
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.

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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)

**(1) CONNECTED TRANSACTION
IN RELATION TO
SUBSCRIPTION OF EQUITY INTEREST IN
SIIC FINANCIAL LEASING;
(2) RE-ELECTION OF DIRECTOR;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

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



Alliance Capital Partners Limited
同人融資有限公司

A letter from the Board is set out on pages 5 to 19 of this circular and a letter from the Independent Board Committee is set out on pages 20 to 21 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 22 to 33 of this circular.

A notice convening a special general meeting of Shanghai Industrial Urban Development Group Limited to be held at Ballroom, 1/F, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 11 September 2020 at 11:00 a.m. (or any adjournment thereof) is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for appointing proxy to attend the SGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.siud.com).

Whether or not you intend to be present at the SGM, you are encouraged to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours (Hong Kong time) before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

In compliance with the Hong Kong Government's directive on social distancing, personal and environmental hygiene, and the guidelines issued by the Centre for Health Protection of the Department of Health on the prevention of coronavirus disease 2019 ("COVID-19"), the Company will implement additional precautionary measures at the SGM including, without limitation:

- compulsory body temperature screening;
- wearing of surgical face masks;
- no distribution of corporate gift or refreshment;
- mandatory health declaration — anyone subject to the Hong Kong Government's prescribed quarantine or who has travelled overseas within 14 days immediately before the date of the SGM will be denied entry into the SGM venue; and
- appropriate seating arrangement in line with the guidance from the Hong Kong Government will be made.

The Company strongly advises Shareholders to appoint the chairman of the SGM as their proxy to vote on the relevant resolution as an alternative to attending the SGM in person. Shareholders are advised to read page (i) of this circular for further details and monitor the development of COVID-19. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

25 August 2020

PRECAUTIONARY MEASURES FOR THE SGM

In compliance with the Hong Kong Government's directive on social distancing, personal and environmental hygiene, and the guidelines issued by the Centre for Health Protection of the Department of Health ("CHP") on the prevention of coronavirus disease 2019 ("COVID-19"), the Company will implement precautionary measures at the SGM in the interests of the health and safety of our shareholders, investors, directors, staff and other participants of the SGM which include without limitation:

- (1) Every attendee **will be required to wear a surgical face mask** throughout the SGM and inside the SGM venue. Attendees are advised to maintain appropriate social distance with each other at all times when attending the SGM.
- (2) There will be **compulsory body temperature screening** for all persons before entering the SGM venue. Any person with a body temperature of 37.3 degrees Celsius or above or any person which exhibits any flu-like symptoms may be denied entry to the SGM venue or be required to promptly leave the SGM venue.
- (3) **No refreshment will be served, and there will be no corporate gift.**
- (4) Attendees may be asked (i) if he/she has travelled outside of Hong Kong within 14 days immediately before the SGM; AND (ii) if he/she is subject to any Hong Kong Government prescribed quarantine requirement. Any person who responds positively to any of these questions will be denied entry into the SGM venue.
- (5) Anyone attending the SGM is reminded to observe good personal hygiene at all times.
- (6) Appropriate seating arrangement at the SGM venue in line with the guidance from the Hong Kong Government will be made.
- (7) **In light of the continuing risks posed by the COVID-19 pandemic, and in the interests of protecting the Shareholders, the Company is supportive of the precautionary measures being adopted and reminds Shareholders that physical attendance at the SGM is not necessary for the purpose of exercising voting rights. The Company strongly advises Shareholders to appoint the chairman of the SGM as their proxy to vote on the relevant resolution as an alternative to attending the SGM in person.**
- (8) **Shareholders are advised to monitor the development of COVID-19. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.**
- (9) Health education materials and up-to-date development on COVID-19 can be found on the CHP website (www.chp.gov.hk) and the website of the Hong Kong Government on COVID-19 (www.coronavirus.gov.hk).

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DEFINITIONS

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

“Beijing Zhenchen”	北京真辰資產管理有限公司 (Beijing Zhenchen Asset Management Co., Ltd.), a company established in the PRC and controlled by Mr. Lin Zhen. Beijing Zhenchen is an Independent Third Party
“Board”	the board of Directors
“Bye-Laws”	the bye-laws of the Company
“Capital Injection”	the Subscription together with the proposed capital contribution to SIIC Financial Leasing by Happy Sincere pursuant to the terms of the Subscription Agreement
“Company”	Shanghai Industrial Urban Development Group Limited (上海實業城市開發集團有限公司), a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 563)
“Director(s)”	the director(s) of the Company
“Group”	the Company together with its subsidiaries
“Happy Sincere”	Happy Sincere Investment Limited, a company incorporated in Hong Kong with limited liability. Happy Sincere is an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board composed of all independent non-executive Directors, namely Mr. DOO Wai-Hoi, William, <i>J.P.</i> , Mr. FAN Ren Da, Anthony, Mr. LI Ka Fai, David and Mr. QIAO Zhigang
“Independent Financial Adviser”	Alliance Capital Partners Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, and appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription
“Independent Shareholder(s)”	any Shareholder who is not required to abstain from voting at the SGM

DEFINITIONS

“Independent Third Party(ies)”	independent third parties who are not connected person(s) of the Company and are independent of and not connected with the Company and its connected persons
“Latest Practicable Date”	19 August 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Managing JV Partners”	Beijing Zhenchen, Shanghai Zhenchen and Happy Sincere
“Nomination Committee”	the nomination committee of the Company
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Properties”	certain properties located in the building known as 逐源大廈 situated at No. 10 Yangshupu Lu (楊樹浦路), Shanghai
“Re-election of Director”	the re-election of Mr. Huang Haiping as an executive Director at the SGM
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“SGM”	a special general meeting (or any adjournment thereof) to be held by the Company to consider and, if thought fit, approve, <i>inter alia</i> , the Subscription Agreement and the transactions and arrangements contemplated thereunder
“Shanghai Galaxy”	上海星河數碼投資有限公司 (Shanghai Galaxy Investments Co., Ltd.), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of SIIC. The equity interest of Shanghai Galaxy was held as to 10% by SIIC, 45% indirectly by SIHL and 45% by SIIC Shanghai as at the Latest Practicable Date
“Shanghai Orient Appraisal”	Shanghai Orient Appraisal Co., Ltd. (上海東洲資產評估有限公司), an independent valuer

DEFINITIONS

“Shanghai Zhenchen”	上海真辰實業發展有限公司 (Shanghai Zhenchen Industrial Development Co., Ltd.), a company established in the PRC with limited liability and controlled by Mr. Lin Zhen. Shanghai Zhenchen is an Independent Third Party
“Share(s)”	ordinary share(s) of HK\$0.04 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SIHL”	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 363). SIHL is a controlling shareholder of the Company
“SIIC”	上海實業(集團)有限公司 (Shanghai Industrial Investment (Holdings) Company Limited), a company incorporated in Hong Kong with limited liability. SIIC is a controlling shareholder of the Company
“SIIC Financial Leasing”	上實融資租賃有限公司 (SIIC Financial Leasing Co., Ltd.), a company established in the PRC with limited liability
“SIIC Shanghai”	上海上實(集團)有限公司 (SIIC Shanghai Holdings Co., Ltd.), a company established in the PRC with limited liability with SIIC as the authorised representative exercising state-owned shareholder’s right over it
“SIUD Shanghai”	上實城開(上海)城市建設開發有限公司 (Shanghai Urban Development (Shanghai) City Construction and Development Company Limited), a company established in the PRC with limited liability. SIUD Shanghai is an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 22 January 2020 and entered among SIUD Shanghai, Shanghai Galaxy, the Managing JV Partners and Mr. Lin Zhen

In this circular, the terms “associate”, “connected person”, “controlling shareholder” and “subsidiary” 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.

DEFINITIONS

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.

LETTER FROM THE BOARD



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:

HUANG Haiping (*Chairman*)

ZHOU Xiong (*Vice Chairman and President*)

LOU Jun

YE Weiqi

ZHONG Tao

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Place of Business

in Hong Kong:

11/F, Henley Building

No. 5 Queen's Road Central

Hong Kong

Independent Non-executive Directors:

DOO Wai-Hoi, William, J.P.

FAN Ren Da, Anthony

LI Ka Fai, David

QIAO Zhigang

25 August 2020

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION
IN RELATION TO
SUBSCRIPTION OF EQUITY INTEREST IN
SIIC FINANCIAL LEASING;
(2) RE-ELECTION OF DIRECTOR;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

I. INTRODUCTION

Reference is made to:

- (i) the announcement of the Company dated 22 January 2020, in which the Company announced that SIUD Shanghai, a subsidiary of the Company, entered into the Subscription Agreement with SIIC Financial Leasing, Shanghai Galaxy, the Managing JV Partners and Mr. Lin Zhen, pursuant to which SIUD Shanghai has conditionally agreed to subscribe for 20.0% of the enlarged registered capital of SIIC Financial Leasing by injecting RMB407,942,343 in cash to SIIC Financial Leasing;

LETTER FROM THE BOARD

- (ii) the announcement of the Company dated 14 May 2020 in which the Company announced, *inter alia*, the appointment of Mr. Huang Haiping as an executive Director with effect from 18 May 2020;
- (iii) the circular (the “**29 May Circular**”) and notice of special general meeting of the Company both dated 29 May 2020 in which the Company, *inter alia*, set out the time and venue of the special general meeting originally scheduled to be held on Friday, 19 June 2020 (the “**19 June SGM**”) and contain the resolutions to be tabled before the 19 June SGM for shareholders’ approval;
- (iv) the announcement of the Company dated 18 June 2020 (the “**18 June Announcement**”) in which the Company announced the proposed adjournment of the 19 June SGM *sine die*; and
- (v) the poll results announcement of the Company dated 19 June 2020 in which the Company announced the passing of the resolution to approve the adjournment of the 19 June SGM *sine die* (the “**Adjournment Resolution**”).

The Board announced in the 18 June Announcement that it intended to adjourn the 19 June SGM *sine die* (i.e. indefinitely) given a number of the Directors (including the Chairman of the Board) are not able to attend the 19 June SGM in person with the continued travel restrictions in the PRC and Hong Kong due to the outbreak of COVID-19. Accordingly, at the 19 June SGM, the chairman of the 19 June SGM put forward the Adjournment Resolution. The Adjournment Resolution was duly passed by way of poll at the 19 June SGM.

The purpose of this circular is to provide you with information in relation to (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the Re-election of Director.

As far as the SGM now to be held on Friday, 11 September 2020 is concerned, please refer to the paragraph headed “IV. SGM” in this circular and the “Notice of Special General Meeting” set out on pages SGM-1 to SGM-3 of this circular for further information on (i) the time and venue of the SGM; and (ii) the relevant information on closure of register of members of the Company. As far as the Subscription Agreement and the transactions contemplated thereunder are concerned, please refer to (i) the paragraph headed “Financial information of SIIC Financial Leasing” in this circular and the paragraph headed “2.2 Financial information of SIIC Financial Leasing” in the Letter from the Independent Financial Adviser for the relevant audited financial information of SIIC Financial Leasing as at 31 December 2019; and (ii) the paragraph headed “3.2 Assessment on the latest available financial position of SIIC Financial Leasing” in the Letter from the Independent Financial Adviser for a summary of the review of the latest available unaudited management account of SIIC Financial Leasing as at 30 June 2020 by the Independent Financial Adviser.

LETTER FROM THE BOARD

Save as disclosed above and the updating of certain information disclosed as at the Latest Practicable Date (including the shareholding of SIIC Financial Leasing set out on page 9 of this circular), there has been no material change of information that has come to the attention of the Board after the issue of the 29 May Circular.

II. THE SUBSCRIPTION AGREEMENT

Date

22 January 2020

Parties

- (1) SIUD Shanghai, a subsidiary of the Company
- (2) SIIC Financial Leasing, as the target
- (3) Shanghai Galaxy
- (4) the Managing JV Partners, being Beijing Zhenchen, Shanghai Zhenchen and Happy Sincere
- (5) Mr. Lin Zhen

As at the Latest Practicable Date, SIIC Financial Leasing had a paid up registered capital of RMB1,356,000,000, and was owned by Shanghai Galaxy (40.00%), Beijing Zhenchen (23.23%), Shanghai Zhenchen (11.77%) and Happy Sincere (25.00%).

Shanghai Galaxy is an indirect non-wholly owned subsidiary of SIIC, a controlling shareholder of the Company. Accordingly, each of Shanghai Galaxy and SIIC Financial Leasing is an associate of SIIC and a connected person of the Company.

Beijing Zhenchen and Shanghai Zhenchen are companies controlled by Mr. Lin Zhen. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Managing JV Partners, their respective ultimate beneficial owners and Mr. Lin Zhen is an Independent Third Party.

LETTER FROM THE BOARD

Subscription

Pursuant to the Subscription Agreement, SIUD Shanghai has conditionally agreed to subscribe for 20.00% of the enlarged registered capital of SIIC Financial Leasing by injecting RMB407,942,343 in cash to SIIC Financial Leasing (the “**Subscription**”). Concurrently with the Subscription, Happy Sincere has agreed to increase its capital contribution to SIIC Financial Leasing and will inject a further capital of RMB155,763,370 in cash so that following completion of the Capital Injection, its interest in SIIC Financial Leasing will be 25.73%. Each of SIUD Shanghai and Happy Sincere shall fully settle the consideration for the Capital Injection in cash on the date of completion of the Capital Injection.

