and an executive director and President of SIIC.

Save as disclosed herein, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interest in business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had or was proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS/ARRANGEMENTS

As of the Latest Practicable Date:

(a) none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to any member of the Enlarged Group since

31 December 2015, being the date to which the latest published audited accounts of the Company were made up; and

(b) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

EXPERTS

The following is the qualification of the experts who have provided its opinion or advice, which are contained in this circular:

Name	**Qualification**
Deloitte Touche Tohmatsu	Certified Public Accountants
DTZ Cushman & Wakefield Limited	Valuer
Grandall Law Firm	PRC legal advisers

Each of the experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter and/or report or the references to its name in the form and context in which it appears.

As of the Latest Practicable Date, none of the experts had 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 none of them had any interest, either direct or indirect, in any assets which had since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

MATERIAL CONTRACTS

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

(a) The supplemental framework agreement dated 12 December 2014 and entered into among the Company, 博時資本管理有限公司 (Bosera Capital Management Co., Ltd.), 中置（北京）企業管理有限公司 (Zhongzhi (Beijing) Enterprise Management Co., Ltd.), 上海雅閣麗星裝飾有限公司 (Shanghai Yage Lixing Zhuangshi Co., Ltd.), 天津市億嘉合置業有限公司 (Tianjin Yijiahe Real Estate

Co., Ltd.) and 五礦置業有限公司 (Minmetals Real Estate Co., Ltd.) and Rise Success Group Limited relating to, among other things, the assignment by 博時資本管理有限公司 (Bosera Capital Management Co., Ltd.) of its rights and obligations under the framework agreement dated 6 August 2014 and entered into among the same parties (apart from Rise Success Group Limited) to Rise Success Group Limited.

(b) The supplemental agreement dated 9 February 2015 and entered into between SUD and 上海徐匯國有資產投資經營有限公司 (Shanghai Xuhui State-owned Assets Management Co., Ltd.) relating to, among other things, the extension of the term of the cross guarantee agreement dated 26 December 2002 and entered into between the same parties and as amended by its supplemental agreements (the "**Cross Guarantee Agreement**") for another two years so that it ends on 31 December 2017, and changing the maximum amount of guarantee from RMB400,000,000 to RMB332,000,000.

(c) The share transfer agreement dated 10 February 2015 and entered into among Neo-China Investment Ltd. as the seller, Basic Urban Development Co. Limited as the purchaser and 河北富邦實業有限公司 (Hebei Fubang Industrial Co. Ltd.) as the guarantor, relating to, among other things, the sale and purchase of entire issued share capital of Bold Eagle Investment Ltd. for a total consideration of RMB940,000,000.

(d) The agreement dated 6 May 2015 and entered into between SUD, 城開綠碳(天津)股權投資基金合夥企業(有限合夥) (Urban Development Green Carbon (Tianjin) Equity Investment Fund (Limited Partnership)) ("**Green Carbon Fund**"), 喜神(天津)股權投資基金管理有限公司 (Xishen (Tianjin) Equity Investment Fund Management Co., Ltd.) (the "**Departing GP**"), 福州申達金融服務外包有限公司 (Fuzhou Shenda Finance Services Outsourcing Co., Ltd.) ("**Fuzhou Shenda**") and 上海申庚實業發展有限公司 (Shanghai Shengeng Industrial Development Co., Ltd.) (together with Fuzhou Shenda, the "**Remaining Partners**"), pursuant to which each of the Remaining Partners became a limited partner of Green Carbon Fund with a committed investment of RMB1,600,000,000 and RMB68,000,000 respectively.

(e) The agreement and a supplemental agreement both dated 28 December 2015 entered into between Neo-China Land Group (China) Ltd as the seller and De Rong Group Limited as the purchaser, relating to, among other things, the sale and purchase of the entire issued share capital of Neo-China Real Estate (Shanghai) Limited and the assumption of certain loans for a total consideration of RMB3,100,000,000.

(f) The agreement dated 8 January 2016 and entered into between SUD, Green Carbon Fund, the Departing GP and the Remaining Partners, pursuant to which Green Carbon Fund agreed to redeem the partnership interest held by SUD for a total amount of RMB1,668,000,000.

(g) The agreement dated 12 May 2016 entered into between SUD and 中庚地產實業集團有限公司 (Zhonggeng Real Estate Industrial Group Co., Ltd.) in relation to the disposal of 40% equity interest in 上海城開集團龍城置業有限公司 (Shanghai Urban Development Group Longcheng Properties Co., Ltd.), a sino-foreign joint venture established in the PRC, for a total consideration of RMB1,907,000,000.

(h) The Share Transfer Agreement.

MISCELLANEOUS

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, and the principal place of business in Hong Kong Suites 3003–3007, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

(b) The company secretary of the Company is Mr. Chan Kin Chu, Harry, who is a solicitor of the High Court of the Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The English text of this circular shall prevail over its Chinese text in case of inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong for a period of 14 days from the date of this circular:

(a) the memorandum of association and the bye-laws of the Company;

(b) the accountants' report of the Target Group for the three years ended 31 December 2015 and the six months ended 30 June 2016 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(c) the audited consolidated financial statements of the Company for the two years ended 31 December 2014 and 2015;

(d) the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(e) the property valuation report prepared by DTZ Cushman & Wakefield Limited as set out in Appendix V to this circular;

(f) the contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(g) the written consents from Deloitte Touche Tohmatsu, DTZ Cushman & Wakefield Limited and Grandall Law Firm referred to in the paragraph headed "Experts" in this Appendix; and

(h) this circular.