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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)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE AMENDED CROSS GUARANTEE ARRANGEMENT**

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



Guotai Junan Capital Limited

A letter from the Board is set out on pages 5 to 9 of this circular and a letter from the Independent Board Committee is set out on page 10 of this circular. A letter from Guotai Junan Capital Limited, 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 11 to 16 of this circular.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	5
The Second Supplemental Agreement	6
Reasons for and Benefits of the Amended Cross Guarantee Arrangement ...	6
Listing Rules Implications	7
Shareholders' Approval	8
Information on the Group	9
Information on State-owned Management Company	9
Recommendation	9
Additional Information	9
Letter from the Independent Board Committee	10
Letter from the Independent Financial Adviser	11
Appendix – General Information	
Responsibility Statements	17
Disclosure of Interests	17
Directors' Service Contracts	18
Competing Business Interests of Directors	19
Material Adverse Change	19
Expert	19
Directors' Interests in Assets or Contracts	19
General	20
Documents Available for Inspection	20

DEFINITIONS

In this circular, the following expressions have the meanings as set out below unless the context requires otherwise:

“Amended Cross Guarantee Agreement”	the Cross Guarantee Agreement as amended by the Second Supplemental Agreement
“Amended Cross Guarantee Arrangement”	the arrangement pursuant to the Amended Cross Guarantee Agreement whereby Shanghai Urban Development and the State-owned Management Company have agreed to provide guarantees in respect of each other’s obligations under the loans and credit facilities obtained from banks from time to time subject to a cap of RMB400 million (equivalent to approximately HK\$493 million)
“Board”	the board of Directors
“Company”	Shanghai Industrial Urban Development Group Limited, a company incorporated under the laws of Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 563)
“connected person”	has the meaning given to it under the Listing Rules
“controlling shareholder”	has the meaning given to it under the Listing Rules
“Cross Guarantee Agreement”	the cross guarantee agreement dated 26 December 2002 and entered into between Shanghai Urban Development and State-owned Management Company and as amended by the First Supplemental Agreement
“Directors”	directors of the Company
“Existing Guarantee Limit”	the current maximum amount of guarantee which Shanghai Urban Development and State-owned Management Company may provide in respect of each other’s loans and credit facilities pursuant to the Cross Guarantee Agreement
“First Supplemental Agreement”	the first supplemental agreement to the Cross Guarantee Agreement dated 15 December 2009 entered into between Shanghai Urban Development and State-owned Management Company

DEFINITIONS

“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent board committee of the Company comprising Mr. Doo Wai Hoi, William, J.P., Dr. Wong Ying Ho, Kennedy, BBS, J.P., Mr. Fan Ren Da, Anthony and Mr. Li Ka Fai, David, all being independent non-executive Directors
“Independent Financial Adviser”	Guotai Junan Capital Limited, the independent financial adviser appointed to provide its opinion to the Independent Board Committee and the Independent Shareholders in respect of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit
“Independent Shareholders”	Shareholders other than Xuhui SASAC and any of its associates
“Joy Century”	Joy Century Investments Limited, a company incorporated in Hong Kong with limited liability, and an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	28 December 2012, being the latest practicable date before the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Novel Good”	Novel Good Limited, a company incorporated with limited liability under the laws of the British Virgin Islands. Novel Good is a controlling shareholder holding approximately 69.95% of the issued share capital of the Company, and a wholly-owned subsidiary of SIH
“PRC”	the People’s Republic of China which, for the purpose of this circular only, excludes Taiwan, Hong Kong Special Administrative Region and the Macau Special Administrative Region