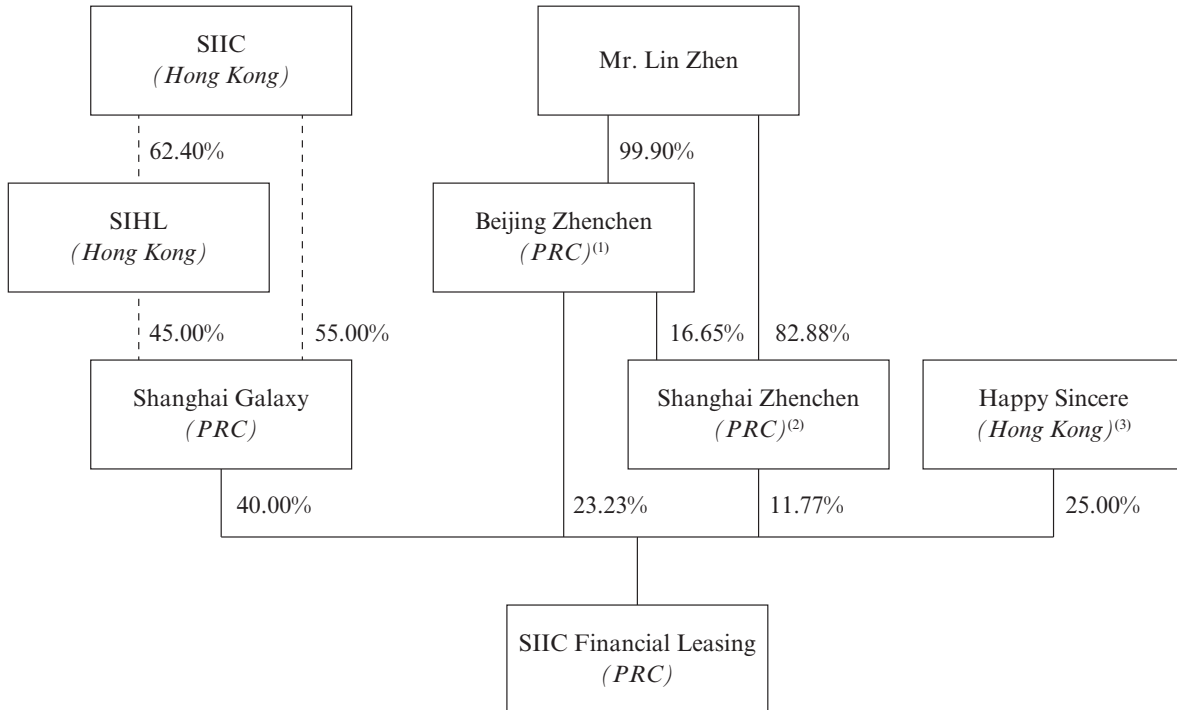
The following table sets out the shareholding of SIIC Financial Leasing before and immediately after the completion of the Capital Injection:

	Before completion of the Capital Injection		Immediately after completion of the Capital Injection	
	Amount of registered capital		Amount of registered capital	
	<i>RMB ('000)</i>	<i>%</i>	<i>RMB ('000)</i>	<i>%</i>
Shanghai Galaxy	542,400	40.00	542,400	28.95
Beijing Zhenchen	315,044	23.23	315,044	16.81
Shanghai Zhenchen	159,556	11.77	159,556	8.51
Happy Sincere	339,000	25.00	482,099	25.73
SIUD Shanghai	—	—	374,775	20.00
Total	<u>1,356,000</u>	<u>100.00</u>	<u>1,873,874</u>	<u>100.00</u>

LETTER FROM THE BOARD

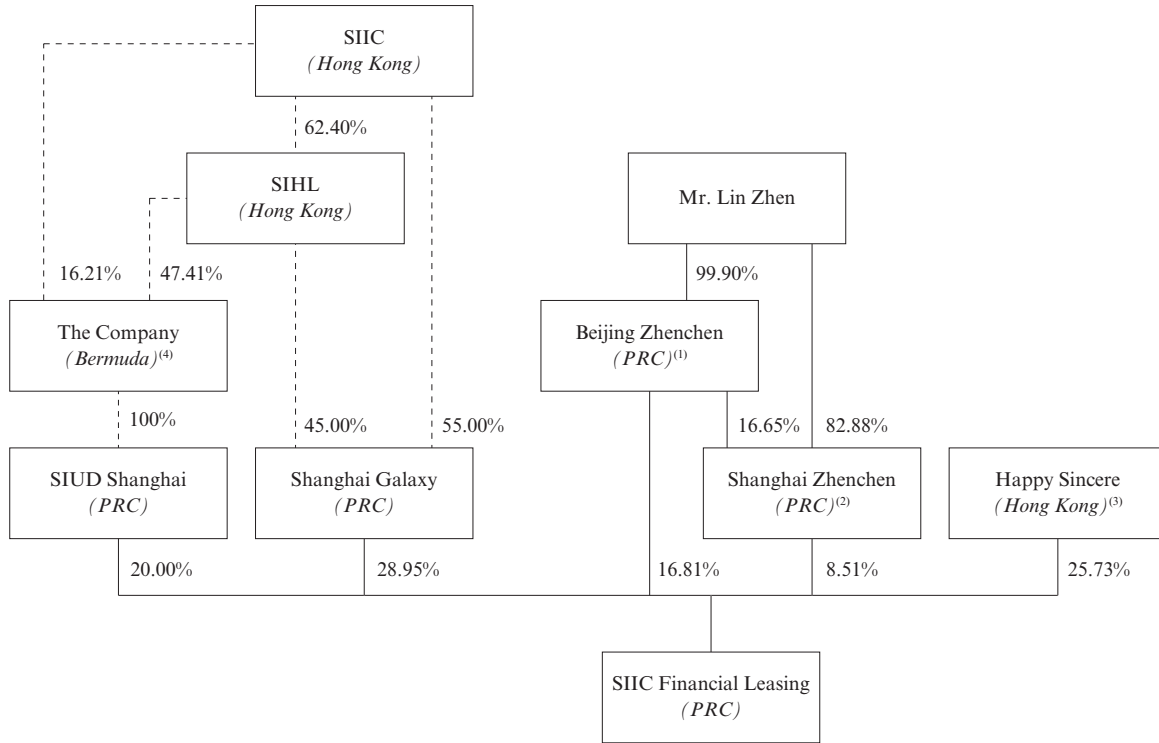
The following charts illustrate a simplified shareholding of SIIC Financial Leasing as at the Latest Practicable Date and immediately following completion of the Capital Injection, respectively:

As at the Latest Practicable Date



LETTER FROM THE BOARD

Immediately following completion of the Capital Injection



Notes:

* --- indicates indirect shareholding.

1. The remaining 0.10% interest in Beijing Zhenchen is held by Yu Xu Yu (余旭煜), an Independent Third Party.
2. The remaining 0.48% interest in Shanghai Zhenchen is held by Shi Yu Min (施煜敏), an Independent Third Party.
3. The ultimate shareholders of Happy Sincere are Wang Ge (王戈), Wang Yue (王玥), Kong Yi Qiu (孔亦秋) and Zhang Ning, each an Independent Third Party.
4. Assuming that both shareholdings of SIIC and SIHL in the Company do not change between the Latest Practicable Date and completion of the Capital Injection.
5. The shareholding percentage of each of the shareholders listed above is rounded to the nearest two decimal places. The total shareholding percentage of each entity may not add up to 100% due to rounding effect.

LETTER FROM THE BOARD

Consideration

Subject to the conditions set out in the Subscription Agreement, which are summarised in the section headed “Conditions Precedent” below, having been satisfied or waived, SIUD Shanghai will subscribe for a 20.0% of the enlarged registered capital of SIIC Financial Leasing in an amount of RMB374,774,775 in cash at a consideration of RMB407,942,343 (comprising RMB374,774,775 as payment for the registered capital and RMB33,167,568 as payment for the premium).

As the Subscription represents new equity injection to SIIC Financial Leasing, it does not involve any acquisition from a third party, and therefore there is no original acquisition cost for the 20.0% of the enlarged registered capital of SIIC Financial Leasing to be subscribed by SIUD Shanghai.

The consideration of the Subscription was determined by SIUD Shanghai after arm’s length negotiation among the parties to the Subscription Agreement with reference to, among other things, (i) the business development and performance of SIIC Financial Leasing since its date of establishment; (ii) the future business prospect of SIIC Financial Leasing; (iii) the audited consolidated net asset value of SIIC Financial Leasing as at 31 December 2018 which was RMB1,499,154,549; and (iv) reasons and benefits of the Subscription as stated under the section headed “Reasons for and benefits of the Subscription” below. The valuation of SIIC Financial Leasing as at 30 April 2019 as valued by Shanghai Orient Appraisal, an independent valuer, was RMB1,476,009,853. Please refer to Appendix I to this circular for the valuation report in respect of SIIC Financial Leasing prepared by Shanghai Orient Appraisal.

The Group was required to make a filing with the Shanghai Municipal State-owned Assets Supervision and Administration Commission (“**Shanghai SASAC**”) in respect of the Subscription. Such filing is required to be accompanied with a valuation report of the subject company, in this case being SIIC Financial Leasing. Shanghai Orient Appraisal, whose qualifications meet the requirements of Shanghai SASAC, was selected by the Group following a tender process as the valuer to prepare the necessary report for the filing.

Established in 1999, Shanghai Orient Appraisal has developed into a professional national large-scale asset valuer after more than two decades of rapid development. It possesses the highest industry qualifications including the securities and futures related valuation qualifications jointly issued by the China Securities Regulatory Commission and the PRC Ministry of Finance. Shanghai Orient Appraisal has experience in conducting valuations in various types of properties in more than 30 provinces and cities in the PRC with a client base ranging from large central state-owned enterprises, local state-owned enterprises, listed companies, foreign-invested enterprises to private enterprises. It is on the valuer directory of all state-owned enterprises in Shanghai.

The Group will fund the subscription amount using its internal resources.

LETTER FROM THE BOARD

Completion

Completion of the Subscription is scheduled to take place within 15 business days (or such other time and date as the parties may agree) following SIUD Shanghai and Happy Sincere having confirmed in writing that all conditions to the Capital Injection have been satisfied.

Conditions Precedent

Completion of the Subscription is conditional upon the satisfaction of a number of conditions including, but without limitation, the following:

- (a) all the relevant transaction documents in respect of the Capital Injection including a shareholders' agreement and a set of amended articles of association of SIIC Financial Leasing having been executed and become effective;
- (b) SIUD Shanghai having obtained and completed all relevant approval and filings required for state-owned assets in respect of the Subscription;
- (c) SIIC Financial Leasing having completed and obtained all relevant regulatory approval and filings in respect of the Capital Injection;
- (d) SIIC Financial Leasing having executed all necessary documents for the purposes of registering and filing the Capital Injection with the competent authorities;
- (e) SIIC Financial Leasing and its shareholders having obtained all governmental and third parties' consent or waiver for the Capital Injection; and
- (f) SIUD Shanghai and Happy Sincere having completed all their internal procedures and obtained all required internal approvals in relation to the Capital Injection.

As at the Latest Practicable Date, conditions (b) and (e) set out above had been fulfilled.

Further, the effectiveness of the Subscription Agreement is subject to the Subscription having been approved by the Independent Shareholders of the Company at the SGM.

LETTER FROM THE BOARD

Covenants by the Managing JV Partners and Mr. Lin Zhen

Return on equity

Under the Subscription Agreement, the Managing JV Partners and Mr. Lin Zhen have undertaken to compensate SIUD Shanghai, on a joint and several basis, if the return on equity (calculated at the net profit attributable to the parent divided by the net assets) of SIIC Financial Leasing for the first financial year following Completion is less than 8%. The amount of compensation (C) will be calculated in accordance with the following formula:

$$C = N \times S \times P$$

where:

N = the net assets of SIIC Financial Leasing

S = the shortfall of the rate of return, being the difference between 8% and the actual rate of return on equity of SIIC Financial Leasing

P = the percentage of registered capital in SIIC Financial Leasing held by SIUD Shanghai

Properties

The Managing JV Partners and Mr. Lin Zhen agree that each of SIIC Financial Leasing and SIUD Shanghai shall have the right to request a valuation to be carried out on the Properties at any time during the period of three years commencing from the first year following completion of the acquisition of the Properties by SIIC Financial Leasing. If such valuation indicates that the prevailing valuation of the Properties is less than the original purchase price of the Properties paid by SIIC Financial Leasing (the “**Acquisition Cost**”) by 10% or more, the Managing JV Partners and Mr. Lin Zhen shall either acquire the Properties at the Acquisition Cost or pay SIIC Financial Leasing an amount equal to the difference between such valuation and the Acquisition Cost.

Governance

Prior to Completion, the parties to the Subscription Agreement will enter into a shareholders’ agreement and a set of amended articles of association to regulate the governance and operation of SIIC Financial Leasing following the Capital Injection. It is expected that the terms of such governance documents will include terms restricting shareholders of SIIC Financial Leasing from disposing of or creating encumbrances, and terms granting other shareholders pre-emptive rights, over their equity interests in the company.

LETTER FROM THE BOARD

Financial information of SIIC Financial Leasing

The audited net asset value of SIIC Financial Leasing as at 31 December 2019 was RMB1,557,576,695. The following table sets out the profit before and after tax and extraordinary items of SIIC Financial Leasing for the years indicated extracted from the audited financial information of SIIC Financial Leasing prepared under the accounting principles generally accepted in the PRC:

	For the financial year ended 31 December		
	2017	2018	2019
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Profit before taxation and extraordinary items	123.8	174.3	138.2
Profit after taxation and extraordinary items	88.1	130.1	102.5

Reasons for and benefits of the Subscription

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 financial leasing industry in the PRC is currently in an overall good condition. According to data from China Rental Union, from 2006 to 2019, China's financial leasing industry has been growing exponentially, with total business volume rocketing from approximately RMB8 billion in 2006 to RMB6,654 billion in 2019 at exponential annual growth rates. In comparison to mature markets in developed countries, although the financial leasing market in the PRC made a late start, it has been undergoing rapid development as a result of support from the government's macro policy and increased demand from certain emerging industries especially in view of the global implementation of the Belt and Road Initiative.

SIIC Financial Leasing was among the first companies to obtain registration in the Shanghai Free-Trade Zone of the PRC and a pioneering provider of comprehensive financial services. SIIC is the major shareholder of SIIC Financial Leasing. SIIC Financial Leasing's principle operations include financial leasing, operating leasing, entrusted leasing, joint financial leasing, leased asset management, and financial leasing consultation, which extend into copious fields including government infrastructure, business aircraft, automobile, rail transit, airports and harbours, industrial equipment, medical devices, water supplies, energy conservation, new energies, and modern service industry. It boasts an elite team that is rich in experience and highly efficient with core management members from esteemed financial leasing companies, banks and investment banks.

LETTER FROM THE BOARD

SIIC Financial Leasing provides services to businesses that focus largely on public infrastructure. In other words, SIIC Financial Leasing works mostly with government platforms. Clients include local municipal governments in the PRC and in projects involving municipal investment, water supplies, transportation investment, and municipal infrastructure. The revenue contribution from projects in this sector exceeds 70%.

In view of the above and based on pre-deal due diligence exercise carried out on SIIC Financial Leasing, the Directors believe that SIIC Financial Leasing, which has been recording continuous and steady profit growth with a stable risk appetite in the industry, presents a good investment opportunity for the Group in terms of investment returns, which should enable the Group to expand its source of earnings and diversify operational risks. At an appropriate time in the future, the Group may leverage on SIIC Financial Leasing's knowledge and long-standing cooperation relationships with its project customers and local governments, and explore with them any potential cooperation opportunities in property development or other projects. The Company believes that this may provide the Group with a further avenue of project sourcing in addition to the traditional means which the Group has been relying on such as participation in bidding, auction and listing-for-sale.

Besides, subsequent to the Subscription, the capital adequacy ratio of SIIC Financial Leasing will increase accordingly, while the shareholding of state-owned capital will further increase. The above factors will help improve the credit rating of SIIC Financial Leasing in the market, thus lowering the overall finance costs and enhancing the profitability of the core operations of SIIC Financial Leasing. In view of the aforesaid, the Directors are of the view that the Subscription will generate synergy for both parties and is expected to facilitate win-win cooperation.

Subject to and following completion of the Subscription, whilst SIIC Financial Leasing will not become a subsidiary of the Company and will have its core operations handled by the existing management, the Group intends to help reform and improve the investment risk control system of SIIC Financial Leasing. With the Company being listed on the Main Board of the Stock Exchange, the Group has made constant efforts in maintaining a sound corporate governance framework and a solid checks and balances mechanism. Leveraging from such established corporate governance framework the Group has striven to maintain, by being a shareholder of SIIC Financial Leasing, the Group intends to assist SIIC Financial Leasing in refining its corporate governance framework, institutional system and internal control, with the aim to further enhance the operational efficiency and profitability of SIIC Financial Leasing in the long run. The Group also intends to engage staff or consultants with expertise in the financial leasing industry to assist with developing and operating the business of SIIC Financial Leasing as and when necessary and appropriate in the future.

LETTER FROM THE BOARD

Information of the Group

The Company is a company incorporated under the laws of Bermuda with limited liability, and is an investment holding company. 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.

Information of SIIC Financial Leasing and other parties

SIIC Financial Leasing is a company established in the PRC with limited liability and is an integrated credit provider based in Shanghai. The majority of SIIC Financial Leasing's business is the provision of finance to regional government and its platform companies to fund their projects in local infrastructure, water supply and construction of rail transportation. Most of such customers have a credit rating of AA or above. SIIC Financial Leasing also provides automobile financing targeting at individual customers.

Shanghai Galaxy is a limited liability company established in the PRC principally engaged in business investment, asset management and other consultation businesses. Over the past few years, Shanghai Galaxy has been actively exploring new business areas, and investing in the environmental-related industry in particular. Shanghai Galaxy is an indirect non-wholly owned subsidiary of SIIC.

Beijing Zhenchen is a limited liability company established in the PRC and principally engaged in asset management, investment in business and stock, financial advisory and other services.

Shanghai Zhenchen is a limited liability company established in the PRC and its mission is to become a three-dimensional integrated automotive service provider. Its businesses include auto leasing, auto repairs, motor insurance and membership services.

Happy Sincere is company incorporated in Hong Kong and focuses on investments in the shipping and biomedicine industries. Its mission is to provide value adding services to the shipbuilding, shipping and biomedicine industries by connecting them with international leading research and production technologies.

Listing Rules implications

As at the Latest Practicable Date, SIIC and its associates, directly or indirectly, were interested in approximately 64.66% of the voting rights of the Company, hence SIIC is a controlling shareholder of the Company. Shanghai Galaxy is an indirect non-wholly owned subsidiary of SIIC. Accordingly, each of Shanghai Galaxy and SIIC Financial Leasing is an associate of SIIC and a connected person of the Company. As one or more of the applicable percentage ratios in respect of the Subscription exceeds 5%, the Subscription Agreement constitutes a connected transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

None of the Directors had any material interest in the Subscription and thus no Director was required to abstain from voting on the board resolutions approving the Subscription Agreement. Nevertheless, Mr. Zeng Ming, a former executive Director (who resigned on 18 May 2020) and a director of SIIC, Mr. Lou Jun, an executive Director and a director of SIIC, and Mr. Zhou Xiong, an executive Director and an assistant president of SIIC, voluntarily abstained from voting on the board resolutions approving the Subscription Agreement.

Any connected person with a material interest in the Subscription Agreement and the transactions contemplated thereunder, and any Shareholder who has a material interest in the Subscription Agreement and the transactions contemplated thereunder and its associates will be required to abstain from voting at the SGM. As at the Latest Practicable Date, SIIC and its associates, directly or indirectly, held an aggregate of 3,107,696,148 Shares (representing approximately 64.66% of the issued share capital of the Company). SIIC and its associates are required to abstain from voting at the SGM.

III. PROPOSED RE-ELECTION OF DIRECTOR

In accordance with Bye-law 86(2) of the Bye-Laws, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the Shareholders in general meeting, as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Accordingly, Mr. Huang Haiping (“**Mr. Huang**”) shall retire at the SGM. He has offered himself for re-election at the SGM. The Board proposes to put forward at the SGM for the purpose of considering, and if thought fit, passing the ordinary resolution to approve the Re-election of Director pursuant to the relevant requirements under the law of Bermuda and the Bye-laws.

Pursuant to Rule 13.74 of the Listing Rules, a listed issuer shall disclose the details required under Rule 13.51(2) of the Listing Rules of any director proposed to be re-elected or proposed new director in the notice or accompanying circular to its shareholders of the relevant general meeting, if such re-election or appointment is subject to shareholders’ approval at that relevant general meeting. The requisite details of Mr. Huang are set out in Appendix III to this circular.

The re-election of Mr. Huang has been reviewed by the Nomination Committee which recommended to the Board that the re-election be proposed for the Shareholders’ approval at the SGM based on the nomination policy and the diversity policy adopted by the Company.

LETTER FROM THE BOARD

IV. SGM

A notice convening the SGM is set out on pages SGM-1 to SGM-3 of this circular. Ordinary resolutions will be proposed at the SGM to approve (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the re-election of Mr. Huang Haiping as an executive Director.

For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Tuesday, 8 September 2020 to Friday, 11 September 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, unregistered holders of Shares should ensure that all duly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 7 September 2020.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to be present at the SGM, you are encouraged to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours (Hong Kong time) before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

V. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular which contains its recommendation to the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder. Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 22 to 33 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Subscription Agreement and the principal factors and reasons considered by it in formulating its advice.

The Directors (excluding the independent non-executive Directors, whose views are set out in the letter from the Independent Board Committee included in this circular) consider that although the Subscription is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement are fair and reasonable, and the Subscription is made on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Therefore, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) also consider that the Re-election of Director is in the best interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution to approve the Re-election of Director to be proposed at the SGM.

VI. FURTHER INFORMATION

Your attention is drawn to other parts of this circular, which contain further information on the 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
Huang Haiping
Chairman



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)

25 August 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
IN RELATION TO
SUBSCRIPTION OF EQUITY INTEREST IN
SIIC FINANCIAL LEASING**

We refer to the circular of the Company to the Shareholders dated 25 August 2020 (the “**Circular**”), to which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Alliance Capital Partners Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, as set out on pages 22 to 33 of the Circular and the letter from the Board as set out on pages 5 to 19 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the information contained in the letter from the Board, and the factors and reasons considered by, and the opinion of, Alliance Capital Partners Limited as stated in its letter of advice, we consider that the terms of the Subscription are fair and reasonable, although the Subscription is not in the ordinary and usual course of business of the Group, it is made on normal commercial terms, and in the interests of the Company and its Shareholders as a whole. We recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Subscription Agreement and the transactions contemplated thereunder to be proposed at the SGM.

Yours faithfully,
The Independent Board Committee of
Shanghai Industrial Urban Development Group Limited
DOO Wai-Hoi, William
FAN Ren Da, Anthony
LI Ka Fai, David
QIAO Zhigang
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription for the purpose of incorporation into this circular.



Alliance Capital Partners Limited
同人融資有限公司

25 August 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF EQUITY INTEREST IN SIIC FINANCIAL LEASING

A. INTRODUCTION

We refer to our appointment as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of the Subscription Agreement and the transactions contemplated thereunder are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular of the Company dated 25 August 2020 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on 22 January 2020 (after trading hours of the Stock Exchange), that SIUD Shanghai, a subsidiary of the Company, entered into the Subscription Agreement with SIIC Financial Leasing, Shanghai Galaxy, the Managing JV Partners and Mr. Lin Zhen, pursuant to which SIUD Shanghai has conditionally agreed to subscribe for 20.0% of the enlarged registered capital of SIIC Financial Leasing by injecting RMB407,942,343 in cash to SIIC Financial Leasing.

The Company will seek approval of the Independent Shareholders for the Subscription Agreement and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, SIIC Financial Leasing had a paid up registered capital of RMB1,356,000,000, and was owned by Shanghai Galaxy (40.00%), Beijing Zhenchen (23.23%), Shanghai Zhenchen (11.77%) and Happy Sincere (25.00%). Shanghai Galaxy is an indirect non-wholly owned subsidiary of SIIC, a controlling shareholder of the Company. Accordingly, each of Shanghai Galaxy and SIIC Financial Leasing is an associate of SIIC and a connected person of the Company. As one or more of the applicable percentage ratios in respect of the Subscription exceeds 5%, the Subscription Agreement

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

constitutes a connected transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors had any material interest in the Subscription and thus no Director was required to abstain from voting on the board resolutions approving the Subscription Agreement. Nevertheless, Mr. Zeng Ming, a former executive Director (who resigned on 18 May 2020) and a director of SIIC, Mr. Lou Jun, an executive Director and a director of SIIC, and Mr. Zhou Xiong, an executive Director and an assistant president of SIIC, voluntarily abstained from voting on the board resolutions approving the Subscription Agreement.

Any connected person with a material interest in the Subscription Agreement and the transactions contemplated thereunder, and any Shareholder who has a material interest in the Subscription Agreement and the transactions contemplated thereunder and its associates will be required to abstain from voting at the SGM. As at the Latest Practicable Date, SIIC and its associates, directly or indirectly, held an aggregate of 3,107,696,148 Shares (representing approximately 64.66% of the issued share capital of the Company). SIIC and its associates are required to abstain from voting at the SGM.

The Independent Board Committee composed of all independent non-executive Directors, namely Mr. DOO Wai-Hoi, William, *J.P.*, Mr. FAN Ren Da, Anthony, Mr. LI Ka Fai, David and Mr. QIAO Zhigang, has been established to advise the Independent Shareholders as to whether the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

B. BASIS OF OUR OPINION

In formulating our opinion, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its management staff and/or the Directors or professional advisers of the Company. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular, and have been reasonably made after due and careful enquiry. We have been advised by the Group and/or its management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Group.

As at the Latest Practicable Date, we were independent from, and were not associated with the Company or any other party to the Subscription Agreement, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Subscription. We received a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement. Alliance Capital Partners Limited has not acted as the independent financial adviser to the Company's other transactions in the last two years. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Subscription Agreement or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Information of the Group

The Company is a company incorporated under the laws of Bermuda with limited liability, and is an investment holding company. 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. Set out below is a summary of the financial performance of the Group as extracted from the 2018 annual report (the "2018 Annual Report") and the 2019 annual report (the "2019 Annual Report").