DEFINITIONS

“Revised Guarantee Limit”	the revised maximum amount of guarantee which Shanghai Urban Development and State-owned Management Company may from time to time provide in respect of each other’s loans and credit facilities pursuant to the Amended Cross Guarantee Agreement
“RMB”	Renminbi, the lawful currency of PRC
“Second Supplemental Agreement”	the second supplemental agreement to the Cross Guarantee Agreement dated 6 December 2012 entered into between Shanghai Urban Development and State-owned Management Company
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shanghai Urban Development”	上海城開(集團)有限公司 (Shanghai Urban Development (Holdings) Co., Ltd.), a Sino-foreign equity joint venture company established in the PRC and is indirectly owned by the Company as to 59% and by Xuhui SASAC as to 41%
“Share(s)”	ordinary share(s) of HK\$0.04 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SIH”	Shanghai Industrial Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 363), and a controlling shareholder of the Company
“SIIC”	Shanghai Industrial Investment (Holdings) Company Limited, a company incorporated under the laws of Hong Kong with limited liability and a controlling shareholder of SIH
“State-owned Management Company”	上海徐匯國有資產投資經營有限公司 (Shanghai Xuhui State-owned Assets Management Co., Ltd.), a state-owned enterprise established under the laws of the PRC with Xuhui SASAC as the authorized representative exercising state-owned shareholder’s right over it

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning given to it under the Listing Rules
“Written Approval”	the written approval of Novel Good approving the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit dated 24 December 2012
“Xuhui SASAC”	上海市徐匯區國有資產監督管理委員會 (State-owned Assets Supervision and Administrative Committee of Shanghai Xuhui District), a government authority authorized by and established directly under Shanghai Xuhui District People’s Government for supervising and managing state-owned assets in the possession of Xuhui District, including but not limited to, exercising state-owned shareholders’ right over Shanghai Urban Development and a shareholder holding 41% of the equity interest in Shanghai Urban Development

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

For the purposes of this circular, the exchange rate of HK\$1.00 = RMB0.8106 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at the above rate or at any other rates or at all.

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:

Mr. Ni Jianda (*Chairman*)
Mr. Ji Gang (*Vice-Chairman and President*)
Mr. Zhou Jun
Mr. Yang Biao
Mr. Chen Anmin

Independent Non-executive Directors:

Mr. Doo Wai Hoi, William, J.P.
Dr. Wong Ying Ho, Kennedy, BBS, J.P.
Mr. Fan Ren Da, Anthony
Mr. Li Ka Fai, David

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and

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

31 December 2012

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE AMENDED CROSS GUARANTEE ARRANGEMENT

INTRODUCTION

In 2002, Shanghai Urban Development and State-owned Management Company entered into the Cross Guarantee Agreement (which was subsequently amended by the First Supplemental Agreement dated 15 December 2009). Pursuant to the Cross Guarantee Agreement, Shanghai Urban Development and State-owned Management Company agreed to guarantee each other's obligations in respect of the loans and credit facilities which they may respectively obtain from banks from time to time subject to a cap of RMB1,200 million (equivalent to approximately HK\$1,480 million).

At all material times, Shanghai Urban Development was and is owned as to 41% by Xuhui SASAC. State-owned Management Company is a state-owned enterprise and is authorised by Xuhui SASAC which exercises its authority as the state-owned shareholder of State-owned Management Company. The transactions under the Cross Guarantee Agreement became continuing connected transactions of the Company following the Company's acquisition of 59% interest in Shanghai Urban Development in November 2011.

LETTER FROM THE BOARD

On 6 December 2012, Shanghai Urban Development and State-owned Management Company entered into the Second Supplemental Agreement to amend certain terms of the Cross Guarantee Agreement. An announcement in relation to the signing of the Second Supplemental Agreement, the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit was made by the Company on 6 December 2012.

The purposes of this circular are (i) to provide you with information relating to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit; (ii) to set out the opinion of the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit; and (iii) to set out the recommendation and opinion of the Independent Board Committee to the Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit.

THE SECOND SUPPLEMENTAL AGREEMENT

The Second Supplemental Agreement was entered into between Shanghai Urban Development and State-owned Management Company on 6 December 2012. Pursuant to the Second Supplemental Agreement, Shanghai Urban Development and State-owned Management Company agreed to (1) extend the term of the Cross Guarantee Agreement for three years so that it ends on 31 December 2015; and (2) revise the Existing Guarantee Limit of RMB1,200 million (equivalent to approximately HK\$1,480 million) to the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million).