	For the financial year ended		
	31 December		
	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	9,372,903	6,977,683	8,583,906
Profit after taxation	1,224,410	1,269,747	1,219,698

From the table above and with reference to the 2018 Annual Report, we noted that the Group's revenue decreased by approximately 25.6% from approximately HK\$9,372.9 million for the year ended 31 December 2017 to approximately HK\$6,977.7 million for the year ended 31 December 2018 which was primarily due to the Group's delay in rolling out new projects and carrying forward revenue during the first three quarters with the imposition of price limits. On the contrary, the Group's profit increased by approximately 3.7% from approximately HK\$1,224.4 million for the year ended 31 December 2017 to approximately HK\$1,269.7 million for the year ended 31 December 2018 primarily due to (i) the increase in the other income of approximately HK\$435.7 million from approximately HK\$407.2 million for the year ended 31 December 2017 to approximately HK\$842.9 million for the year ended 31 December 2018, mainly attributable to the presence of the gains on land resumption of approximately HK\$538.6 million during the year ended 31 December 2018; and (ii) the Group's one-off gain of approximately HK\$155.1 million recorded as a result of the disposal of the entire issued share capital of Fine Mark Investment Limited, an indirect wholly-owned subsidiary, and assignment of the outstanding loans for an aggregate consideration of approximately RMB176.8 million during the year ended 31 December 2018.

From the table above and with reference to the 2019 Annual Report, the Group's revenue increased by 23.0% from approximately HK\$6,977.7 million for the year ended 31 December 2018 to approximately HK\$8,583.9 million for the year ended 31 December 2019 primarily due to the timely and orderly project launching strategy, which allowed the Group to fully realise the value of its projects. On the contrary, the Group's profit decreased by approximately 3.9% from approximately HK\$1,269.7 million for the year ended 31 December 2018 to approximately HK\$1,219.7 million for the year ended 31 December 2019 primarily due to (i) the decrease in the other income of approximately HK\$650.6 million from approximately HK\$842.9 million for the year ended 31 December 2018 to approximately HK\$192.3 million for the year ended 31 December 2019, mainly attributable to the disappearance of the gains on land resumption of approximately HK\$538.6 million as aforementioned above; and (ii) the Group's one-off gain of approximately HK\$155.1 million during the year ended 31 December 2018 as aforementioned above.

2. Information of SIIC Financial Leasing

2.1 Background information of SIIC Financial Leasing

SIIC Financial Leasing is a company established in the PRC with limited liability and is an integrated credit provider based in Shanghai. The majority of SIIC Financial Leasing's business is the provision of finance to regional government and its platform companies to fund their projects in local infrastructure, water supply and construction of rail transportation. Most of such customers have a credit rating of AA or above. SIIC Financial Leasing also provides automobile financing targeting at individual customers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Other details of the information of SIIC Financial Leasing are set out in the section headed “Information of SIIC Financial Leasing and other parties” in the Letter from the Board.

2.2 Financial information of SIIC Financial Leasing

The audited net asset value of SIIC Financial Leasing as at 31 December 2018 and 2019 was approximately RMB1,499.2 million and RMB1,557.6 million, respectively. The following table sets out the revenue and the profit after taxation and extraordinary items of SIIC Financial Leasing for the years indicated extracted from the audited financial information of SIIC Financial Leasing prepared under the accounting principles generally accepted in the PRC for the three years ended 31 December 2019:

	For the year ended 31 December		
	2017	2018	2019
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	626.4	861.1	773.8
Profit after taxation and extraordinary items	88.1	130.1	102.5

From the table above, we note that the revenue increased by approximately 37.5% from approximately RMB626.4 million for the year ended 31 December 2017 to approximately RMB861.1 million for the year ended 31 December 2018, mainly due to the increase in the interest income from the issuance of the asset-backed securities of over RMB3 billion in 2017 and the expansion of the customer base which includes large corporations covering industries of railway and water infrastructure, and led to an increase in profit after taxation and extraordinary items from approximately RMB88.1 million for the year ended 31 December 2017 to approximately RMB130.1 million for the year ended 31 December 2018.

From the table above, we note that the revenue decreased by approximately 10.1% from approximately RMB861.1 million for the year ended 31 December 2018 to approximately RMB773.8 million for the year ended 31 December 2019, mainly due to the decrease in the revenue from the financial leasing of approximately RMB121.8 million primarily because of the termination of recognising certain asset-backed securities during 2019, offset by the increase in the revenue from the financial leasing consultation services of approximately RMB54.6 million primarily from projects in the industry of railway in 2019. The profit after taxation and extraordinary items decreased by approximately 21.2% from approximately RMB130.1 million for the year ended 31 December 2018 to approximately RMB102.5 million for the year ended 31 December 2019, mainly attributable to the increase in the impairment losses on available-for-sale financial

assets primarily because a more cautious accounting estimate method was adopted with the outbreak of coronavirus disease 2019 (“COVID-19”) being taken into account.

2.3 Covenants by the Managing JV Partners and Mr. Lin Zhen

Under the Subscription Agreement, the Managing JV Partners and Mr. Lin Zhen have undertaken to compensate SIUD Shanghai, on a joint and several basis, if the return on equity (calculated at the net profit attributable to the parent divided by the net assets) of SIIC Financial Leasing for the first financial year following Completion is less than 8%.

In addition, the Managing JV Partners and Mr. Lin Zhen agree that each of SIIC Financial Leasing and SIUD Shanghai shall have the right to request a valuation to be carried out on the Properties at any time during the period of three years commencing from the first year following completion of the acquisition of the Properties by SIIC Financial Leasing. If such valuation indicates that the prevailing valuation of the Properties is less than the original purchase price of the Properties paid by SIIC Financial Leasing (the “Acquisition Cost”) by 10% or more, the Managing JV Partners and Mr. Lin Zhen shall either acquire the Properties at the Acquisition Cost or pay SIIC Financial Leasing an amount equal to the difference between such valuation and the Acquisition Cost.

Further details of the covenants by the Managing JV Partners and Mr. Lin Zhen are set out in the section headed “Covenants by the Managing JV Partners and Mr. Lin Zhen” in the Letter from the Board.

Having considered factors including (i) SIIC Financial Leasing has been recording continuous and steady profit with a stable risk appetite in the industry, (ii) the covenants by the Managing JV Partners and Mr. Lin Zhen are in favour of the Company, and (iii) the future prospect of the finance leasing industry mentioned in the section headed “Reasons for and benefits of the Subscription” in the Letter from the Board, the Directors are of the view and we concur, that the Subscription represents a good investment opportunity in terms of investment returns for the Group to expand its income source and diversify operational risks and the Group may leverage on SIIC Financial Leasing’s knowledge and long standing cooperation relationships with its project customers and local governments.

In addition, having considered that the Group intends to engage staff or consultants with expertise in the financial leasing industry to assist with developing and operating the business of SIIC Financial Leasing as and when necessary and appropriate in the future, we are of the view that the Group currently does not have such expertise to daily operate the financial leasing business as at the date of the Circular. Having said that, as the existing management of SIIC Financial Leasing will remain unchanged after the Subscription, the core operations of SIIC Financial Leasing will not be affected by the Subscription.

3. Principal terms of the Subscription Agreement

Details of the terms of the Subscription Agreement are set out in the section headed “The Subscription Agreement” in the Letter from the Board.

3.1 Evaluation of the basis of the Consideration

As advised by the Directors, the Consideration was determined with reference to among other things, the appraised value of 100% equity interest of SIIC Financial Leasing as at 30 April 2019 (the “**Valuation Benchmark Date**”) in the valuation made by Shanghai Orient Appraisal Co., Ltd.* (上海東洲資產評估有限公司) (the “**Valuer**”) using the asset-based approach (the “**Valuation Report**”), and the Consideration is determined by the formula below:

	Approximately
Appraised value per Valuation Report	RMB1,476.0 million
+ Capital injection from SIUD Shanghai	RMB407.9 million
+ Capital injection from Happy Sincere	RMB155.8 million
Reassessed net assets value of SIIC Financing Leasing	RMB2,039.7 million
x Proposed equity interest of SIUD Shanghai in SIIC Financing Leasing	20.0%
= Consideration	RMB407.9 million

In assessing the fairness and reasonableness of the Consideration, we have performed below analysis or assessment of the Valuation Report.

3.1.1 Assessment on the valuation approaches

According to the Valuation Report and our discussion with the Valuer on the methodologies underlying the Valuation Report, we understood that the Valuer has considered three generally accepted approaches, namely the income approach, market approach and asset-based approach. As advised by the Valuer, the income approach is not appropriate since it involves estimating the inherent value of the assets, which means their future profitability and the adoption assumptions which cannot be accurately quantified. In addition, financial leasing businesses can be significantly influenced by financial policies and market factors, such as interest rates and the fluctuation in the value of the underlying assets, it is difficult to form a reliable basis under income approach. Market approach is a valuation approach which determines the prevailing fair market value of companies by referring to comparables in the market based on one point of time on the valuation reference date in a fully-developed and active market. As advised by the Valuer, it is difficult to accurately quantify and rectify the degree of similarity between the comparable companies and SIIC Financial Leasing, thus the market approach is not the optimal approach for the valuation of SIIC Financial Leasing. Having said that, the market approach is used as a

general reference to cross-check the valuation results derived from the asset-based approach. Whereas the historical cost of assets is the basis of the asset-based approach, SIIC Financial Leasing can provide the Valuer with information required in the asset-based approach, which enables the Valuer to conduct a comprehensive assessment on the assets and liabilities of SIIC Financial Leasing. In light of the above, the Valuer is of the view that asset-based approach is the most optimal approach.

In order to assess the choice of valuation adopted by the Valuer, we have studied the (i) business model, (ii) customer base, and (iii) financial statements for the three years ended 31 December 2019 of SIIC Financial Leasing. Per review of SIIC Financial Leasing's business model, it is significantly influenced by interest rates with its profit level determined by the difference between interest income and interest expenses. While interest expenses are affected by external factors beyond the control of SIIC Financial Leasing, such as the monetary policies of the PRC Government with respect to bank interest rates and lending practices, it is difficult to form a reliable basis under income approach because the future profitability cannot be accurately quantified. For SIIC Financial Leasing's customer base, they are mainly focused on different kinds of public infrastructure projects, including water supplies and transportation investment, and they also include local municipal governments located in different cities, such as Changchun, Zunyi, Guiyang, Chenzhou, etc. It is difficult to form a reliable basis under market approach because each comparable company has its own lease portfolio in specific industry or location, and the degree of similarity between the comparable companies and SIIC Financial Leasing cannot be accurately quantified. Per review of the financial statements for the three year ended 31 December 2019 of SIIC Financial Leasing, as most of the assets are tangible and secured by collateral, the historical cost of assets could provide a reliable basis under asset-based approach, which enables the Valuer to conduct a comprehensive assessment on the assets and liabilities of SIIC Financial Leasing. Having considered the abovementioned reasons, we concur with the Valuer that the asset-based approach is the most optimal approach as compared to income approach and market approach.

The appraised value of 100% equity interest of SIIC Financial Leasing as at the Valuation Benchmark Date is approximately RMB1,476.0 million (the "**Valuation**"), which represents 0.4% premium compared to that of the audited net assets value of approximately RMB1,470.6 million as at 30 April 2019.

3.1.2 Assessment on the assumptions in the Valuation Report

In assessing the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report, we noted that the Valuer has made various basic and general assumptions for the valuation of the 100% equity interest in SIIC Financial Leasing, including but not limited to (i) SIIC Financial Leasing will retain its ongoing operation in the foreseeable future; (ii) SIIC Financial Leasing will fulfill all legal and regulatory requirements necessary to conduct its business; and (iii) there will be no major changes in the laws, rules or regulations, financial, economic, market and political conditions where SIIC Financial Leasing operates which may materially and adversely affect its business.

The outbreak of COVID-19 has been inevitably affecting the global economy. However, as advised by SIIC Financial Leasing that the outbreak of COVID-19 is yet to have an immediate impact on its business considered (i) most of its finance lease agreements are contracted between 3 years and 5 years terms and (ii) its major customers are regional government and its platform companies which primarily are not based in Hubei province or involved in labor-intensive manufacturing business. Except for the cancellation of some meetings with customers due to precaution or work from home arrangement, the overall operation of SIIC Financial Leasing has been stable since the outbreak of COVID-19 up to the Latest Practicable Date.

In light of the discussion of the methodology, basis and assumptions of the Valuation Report above, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report. Nevertheless, Shareholders should note that valuation of assets usually involves assumptions and therefore the Valuation may or may not reflect the true market values of SIIC Financial Leasing accurately. Moreover, we understand that the Valuation Report was issued on 28 October 2019, and it shall be valid for 12 months from the Valuation Benchmark Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Besides, pursuant to note 1(d) to Rule 13.80(2)(b) of the Listing Rules, we have performed the followings steps regarding the appraisal value of SIIC Financial Leasing prepared by the Valuer:

- (1) With regard to the experience and expertise of the Valuer, based on our review and discussion with the Valuer of the qualifications, experience, expertise and relevant track record of the Valuer, we are satisfied that the Valuer has experience and expertise to compile the Valuation Report having considered its qualifications and experience mentioned in the section headed “Consideration” in the Letter from the Board and the experience and expertise of the valuers who signed off the Valuation Report mentioned in the section headed “Valuation of SIIC Financial Leasing” set out in Appendix I to the Circular. The Valuer performed valuation in respect to the market value of all equity interest held by the shareholders of Guangzhou Shipyard International Company Limited as at 30 April 2019, according to the circular dated 4 October 2019 of CSSC Offshore & Marine Engineering (Group) Company Limited (stock code: 00317.HK), and also performed valuation in respect to the enterprise’s value of Xi’an Jin Jiang Inn Company Limited (西安錦江之星旅館有限公司) and Zhengzhou Jin Jiang Inn Company Limited (鄭州錦江之星旅館有限公司) as at 31 December 2018, according to the announcement dated 8 January 2020 of Shanghai Jin Jiang Capital Company Limited* (上海錦江資本股份有限公司, stock code: 02006.HK). In particular, the Valuer has experience and expertise in valuation on financial leasing companies. For instance, the Valuer performed valuation in respect to the fair value of all equity interest held by the shareholders of Shanghai Shenergy Financial Leasing Co., Ltd.* (上海申能融資租賃有限公司) as at 30 September 2019, according to the announcement dated 30 March 2020 of Shenergy Company Limited* (申能股份有限公司, stock code: 600642.SH);
- (2) We have confirmed with the Valuer that save for the engagement of appraisal in relation to SIIC Financial Leasing and the other engagements as an independent valuer in normal business relationship, it is not connected with the Company, SIIC Financial Leasing and the parties to the Subscription Agreement or their respective core connected persons;
- (3) We have reviewed the terms of engagement and the scope of work of the Valuer and considered that the scope of work is appropriate to the opinion required to be given and without any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer’s report, opinion or statement;

- (4) We were not aware any of the Company, SIIC Financial Leasing and the parities to the Subscription Agreement have made any other formal or informal representations to the Valuer respectively, that are not in accordance with our knowledge; and
- (5) We have reviewed, and discussed with the Valuer, the underlying assumptions used for the Valuation and the valuation approaches used by the Valuer and are satisfied that the assumptions and the asset-based approach is the optimal and objective in such circumstances.

3.2 Assessment on the latest available financial position of SIIC Financial Leasing

In order to assess the financial position of SIIC Financial Leasing subsequent to the Valuation Benchmark Date, we also reviewed the latest available unaudited management account of SIIC Financial Leasing as at 30 June 2020. The unaudited net asset value of SIIC Financial Leasing as at 30 June 2020 was approximately RMB1,590.9 million, which was greater than the appraised value of SIIC Financial Leasing as at the Valuation Benchmark Date of approximately RMB1,476.0 million. The Directors are of the view and we concur that, the steadily reinforced financial position of SIIC Financial Leasing is in favour of the Company.

Having considered that (i) the Consideration which was determined by reference to the Valuation Report and represented a discount to the net assets value of 100% equity interest in SIIC Financial Leasing as at 30 June 2020; (ii) we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report; (iii) the covenants by the Managing JV Partners and Mr. Lin Zhen are in favour of the Company; and (iv) the financial position of SIIC Financial Leasing is steadily reinforced, we concur with the Directors that the Consideration is fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

D. RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Subscription Agreement and the transactions contemplated thereunder though not in the ordinary and usual course of business of the Company but are on normal commercial terms, which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution in relation to the Subscription Agreement and transactions contemplated to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited
Ray Chan
Director

* *For identification purpose only*

The following is the letter and valuation report summary prepared for the purpose of inclusion in this circular by Shanghai Orient Appraisal Co., Ltd., an independent valuer, on its valuation of the entire equity interests in SIIC Financial Leasing Co., Ltd. as at 30 April 2019 in connection with the proposed capital increase in SIIC Financial Leasing Co., Ltd. by Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited.



Shanghai Orient Appraisal Co., Ltd.
Floor 19, Pacific Center,
No. 889 West Yan'an Road, Shanghai

Shanghai Industrial Urban Development Group Limited

11/F, Henley Building
No. 5 Queen's Road Central
Hong Kong

Dear Sirs or Madams,

Re: Market Value Appraisal in connection with the Proposed Subscription of 20% of the Enlarged Registered Capital of SIIC Financial Leasing Co., Ltd. by Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited/Valuation Report on the Entire Equity Interests in SIIC Financial Leasing Co., Ltd. in connection with the Proposed Capital Increase in SIIC Financial Leasing Co., Ltd. by Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited

As instructed by Shanghai Industrial Urban Development Group Limited (the “**Company**”, together with its subsidiaries collectively referred to as the “**Group**”), we appraised the market value of 20% of the enlarged registered capital of SIIC Financial Leasing Co., Ltd. (“**SIIC Financial Leasing**”), which is proposed to be subscribed by Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited, a wholly-owned subsidiary of the Company, as at 30 April 2019 (“**Valuation Reference Date**”). Our valuation will also be used in the public files of the Company.

SIIC Financial Leasing is mainly engaged in financial leasing, leasing, acquisition of leased properties in the PRC and overseas, residual value handling and repairs of leased properties, leasing transaction consultation and guarantee. It also operates the commercial factoring business relating to its core operations as a sideline.

The market value of the equity interests in SIIC Financial Leasing was mainly valued by adopting the asset-based approach and market approach. After a comprehensive assessment of the reasonableness of different valuation methods and the initial valuation conclusions and the quality and quantity of the data used for valuation, we finally selected

the valuation conclusions arrived at by adopting the asset-based approach. Our valuation opinion is based on the going-concern premise, which assumes that SIIC Financial Leasing is a continuing business enterprise with management operating in a rational manner.

I. STATEMENT OF APPRAISAL

As engaged by the Company, we, Shanghai Orient Appraisal Co., Ltd. (上海東洲資產評估有限公司), have appraised the market value of the entire equity interests involved in the proposed capital increase in SIIC Financial Leasing Co., Ltd. by Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited as at 30 April 2019 by adopting the asset-based approach and market approach and carrying out necessary valuation procedures in accordance with the laws, administrative regulations and asset valuation standards by upholding the principles of independence, objectiveness and fairness.

II. VALUATION BASIS

(1) Basis of valuation standards

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);
2. Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);
4. Practicing Standards for Asset Valuation — Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Practicing Standards for Asset Valuation — Asset Valuation Engagement Contracts (Zhong Ping Xie [2017] No. 33);
6. Practicing Standards for Asset Valuation — Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
7. Guiding Opinions on Types of Values for Asset Valuation (Zhong Ping Xie [2017] No. 47);
8. Guiding Opinions on Legal Ownership of the Subjects of Valuation (Zhong Ping Xie [2017] No. 48);
9. Guidelines for Valuation Reports on State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
10. Guidelines for Valuation Reports on State-owned Assets of Financial Enterprises (Zhong Ping Xie [2017] No. 43);

11. Practicing Standards for Asset Valuation — Enterprise Value (Zhong Ping Xie [2018] No. 38);
12. Practicing Standards for Asset Valuation — Machinery Equipment (Zhong Ping Xie [2017] No. 39);
13. Practicing Standards for Asset Valuation — Intangible Assets (Zhong Ping Xie [2017] No. 37); and
14. Practicing Standards for Asset Valuation — Asset Valuation Files (Zhong Ping Xie [2018] No. 37).

(2) Basis of asset ownership

1. Vehicle Licence;
2. Contract for purchase of material assets or journal voucher;
3. Ledgers for fixed assets, book and paper, etc.;
4. Foreign investment ownership certificate (investment contract or agreement); and
5. Other asset ownership certificates.

(3) Basis of valuation

1. Prevailing deposit and lending benchmark interest rates schedules of the People's Bank of China effective on the Valuation Reference Date;
2. Middle rates of exchange published by the Administration of Foreign Exchange under the People's Bank of China effective on the Valuation Reference Date;
3. Online price information from www.autohome.com.cn and JD.com;
4. Accounting statements, books, vouchers and asset valuation returns as at the Valuation Reference Date provided by the appraised entity and its management;
5. Accounting statements and other relevant information of long-term investees as at the Valuation Reference Date;
6. Contracts and orders in hand, and information of target customers provided by the management of the appraised entity;
7. Information about A-share listed companies from RoyalFlush (Wind) Securities Investment Analysis System;

8. Data and information about the capital market from the S&P Capital IQ information platform system of S&P Global Market Intelligence Inc.; and
9. On-site survey records and other relevant valuation information collected by the asset valuer.

(4) Other references

1. Statistics and analysis on the PRC macroeconomy, industries, regional markets and enterprises;
2. Technical statistics of Shanghai Orient Appraisal Co., Ltd.;
3. Information from China Rental Union; and
4. Other references.

III. VALUATION PREMISE

Our valuation opinion is based on the going-concern premise, which assumes that SIIC Financial Leasing is a continuing business enterprise with management operating in a rational manner.

IV. SCOPE OF WORK

This appraisal reflects the facts and conditions existing at the Valuation Reference Date as well as from the Valuation Reference date up to the issuance of the valuation report. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

Our appraisal opinion is based on the assumptions stated herein and on information provided by the management of SIIC Financial Leasing (the “**Management**”). In the course of our valuation, we have conducted the following processes and procedures:

1. Collected and analysed the relevant historical financial statements and other financial and operational information of SIIC Financial Leasing;
2. Conducted interviews with the Management in relation to SIIC Financial Leasing’s history, operations and prospects of its business;
3. Researched the general economic outlook and the outlook for the specific industry affecting the business of SIIC Financial Leasing, its industry and its markets;
4. Examined the reasonableness of the information as well as other records and documents provided by the Management, in light of our research and analysis on the industry and economic data;
5. Determined the most appropriate valuation method for the valuation;

6. Identified the comparable companies of SIIC Financial Leasing; and
7. Developed the business enterprise value of SIIC Financial Leasing based on the assumptions and valuation method stated herein.

V. SOURCES OF INFORMATION

To help us in our analysis, we have consulted, reviewed and relied on the following key information which is publicly available or provided by the Management:

1. The National Bureau of Statistics of the PRC;
2. Financial database empowered by RoyalFlush and Wind Information;
3. Relevant industry report and economic data;
4. Unaudited and/or audited historical financial and operational information of SIIC Financial Leasing; and
5. Discussions with the Management.

VI. LIMITING CONDITIONS

This appraisal relies upon the following contingent and limiting conditions:

1. Public, industry, statistical, and other information furnished by others, upon which all or part of this analysis is based, is believed to be reliable. However, we make no representation as to the accuracy or completeness of such information and have not performed any procedures to corroborate such information.
2. The Company and its representatives warranted to us that the information they supplied is complete and accurate to the best of their knowledge and that the financial statement information reflects SIIC Financial Leasing's results of operations and financial and business condition in accordance with generally accepted accounting principles, unless otherwise noted. The financial statements and other related information supplied by the Management has been accepted as correct without further verification. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information. We also have no reason to believe that any material facts have been withheld from us.
3. This report is to be used for the specific purposes stated herein and any other use is invalid. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document to be prepared or distributed to third parties may be made without our written consent and approval.

4. The appraisal conclusions are valid for one year from the Valuation Reference Date. That means the expiry date is 29 April 2020. We take no responsibility for changes in market conditions and assume no obligation to revise our conclusion of value to reflect events or conditions which occur subsequent to the valuation date.
5. In arriving at our valuation opinions, we have relied to a very considerable extent on the above information. Any variation to the assumptions in the valuation could seriously affect our valuation opinions.

VII. INFORMATION OF THE COMPANY

The Company is an investment holding company and its shares are listed on the Main Board of the Stock Exchange (stock code: 563). The Group is principally engaged in the businesses of residential and commercial property development, property investment and hotel operations in the People's Republic of China (the "PRC"). The business scope of Shanghai Industrial Urban Development (Shanghai) City Construction and Development Company Limited is renovation and decoration, construction projects, provision of ancillary services in the above sectors, construction decoration and design, construction equipment leasing, property management, commercial information consultation (excluding brokerage) and corporate management consultation.

VIII. INFORMATION OF SIIC FINANCIAL LEASING

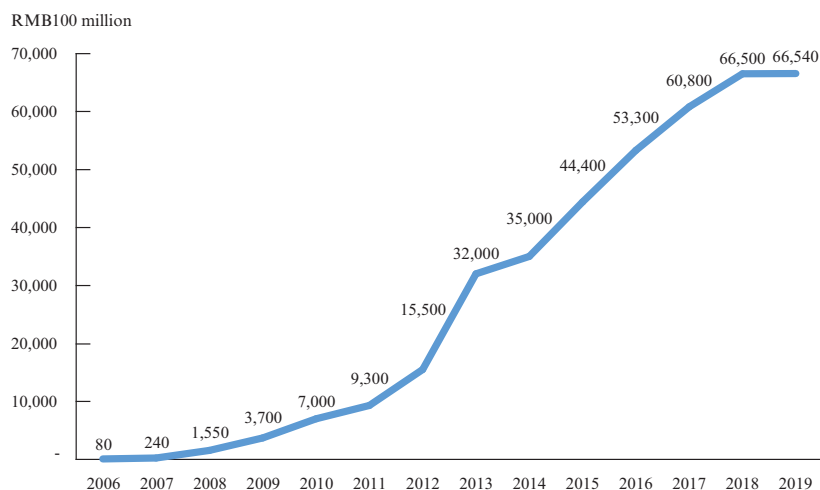
SIIC Financial Leasing is a limited liability company incorporated in the PRC on 28 May 2012 and is mainly engaged in financial leasing, leasing, acquisition of leased properties in the PRC and overseas, residual value handling and repairs of leased properties, leasing transaction consultation and guarantee. It also operates the commercial factoring business relating to its core operations as a sideline.

IX. INDUSTRY OVERVIEW

Financial Leasing Industry in the PRC

The financial leasing industry in the PRC is currently in an overall good condition. According to data from China Rental Union, from 2006 to 2019, China's financial leasing industry has been growing exponentially, with total business volume rocketing from approximately RMB8 billion in 2006 to RMB6,654 billion in 2019 at exponential annual growth rates as shown in the graph below:

**Development of the total volume of the financial leasing business from 2006 to 2019
(unit: RMB100 million)**



In comparison to mature markets in developed countries, although the financial leasing market in the PRC made a late start, it has been undergoing rapid development.

The reasons for such booming growth include:

1. *Support from the government's macro policy.* The State Council of the PRC has put forth a series of crucial decisions to deepen the reform of its financial system and refine the construction of its capital market system. The goal is to pave way for advancing a supply-side structural reform through expanding investment and financing channels as well as optimising the financial structure. Among the measures, the emergence of innovative fixed-income instruments, such as securitization of infrastructure assets and project income bonds, has broadened the channels of direct financing. The original function of infrastructure financing in financial leasing will be replaced by innovative direct financing tools at lower costs, making it easier for the financial leasing industry to support the real economy.

2. *Supply-side structural reform.* The upgrading of industrial structure has been the endogenous drive behind the development of the financial leasing market. Financial leasing is closely connected to technological innovations made in physical industries. The prosperity of emerging industries and upgrade in traditional industries will bring about financing demands in connection with technology and equipment, in turn promoting the development of the leasing industry. The course of change of the penetration of different leasing markets is closely related to the economic and industrial developments in each market.

In the traditional sector, financial leasing can help achieve “China Intelligent Manufacturing” by realising the export and external transfer of overcapacity while facilitating internal industrial upgrades. The blueprint of China’s manufacturing industry for the next decade has already been laid out in the “Made in China 2025” plan. Intelligent manufacturing will be the focus of “Made in China” in the future. A number of industries, including new generation information technology, digital controlled machine tools and robots, aviation and aerospace equipment, marine engineering equipment and high technology vessels, advanced rail transit equipment, energy-saving and new energy motor vehicles, are the targets of the financial leasing industry.

Meanwhile, the global implementation of the Belt and Road Initiative has brought new demand for financial leasing products in related industries, such as transportation, energy, and communication industries. Transport infrastructure is an essential prerequisite in establishing interconnection and subsequent trade logistics and also one of the key deployment areas in the early stage of “the Belt” strategy, from which will arise financial leasing demand for construction machinery equipment. The collaboration between the PRC and Russia, and Central Asian countries began with energy resources. Energy infrastructure (such as power stations and pipelines) can be constructed and carried out through financial leasing. As the Belt and Road Initiative carries forward, the communication industry will also advance steadily. Communication infrastructure and IT equipment are also all great targets for financial leasing. As a key player in financing channels, financial leasing will, in the future, become a crucial tool in helping small- and medium-sized enterprises in the PRC to deal with various problems, including inaccessibility to funding and high costs of financing.

3. *Business model innovation underpinned by Fin-tech*: the redefinition of value chains and efficiency enhancement by new technology will also make certain innovative business models feasible. For instance, for the leasing peers, leased asset transaction is still faced with four critical problems nowadays, namely lack of platform, lack of policies, lack of information and lack of capability. By establishing an asset transaction platform with the “Internet+” concept, not only can the above demand and operational difficulties be solved, but it can also drive a disruption revolution of the company’s business model. The business model of a leasing company is no longer restricted to merely “semi-credit” (sale and leaseback) and “project acquisition — fund borrowing”. Instead, a peer transaction platform will also become possible. At present, CITIC Financial Leasing Co., Ltd., a leader in the financial leasing industry, takes the initiative to introduce the “Lease+” cooperation system to actively explore the peer cooperation service mechanism.

X. VALUATION METHODOLOGY

(I) Summary of Valuation Approaches

In accordance with the asset valuation standards, enterprise value appraisal may be conducted using three approaches, namely the income approach, market approach and assets-based approach:

The income approach is an appraisal approach to capitalise or discount the prospective income of the appraisal target to determine its value. The adoption of the income approach in enterprise value appraisal emphasises the overall expected profitability of an enterprise.

The market approach is an appraisal approach to compare the appraisal target with a listed company or comparable transaction case to determine the value of the target. With valuation data selected directly from the market, the market approach can deliver compelling valuation results if being adopted in enterprise value appraisal.

The asset-based approach (cost approach) is an appraisal approach to determine the value of the appraisal target by appraising the values of all on-balance sheet and identifiable off-balance sheet assets and liabilities of the appraised entity based on its balance sheet as at the Valuation Reference Date. If the asset-based approach is adopted to appraise the enterprise value, there is a possibility that not every asset and liability can be fully identified and appraised separately.

(II) Selection of Valuation Approach

As required by the Practicing Standards for Asset Valuation — Enterprise Value, “when performing the appraisal of enterprise value, the valuers shall analyse the applicability of the three basic approaches, namely the income approach, market approach and cost approach (asset-based approach), and select the valuation approach based on valuation purposes, appraisal targets, value types, condition of data

collection and so on.” “For enterprise value appraisal projects that are suitable for adopting different valuation approaches, the professional asset valuers shall conduct valuation by using two or more valuation approaches.”

According to the Notice on Issues concerning the Reinforcement of State-owned Assets Appraisal and Management of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274), “for assets valuation projects related to enterprise value, when they are evaluated on the going concern premise, the use of two or more valuation approaches are required, and the valuation approaches are needed to be listed in the valuation report. After making a comprehensive analysis on the basis of actual condition, one of the valuation results should be identified as the results of the valuation report.”

The purpose of this valuation is to provide a valuation reference. The basic idea of the asset-based approach (cost approach) is that the appraised asset is to be rebuilt or replaced under current conditions and that, when making decisions on the investment of an asset, a potential investor is willing to pay a price of not more than the current acquisition and construction costs of such asset. This valuation project can fulfil the required conditions of the asset-based approach (cost approach), that is, the appraised asset is, or is assumed to be, in continuous use, with usable historical operational information. Adopting the asset-based approach (cost approach) can satisfy the requirements for the value type of this valuation.

The income approach appraises an asset from the perspective of its expected profitability. The appraised entity is engaged in the financial leasing industry. Owing to the characteristics of the industry, its maximum development scale is determined by its registered capital. The entity has undergone a number of capital increase exercises since its establishment in 2012, with contribution amounts increasing from RMB100 million to RMB1,356 million. As at the reference date, the entity was basically in a stage of stable operation. Since the company’s business model is to earn interest margins and handling charges through asset leasing and re-financing, its revenue is directly affected by various market factors, including interest rates, exchange rates and changes in value of the subject matter. Hence, the expected revenue and risk cannot be measured accurately. Besides, due to the significant influence of financial policies on its business operations, the basic assumption of stable policies is no long applicable to this project if the income approach is adopted. Therefore, the preconditions for the adoption of the income approach are non-existent.

The two commonly used methods for the market approach are listed company comparison method and transaction case comparison method. The preconditions for the adoption of the market approach are a developed, fair and active open market with sufficient market information and the availability of comparable transaction cases on the open market. There are many recent equity transaction cases on enterprises with product types and operational stages similar to those of the appraised entity on the property exchange market. Moreover, as the purpose of this valuation is to provide a market value reference for the capital increase, it is suitable to use the market approach for valuation.

In view of the above, the asset-based approach and market method have been adopted for the valuation.

(III) Introduction to the Asset-based Approach

Specifically, the asset-based approach refers to the method of determining the value of the entire equity interests in an enterprise by summing up the appraised values of its key assets and deducting the appraised values of its liabilities.

The valuation methods for various types of assets and liabilities are as follows:

1. Money capital

Money capital includes bank deposits and other monetary funds. For funds denominated in Renminbi, the verified carrying value shall be determined as the appraised value. For funds denominated in foreign currency, the appraised value was arrived at by multiplying the carrying amount of the funds as at the reference date by the exchange rate of Renminbi to the relevant foreign currency as at the reference date.

2. Receivables

Receivables represent trade receivable and other receivables. The appraised value of receivables was determined based on the amount which might be recoverable following verification of the receivables, after deducting the loss which might be incurred by each receivable upon risk assessment. Where part of the receivables was unlikely to be recovered and the irrecoverable amount was hard to determine, the amount, timing and reasons of arrears and the recovery situation were analysed based on historical data and understanding from the current investigation. The appraised value of the receivables was calculated by deducting the assessed risk of loss, which was estimated based on the aging and historical recovery analysis, with reference to the accounting method for bad debt provision. The “bad debt provision” entry was calculated at 0. For fixed income trust products and time deposits, the appraised value was determined as the assessed interest receivable as at the Valuation Reference Date.

3. Prepayments

The appraised value of prepayments was the carrying amount verified upon checking against the accounting entry record, confirming large sums of prepayment, and performing random checks on the original materials related to the prepayments, such as contracts or agreements and payment vouchers.

4. *Other current assets*

The appraised value was determined on the basis of the outstanding entitlement to benefits or the recoverable asset value (mainly input value added tax to be deducted by the enterprise; the verified carrying amount was determined as the appraised value for this valuation).

5. *Long-term receivables*

Long-term receivables are finance lease receivables, of which the amount due within one year is included in non-current assets due within one year. In light of the characteristics of the industries, actual operation of the enterprises and historical recovery of long-term receivables, finance lease receivables are classified into 5 levels: normal, special mention, subordinated, suspicious and loss. The financial accounting function of the company has made bad debt provision proportionate to the different risk levels. In this valuation, the appraised value was determined after deducting the amount that may not be recoverable by adopting the method of estimating bad debt provision of the financial accounting function.

6. *Available-for-sale financial assets*

Senior asset-backed securities, fixed income trust products, trust protection fund and joint venture investment under limited partnership, which are entitled to fixed income, were appraised at their respective contribution amount in this valuation. Their respective income was included and appraised in other receivables — other income (income of the trust products invested near the reference date was not included due to short time horizon).

Subordinated asset-backed securities were appraised at their carrying amount in this valuation due to uncontrollable future risks and uncertainties in future income. Meanwhile, after investigation, the financial leasing business securitised as trust properties is found to be in arrears and the company, as a subordinated holder, is exposed to investment risk. Therefore, an impairment provision was made by using the same bad debt provision method for long-term receivables. The risk of loss of this portion was estimated by adopting the impairment provision method used by the financial accounting function.

7. *Long-term equity investment*

For long-term equity investments, the formation of the long-term equity investments, the constitution of the carrying amount and the actual situation at the current stage were verified through inspections on the investment agreements, resolutions at general meeting, articles of association, relevant accounting records and other documents, thereby confirming the authenticity and integrity of such investments.

For the long-term equity investments in wholly-owned and controlled enterprises, the overall asset appraisal was carried out in accordance with the relevant industry standards, and the appraised value of each long-term equity investment was calculated separately pursuant to the shareholding percentage in the investee. The valuation principles, selection of valuation approaches, valuation process of various assets and liabilities, and selection of parameters were consistent with each other in the valuation of each investee, so as to reasonably, fairly and fully reflect the appraised value of various assets of each investee.

Appraised value of long-term equity investment = Entire equity interests in investee × Shareholding percentage

When determining the appraised value of long-term equity investments through the above method, consideration was neither given to the premium and discount of long-term equity arising from factors such as controlling rights or minority interests, nor to the impact of liquidity of equity interests on the appraised value of long-term equity investments.

8. *Equipment assets*

Self-owned equipment is primarily evaluated by adopting the replacement cost method through the analysis of the characteristics, usages and data collection of various types of equipment involving the appraised entity. Income approach is adopted for equipment with an intention for long-term leasing.

(1) Cost approach

Appraised value = Full replacement cost — Physical depreciation —
Functional depreciation — Economic depreciation
= Full replacement cost × Comprehensive newness
rate

A. Determination of full replacement cost

Equipment full replacement cost comprises the equipment purchase price, transportation and miscellaneous fees, basic fee, installation and testing fees, and other reasonable expenses of the equipment at the point of time as at the Valuation Reference Date, which is generally the updated replacement cost. Pursuant to Article 8 of the Interim Regulations of the People's Republic of China on Value Added Tax (Decree No. 538 of the State Council), "The value added tax amount paid or incurred on goods purchased and taxable labour services received is input value added tax and can be offset by output value added tax." Therefore, deductible value added tax still needs to be offset against the equipment full replacement cost.

Calculation formula of equipment full replacement cost:

Equipment full replacement cost = Equipment purchase price + Transportation and miscellaneous fees + Basic fee + Installation and testing fees + Other reasonable expenses – Deductible value added tax

Pursuant to the relevant requirements of the Interim Regulations of the People's Republic of China on Value Added Tax (Decree No. 538 of the State Council), Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value Added Tax (Decree No. 50 of the Ministry of Finance and the State Administration of Taxation), the Notice of the Ministry of Finance and the State Administration of Taxation on Several Issues concerning the National Implementation of Value Added Tax Reform (Cai Shui [2008] No. 170), the Notice of the Ministry of Finance and the State Administration of Taxation on Issues concerning the Offsetting of Input Taxation on Fixed Assets (Cai Shui [2009] No. 113), Notice on All-Round Launch of the Pilot Transformation from Business Tax to Value-Added Tax (Cai Shui [2016] No. 36) and Notice on Adjustment of Value Added Tax Rates (Cai Shui [2018] No. 32), which are effective from 1 January 2009, the deductible value added tax of the eligible equipment in this valuation is calculated as follows:

Deductible value added tax on equipment purchase price = Equipment purchase price / 1.13 × 13%

① Determination of full replacement cost of general equipment:

Full replacement cost = Current equipment price × (1 + Rates of transportation and miscellaneous fees and installation fee) + Other reasonable expenses - Value added tax amount

Value added tax amount = Current equipment price / 1.13 × 13%

Basis of current equipment price:

Obtained from the information on JD.com, etc.;

Obtained through performing analysis, comparison and adjustment on recent contract prices of equipment;

For equipment whose price was not available through price enquiry and checking, the price was determined by making adjustments and estimates with reference to the prevailing market prices of similar equipment;

Determination of transportation and miscellaneous fees and installation fee:

Determined based on the indicators listed in the Common Data and Parameter Handbooks of Assets Valuation, or based on the budget estimate indicators for the transportation and miscellaneous fees, equipment basic fee and installation and testing fees of each type of equipment as set out in the Budget Estimate Preparation Method and Indicators for Machinery Construction Projects.

Other reasonable expenses: mainly represents capital costs. For high-value equipment with a long construction cycle, the capital costs were calculated based on the construction cycle and payment method. For low-value equipment with a short construction cycle, the capital costs were generally not calculated.

② Determination of full replacement cost of transport equipment:

The full replacement cost was determined by including the vehicle purchase tax, registration and licence fee for new motor vehicle and so on according to the Interim Regulations of the People's Republic of China on Vehicle Purchase Tax and relevant local documents based on the market selling price of the transport vehicle equipment as at the Valuation Reference Date:

Full replacement cost = Current purchase price (tax exclusive)
+ Vehicle purchase tax + Registration and licence fees for new motor vehicle, etc.

B. Determination of comprehensive newness rate

① Determination of newness rate of motor vehicles:

For motor vehicles used for transportation, the comprehensive newness rate of the equipment is reasonably determined by combining the economic useful life and economic mileage of motor vehicles as estimated and determined in the "Reference Table of Economic Useful Life of Motor Vehicles" of the Common Parameter Handbooks of Assets Valuation, with the year newness rate as the basic newness rate of the vehicle and the actual mileage as the correction factor of the utilisation rate of the vehicle, and correcting the basic newness rate based on other different factors, according to the relevant requirements of the Provisions on the Criteria for Compulsory Condemnation of Motor Vehicles (Order

of Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection, [2012] No. 12).

- ② The theoretical newness rate was directly adopted as the comprehensive newness rate of general equipment assets.

$$\text{Theoretical newness rate} = \frac{\text{Remaining useful life}}{\text{Used life} + \text{Remaining useful life}} \times 100\%$$

C. Determination of appraised value

$$\text{Appraised value} = \text{Full replacement cost} \times \text{Comprehensive newness rate}$$

To alleviate the problem of traffic congestion and control the growth in the number of motor vehicles, apart from putting up licence plates for private vehicles for open auction, the municipal governments of Shanghai and Hangzhou have also started auctioning licence plates for official vehicles of enterprises and business units in recent years. The market-driven measures adopted in the allocation of licence plates have led to the commercialisation of licence plates. Therefore, the licence plates being used by official vehicles (excluding goods vehicles) of enterprises and business units have all reflected their market value. Based on our understanding, the practice of “controlling the number of certain vehicles through licence plate auction” will continue for a certain period of time based on the laws and regulations on road safety and the traffic conditions of Shanghai and Hangzhou. Therefore, we proposed to consider the value of the licence plates for official vehicles in the valuation of motor vehicles with reference to the market conditions.

(2) *Income approach*

First, we predicted the net leasing income from the leased asset of the company for each year during its effective economic life. Then, the net income for each year was discounted by using an appropriate opportunity cost of capital (i.e. discount rate). The sum of the present value was the asset value. The basic calculation formula is set out as below:

$$p = \sum_{i=1}^n \frac{F_i}{(1+r)^i}$$

in which: P — Value of leased asset
 Fi — Net leasing income for period i
 n — Income duration
 r — Discount rate

- (3) Fixed assets of SIIC Financial Leasing — Among the vehicles, one of the licence plates (滬ASH996) is originally the licence place for the Audi Q7 purchased in 2013. While the Audi Q7 has already been transferred with accounting adjustments made, the relevant licence fee is still recorded in the accounts. Since the original licence plate no longer belongs to SIIC Financial Leasing, the appraised value is nil in this valuation. Report users have also been reminded to handle such matter in a compliant manner.

9. *Intangible assets*

Other intangible assets are software purchased externally. For externally purchased applications and software available for sale on the market as at the Valuation Reference Date, the appraised value was determined as the market price as at the Valuation Reference Date. For externally purchased applications and software available for sale on the market with version upgrades as at the Valuation Reference Date, the appraised value was determined as the market price as at the Valuation Reference Date after deducting the upgrade costs of such applications and software.

10. *Deferred income tax assets*

Deferred income tax assets are deductible temporary differences arising from the assets of the enterprise due to the differences in accounting standards adopted by the enterprise and tax laws during the subsequent measurement process.

In this valuation, after investigating the contents and formation of the deferred income tax assets, we have remeasured and determined the appraised value of the deferred income tax assets based on the valuation and treatment of corresponding items.

11. *Long-term deferred expenses*

The appraised value was determined on the basis of the outstanding entitlement to benefits or the recoverable asset value.

12. *Liabilities*

Liabilities mainly comprise current liabilities and non-current liabilities. Upon checking and verification, the appraised value was determined based on the actual debtors and debt amount of various liabilities subsequent to the implementation of the economic behaviour as mentioned in the valuation purpose.

Introduction to the Market Approach

1. Overview

Pursuant to the Practicing Standards for Asset Valuation — Enterprise Value, the market approach adopted in appraisal of enterprise value refers to the method to appraise the value of an appraisal target by comparing it to comparable listed companies or comparable transaction cases. Two common methods used by the market approach are the listed company comparison method and the transaction case comparison method.

The listed company comparison method determines the value of the appraisal target by obtaining and analysing the operational and financial information of comparable listed companies, calculating the value ratios and comparing them to the data of the appraised entity.

The transaction case comparison method determines the value of the appraisal target by obtaining and analysing the information of the trading and merger and acquisition cases of comparable enterprises, calculating the value ratios and comparing them to the data of the appraised entity.

The transaction case comparison method (mainly cases of non-listed finance leasing companies being acquired by listed companies) instead of the listed company comparison method has been adopted for the market approach because SIIC Financial Leasing only conducts the financial leasing business with a registered capital of only RMB1,356 million. As compared with its listed peers, the business of the appraised unit is relatively unitary and small. Therefore, the listed company comparison method is not suitable given the low comparability to listed companies.

The price-to-book ratio (P/B ratio) was selected for the value ratio and the cases were selected based on the following criteria:

1. The main operations of the case company shall be located in the PRC;
2. The case company shall be mainly engaged in the finance leasing industry with a majority of revenue generated from operations related to finance leasing;
3. The detailed financial data and operational information of the case company shall be open to public; and
4. The case company shall be acquired by the listed company within two years from the Valuation Reference Date.

In view of the above selection criteria, we chose the following comparable transaction cases companies for comparison:

No.	Short name and stock code of listed company	Name of the acquired subject company	Main operations of subject company	P/B ratio
1	Xinjiang Beixin Road & Bridge Group Co., Ltd. (002307.SZ)	新疆鼎源融资租赁股份有限公司 (Xinjiang Dingyuan Finance Leasing Co., Ltd.)	Xinjiang Dingyuan Finance Leasing Co., Ltd. is the earliest finance leasing company under the Xinjiang Production and Construction Corps. By virtue of its unique regional advantages in Xinjiang, strong capabilities of the enterprise, sound information network and professional operation team of the Xinjiang Production and Construction Corps, it focuses on providing professional finance leasing services to resource mining and development enterprises, industrial enterprises, agricultural enterprises and companies engaged in the industries of oil and petrochemical, transport and logistics, aviation, construction, medical and health, education and engineering, tourism, machinery manufacturing and transportation of heavy-duty trucks. Its main business products include direct lease, sublease, sale and leaseback, leveraged lease, entrusted lease and joint lease, etc. It also actively develops the finance leasing business in international trading and import/export of cargoes and technology.	1.19

No.	Short name and stock code of listed company	Name of the acquired subject company	Main operations of subject company	P/B ratio
2	Jiangsu Yueda Investment Co., Ltd. (600805.SH)	悅達融資租賃有限公司 (Yueda Finance Leasing Co., Ltd.)	Yueda Finance Leasing Co., Ltd. is mainly engaged in the operations of traditional finance leasing and automobile finance leasing, involving the business sectors of automobile, transportation, project construction, urban development and healthcare. It is dedicated in providing financing service to different enterprises and individuals.	1.15
3	Juneyao Airlines Co. Ltd. (603885.SH)	上海華瑞融資租賃有限公司 (Shanghai Huarui Financing Lease Co., Ltd.)	As a professional leasing company under the diversified financial sector of Juneyao Group, by making use of the convenience of domestic and foreign financing in the free-trade zone, Shanghai Huarui Financing Lease Co., Ltd. has gradually become an important finance leasing platform for the aviation industry as well as for domestic and international enterprises with its finance leasing and commercial factoring operations. By focusing on aircraft leasing and integrating with the sectors of automobile financing, health and medical, port and pier, container transport, commercial property, large equipment, government infrastructure and smart city, it has become a first-class professional leasing company in the PRC with international impact.	1.17

Note: All the above information were extracted from the merger and acquisition information announced publicly by each of the listed companies as well as the websites of the subject companies.

2. Calculation Formula

Value of entire equity interests = Value of operating assets + Value of overage assets + Value of non-operating assets and liabilities

Value of operating assets = Relevant indicator of the appraised entity
× Corresponding value ratio of comparable enterprise × Correction factor

Based on the sufficiency and reliability of the operational and financial information of the comparable enterprises obtained and the number of comparable enterprises available, we adopted the transaction case comparison method in this valuation.

3. Appraisal Procedures

- (1) Identification of comparable enterprises. We analysed transaction cases which were in the same industry or subject to the same economic factors as the appraised entity and which were engaged in the same or similar operations as the appraised entity with similar time horizon. After taking into account the business structure, operational model, business scale, asset allocation and usage, operational risk and financial risk of comparable enterprises, we selected and determined the appropriate comparable enterprises for comparison with the appraised entity.
- (2) Necessary adjustments on the appraised entity and comparable enterprises. We analysed the publicly available operational and financial information of the comparable enterprises and compared them with the real situation of the appraised entity. Necessary adjustments were made on such information.
- (3) Selection and determination of value ratio. Value ratio normally includes earning ratio, asset ratio, income ratio and other specific ratios, such as equity ratios including price earning ratio (P/E ratio), price-to-book ratio (P/B ratio) and price-to-sales ratio (P/S ratio), or enterprise value ratio (EV/EBITDA). After comparing and analysing the relevance of each value ratio and the market value of the appraised entity, we chose the price-to-book ratio (P/B ratio) as the value ratio. In the course of selection, we have fully considered the following factors: the chosen value ratio was beneficial to the reasonable determination of the value of the appraisal target; the range of information and method used for calculating the value ratio were consistent; reasonable adjustments were made on the differences between the comparable enterprises and the appraised entity whenever possible while using the value ratio.

- (4) Estimation of enterprise value. After adjustments and calculations, the value ratios of the comparable enterprises were multiplied to the corresponding financial information or indicators of the appraised entity to arrive at the value of the entire equity interests in the appraised entity.

XI. VALUATION ASSUMPTIONS

For this valuation project, the asset valuer has followed the following valuation assumptions and limiting conditions:

(I) Basic Assumptions

1. *Transaction hypothesis*

The transaction hypothesis assumes that all the assets to be valued are already in the process of transaction and the asset valuer carries out the valuation based on a simulated market which involves the transaction conditions of the assets to be valued. The transaction hypothesis is the basic assumption for the valuation of assets.

2. *Open-Market hypothesis*

The open-market hypothesis not only refers to market condition or environment but also focuses on the impact on assets. Open-market refers to fully developed and perfect market condition, which has willing buyers and willing sellers in a competitive market. In this market, willing buyers and willing sellers, both of whom have the opportunity and time to obtain enough market information, remain in equal position. The transaction between buyers and sellers is based on the condition that the parties have each acted voluntarily, sensibly without compulsion or limitation. The open-market hypothesis is based on the situation where the assets can be traded publicly in the market.

3. *Going concern hypothesis*

The going concern hypothesis assumes that the appraised entity is capable of continuous and legal operation in its status quo with the existing assets, resources and conditions during its term of operation in the foreseeable future. There will not be any material adverse changes to its operating conditions.

(II) General Assumptions

1. This valuation is based on the assumption that there is no unforeseeable material adverse change to the prevailing external economic environment of the country, including the laws, macroeconomy and financial and industrial policies, subsequent to the Valuation Reference Date, and that there are no other force majeure and unforeseeable factors which would cause significant effects.

2. This valuation takes into account neither the security and guarantee which may be imposed on the appraised entity and its assets in the future, nor the impact of the potential additional price to be paid by way of special transaction on its valuation conclusions.
3. There is no significant change to the socioeconomic environment of, and the tax policy and tax rates imposed on, the place where the appraisal target is located, and the credit policy and financial policy (including interest rates and exchange rates) remain basically stable.
4. The assets in this valuation are appraised based on their actual inventory as at the Valuation Reference Date, and their prevailing market prices are based on the valid prices prevailing in the places where they are located as at the Valuation Reference Date.
5. The operational activities of the appraised entity have complied and will comply with the laws and regulations, and the relevant requirements of its business licence and articles of association.

(III) Special Assumptions for the Market Approach

1. The relevant information of the comparable transaction cases is assumed to be true and reliable;
2. Unless otherwise stated, the transactions on the capital market are conducted on an open, fair and voluntary basis;
3. Neither the impact of acts of god and the other force majeure factors, nor the impact of special transactions on the valuation conclusions are taken into consideration; and
4. Security and guarantee which may arise in the future are not taken into account. The securities of the comparable listed companies selected under the market approach are traded in a normal and orderly manner on the market and their trading prices have not been manipulated by any non-market forces.

The valuation conclusions of this asset valuation report are arrived at subject to the above assumptions and limiting conditions.

XII. VALUATION OPINIONS

Upholding the principles of independence, objectiveness and fairness, we have carried out the necessary valuation procedures in accordance with the asset valuation requirements of the country. Subject to the valuation purpose, valuation assumptions and limiting conditions stated herein, we have reached the following valuation conclusions regarding the market value of the entire equity interests of the appraised entity as at the Valuation Reference Date:

(I) Analysis of Valuation Results and Final Valuation Conclusions

1. *Appraised value under the asset-based approach*

Under the asset-based approach, the appraised value of the entire equity interests in the appraised entity was calculated as follows:

As at the Valuation Reference Date, the carrying amount of the equity interests in the appraised entity was RMB1,470,643,400 and the appraised value was RMB1,476,009,900, representing an appreciation of RMB5,366,500 and an appreciation rate of 0.36%.

In particular, the carrying amount of the total assets was RMB15,500,495,000 and the appraised value was RMB15,505,861,500, representing an appreciation of RMB5,366,500 and an appreciation rate of 0.03%. The carrying amount of the liabilities was RMB14,029,851,600 and the appraised value was RMB14,029,851,600, representing no appreciation or depreciation.

2. *Appraised value under the market approach*

Under the market approach, the appraised value of the entire equity interests in the appraised entity was calculated as follows:

As at the Valuation Reference Date, the carrying amount of the equity interests in the appraised entity was RMB1,470,643,400 and the appraised value was RMB1,910,000,000, representing an appreciation of RMB439,356,600 and an appreciation rate of 29.88%.

3. *Analysis of different appraised values under different methods*

In this valuation, the appraised value of the entire equity interests arrived at by using the market approach was RMB1,910,000,000, which was RMB433,990,100 or 29.40% higher than the appraised value of RMB1,476,009,900 calculated by using the asset-based approach. The main reasons for the difference in outcome under the two valuation approaches are set out as follows:

- (1) The asset-based approach determines the assets value with reference to the replacement cost and reflects the necessary social labour consumed by asset investments (acquisition and construction costs). Such acquisition and construction costs usually vary according to the situation of national economy.
- (2) The market approach is a method to arrive at the market value of the appraisal target by analysing the similarities and differences between the appraised entity and the reference entities and making quantitative adjustments to such differences through comparing with similar transaction cases. This approach is affected by the macro environment and fluctuations of trading prices on the capital market.

For the above reasons, the two valuation approaches arrive at different conclusions.

4. Selection of valuation conclusions

The appraised entity is engaged in the financial leasing industry, and the revenue of this industry is subject to market risks, including interest rates, exchange rates and changes in value of the subject matters. At present, given factors including the general decrease in market interest rates and slowdown in macroeconomic growth, the asset-based approach has already fully reflected the value of the entire equity interests in the appraised entity. Although the business structure, operational model, business scale and asset allocation of each company in the comparable cases are highly comparable to those of the appraised entity, it is very difficult to quantify the differences between them in a precise manner. Taking into consideration that the information used in the asset-based approach is better than that used in the market approach in terms of quality and quantity, we preferred the results of the asset-based approach.

Through the above analysis, we have selected the valuation results under the asset-based approach as the conclusions of the valuation of the entire equity interests in the appraised entity. The appraised value of the entire equity interests in the appraised entity is RMB1,476,009,853.31 (RENMINBI: ONE THOUSAND FOUR HUNDRED SEVENTY-SIX MILLION NINE THOUSAND EIGHT HUNDRED FIFTY-THREE YUAN AND THIRTY-ONE CENTS).

Our valuation conclusions are arrived at based on the above valuation work.
A site visit was conducted by us from 28 May 2019 to 14 June 2019.

Zhuoer Qiu Lingen Chen
For and on behalf of
Shanghai Orient Appraisal Co., Ltd.

Note:

Zhuoer Qiu is a PRC asset valuer, who has completed a course on international enterprise valuation and is qualified as an internationally registered enterprise valuer. He has participated in enterprise valuation operations of various industries (e.g. financial industry, service industry and manufacturing industry) and value types (e.g. market value, liquidation value and investment value) located in more than 20 provincial administrative regions (e.g. Shanghai, Beijing, Hong Kong, Macau, Jiangsu Province, Zhejiang Province and Guangdong Province) with 14 years of experience in domestic enterprise valuation. He has also participated in enterprise valuation operations in various countries (e.g. Germany, the United States of America and Spain) with 3 years of experience in foreign enterprise valuation.

Lingen Chen is a PRC asset valuer, who has participated in enterprise valuation operations of various industries (e.g. financial industry, service industry and manufacturing industry) and value types (e.g. market value, liquidation value and investment value) located in more than 20 provincial administrative regions (e.g. Shanghai, Beijing, Hong Kong, Macau, Jiangsu Province, Zhejiang Province and Guangdong Province) with 18 years of experience in domestic enterprise valuation.

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 at the Latest Practicable Date, the interests and short positions of the Directors and chief executives 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 the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”), were as follows:

Long positions in the Shares and underlying shares of the Company

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares held subject to options granted⁽¹⁾	Approximate % of the issued share capital of the Company
Ye Weiqi	Beneficial interest	—	6,000,000	0.12%
Zhong Tao	Beneficial interest	—	6,000,000	0.12%
Doo Wai-Hoi, William, <i>J.P.</i>	Beneficial interest	—	1,000,000	0.02%
Fan Ren Da, Anthony	Beneficial interest	—	1,000,000	0.02%
Li Ka Fai, David	Beneficial interest	—	1,000,000	0.02%

Note:

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives 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, substantial shareholders and other persons (other than the Directors and the chief executives 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 follows:

Name of substantial shareholder	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
SIHL	Held by controlled corporation	2,328,671,400(L) ⁽¹⁾⁽²⁾⁽³⁾	48.45%
SIIC	Held by controlled corporation	3,107,696,148(L) ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	64.66%

Notes:

- (1) L denotes long position.
- (2) These include 2,278,671,400 Shares held by S.I. Smart Charmer Limited and 50,000,000 Shares that are deemed to be held by Novel Good Limited under the pledge described in note 3 below. As S.I. Smart Charmer Limited and Novel Good Limited are both wholly-owned subsidiaries of SIHL, which is in turn controlled by SIIC, SIHL and SIIC are deemed or taken to be interested in the interests in the Shares held by S.I. Smart Charmer Limited and Novel Good Limited.
- (3) These interests include 50,000,000 Shares (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.
- (4) SIIC, through Shanghai Investment Holdings Limited (a subsidiary of SIIC) held approximately 55.13% of the shares of SIHL. Therefore, SIIC is deemed or taken to be interested in the 2,328,671,400 Shares held by SIHL for the purpose of the SFO. On the other hand, SIIC is also deemed or taken to be interested in the 779,024,748 Shares held by its subsidiaries, namely SIIC Trading Company Limited, Shanghai Industrial Financial Holdings (Hong Kong) Company Limited, SIIC CM Development Limited, SIIC Capital (B.V.I.) Limited and Shanghai Investment Holdings Limited.

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 executives 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 a 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.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

DIRECTORS' INTERESTS IN CONTRACTS/ARRANGEMENTS

As at the date of this circular, 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 Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

As at the date of this circular, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

EXPERTS

The following are the qualifications of the experts who have provided their opinion or advice, which are contained in this circular:

Name	Qualification
Shanghai Orient Appraisal Co., Ltd. (上海東洲資產評估有限公司)	Valuer
Alliance Capital Partners Limited	A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, and appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription

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 at 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 2019, 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.

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 is at 11/F, Henley Building, No. 5 Queen's Road Central, 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 Special Administrative Region.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Tricor Secretaries Limited of Level 54, 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 Subscription Agreement;
- (c) the written consents from Shanghai Orient Appraisal and Alliance Capital Partners Limited referred to in the paragraph headed "Experts" in this Appendix;
and
- (d) this circular.

Details of the Director who will retire and stand for re-election at the SGM according to the Bye-laws are provided below.

Mr. Huang Haiping (“Mr. Huang”)

Position and Experience

Mr. Huang, aged 53, was appointed as the Chairman of the Board (the “**Chairman**”), an executive Director and the chairman of the nomination committee of the Company on 18 May 2020. He is a director and vice president of Shanghai Industrial Investment (Holdings) Company Limited (a controlling shareholder of the Company) and the chairman of 上海實業東灘投資開發(集團)有限公司 (SIIC Dongtan Investment & Development (Holdings) Co., Ltd.). He graduated from the Shanghai Education Institute majoring in political education (undergraduate) and obtained a bachelor degree of laws from the Shanghai Normal University. He holds the title of political engineer. Mr. Huang previously acted as deputy officer of the Huangpu District Xiaodongmen Sub-district Office, officer of the Huangpu District Bansongyuan Road Sub-district Office, director of the Huangpu District Housing and Land Administrative Bureau, leader of the Joint Preparation Group of the Huangpu District Development and Reform Commission, director of the Huangpu District Housing Security and Housing Administrative Bureau, deputy director of the Putuo District Government of Shanghai and vice chairman of the CPC Shanghai Putuo District Committee. He has over 20 years of working experience in urban construction and management.

Save as disclosed above, Mr. Huang has not held any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas during the last three years and has not held any other positions with the Company and other subsidiaries of the Company.

Length of Service

Mr. Huang has entered into a service contract with the Company pursuant to which he has been appointed as the Chairman and an executive Director for a term of three years with effect from the conclusion of the annual general meeting held on 18 May 2020, subject to retirement by rotation and re-election in accordance with the Bye-Laws.

Relationships

As far as the Directors are aware and save as disclosed above, Mr. Huang has no relationship with any other directors, senior management, substantial or controlling shareholders (as defined in the Listing Rules) of the Company.

Interests in Shares

As at the Latest Practicable Date, Mr. Huang is not interested or deemed to be interested in the shares or underlying shares of the Company or its associated corporations within the meaning of Part XV of the SFO.

Director's Emoluments

There is a service contract entered into between Mr. Huang and the Company. Mr. Huang will not receive any director's fee from the Company but is entitled a discretionary bonus and additional fees will be paid to Mr. Huang for serving on other Board committees, if any, the amount of which will be determined by the remuneration committee of the Company and the Board. The amount of the discretionary bonus and additional fees will be determined with reference to his duties, responsibilities and performance in respect of the Company, the Company's remuneration policy and the prevailing market situation.

NOTICE OF THE SGM



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)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that a special general meeting of Shanghai Industrial Urban Development Group Limited (the “**Company**”) will be held at Ballroom, 1/F, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Friday, 11 September 2020 at 11:00 a.m. (or any adjournment thereof) for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the subscription agreement dated 22 January 2020 and entered among 上實城開(上海)城市建設開發有限公司 (Shanghai Urban Development (Shanghai) City Construction and Development Company Limited), 上海星河數碼投資有限公司 (Shanghai Galaxy Investments Co., Ltd.), 北京真辰資產管理有限公司 (Beijing Zhenchen Asset Management Co., Ltd.), 上海真辰實業發展有限公司 (Shanghai Zhenchen Industrial Development Co., Ltd.), Happy Sincere Investment Limited and Mr. Lin Zhen (the “**Subscription Agreement**”), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one of the directors of the Company be and is hereby authorised to sign, execute, perfect, deliver, negotiate, agree and do all such documents, deeds, acts, matters and things, as the case may be, as he may in his opinion or absolute discretion consider reasonable, necessary, desirable or expedient to implement and/or give effect to the Subscription Agreement and the transactions contemplated thereunder with any changes as such director of the Company may in his absolute discretion think fit.”

NOTICE OF THE SGM

2. “**THAT:**

Mr. Huang Haiping be re-elected as an executive director of the Company.”

By order of the Board of
Shanghai Industrial Urban Development Group Limited
Huang Haiping
Chairman

25 August 2020, Hong Kong

Notes:

1. For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Tuesday, 8 September 2020 to Friday, 11 September 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all duly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 7 September 2020.
2. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company.
4. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours (Hong Kong Time) before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy previously submitted shall be deemed to be revoked.
5. The votes to be taken at the meeting for the resolutions will be by way of poll.

NOTICE OF THE SGM

- 6. In compliance with the Hong Kong Government’s directive on social distancing, personal and environmental hygiene, and the guidelines issued by the Centre for Health Protection of the Department of Health on the prevention of coronavirus disease 2019 (“COVID-19”), the Company will implement precautionary measures at the meeting. Shareholders are advised to read page (i) of this circular for details of the precautionary measures and monitor the development of COVID-19. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.**
- 7. In light of the continuing risks posed by the COVID-19 pandemic, the Company strongly advises Shareholders to appoint the chairman of the meeting as their proxy to vote on the relevant resolution as an alternative to attending the meeting in person.**

As at the date of this announcement, the Board of the Company comprises Mr. Huang Haiping, Mr. Zhou Xiong, Mr. Lou Jun, Mr. Ye Weiqi and Mr. Zhong Tao as executive directors and Mr. Doo Wai-Hoi, William, J.P., Mr. Fan Ren Da, Anthony, Mr. Li Ka Fai, David and Mr. Qiao Zhigang as independent non-executive directors.