REASONS FOR AND BENEFITS OF THE AMENDED CROSS GUARANTEE ARRANGEMENT

The Existing Guarantee Limit and historical figures

Pursuant to the Cross Guarantee Agreement, the Existing Guarantee Limit for the three years ending 31 December 2012 is RMB1,200 million (equivalent to approximately HK\$1,480 million). The aggregate amount of loans and credit facilities obtained by State-owned Management Company in respect of which guarantees were provided by Shanghai Urban Development at any point in time during the two years ended 31 December 2011 and the nine months ended 30 September 2012 did not exceed the Existing Guarantee Limit. The table below sets out the aggregate amount of loans and credit facilities of State-owned Management Company that were guaranteed by Shanghai Urban Development as at 31 December 2010, 31 December 2011 and 30 September 2012 respectively:

	As at 31 December		As at 30 September
	2010	2011	2012
	(RMB million)	(RMB million)	(RMB million)
Approximate aggregate amount of loans and credit facilities	466	216	316

LETTER FROM THE BOARD

Reasons for entering into the Second Supplemental Agreement and basis of determination of the Revised Guarantee Limit

The purpose of the Cross Guarantee Agreement is to enable Shanghai Urban Development and State-owned Management Company to obtain certain loans and credit facilities which are required to meet their respective funding needs. As the Cross Guarantee Agreement will expire on 31 December 2012 and the funding needs of Shanghai Urban Development and State-owned Management Company have not reached the Existing Guarantee Limit of RMB1,200 million in the past two years, the parties have entered into the Second Supplemental Agreement to extend the term of the Cross Guarantee Agreement for three years so that it ends on 31 December 2015, and to reduce the guarantee limit to the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million) to reflect the latest circumstances.

State-owned Management Company had a registered capital of RMB243 million (equivalent to approximately HK\$300 million), total assets of RMB5,438 million (equivalent to approximately HK\$6,709 million) and total equity attributable to owners of RMB1,459 million (equivalent to approximately HK\$1,800 million) as of 31 December 2011. During the past nine years, Shanghai Urban Development group has established a close partnership with State-owned Management Company. So far as the Directors are aware, up to the Latest Practicable Date, State-owned Management Company had not defaulted on any of its borrowings for which Shanghai Urban Development has provided guarantee pursuant to the Cross Guarantee Agreement. The Directors believe that the credit risk to the Group is subject under the Cross Guarantee Arrangement will be correspondingly reduced following the reduction of the guarantee limit from the current level of RMB1,200 million to RMB400 million under the Amended Cross Guarantee Arrangement. As at 31 December 2010, 31 December 2011 and 30 September 2012, the aggregate amount of loans and credit facilities of Shanghai Urban Development that were guaranteed by State-owned Management Company were RMB596 million, RMB584 million and RMB333 million, respectively.

Given that Shanghai Urban Development will also benefit from the cross guarantee under the Amended Cross Guarantee Agreement and taken into account the reasons set out above, the Directors (including all the independent non-executive Directors) are of the view that the arrangements under the Amended Cross Guarantee Agreement including the provision of guarantees by Shanghai Urban Development in respect of the loans and credit facilities obtained by State-owned Management Company are on normal commercial terms and such terms are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Shanghai Urban Development is owned as to 41% by Xuhui SASAC and as to 59% by Joy Century, an indirect wholly-owned subsidiary of the Company. Xuhui SASAC, being the holder of 41% equity interest in Shanghai Urban Development, is a substantial shareholder of a subsidiary of the Company and hence a connected person of the Company. The operation of State-owned Management Company, a state-owned enterprise, is authorised by Xuhui SASAC and Xuhui SASAC exercises the authority as the state-owned shareholder of State-owned Management Company. State-owned

LETTER FROM THE BOARD

Management Company is therefore regarded as a connected person of the Company for the purposes of Chapter 14A of the Listing Rules, and as such the provision of guarantees by Shanghai Urban Development in respect of the loans and credit facilities obtained by State-owned Management Company pursuant to the Amended Cross Guarantee Agreement constitutes continuing connected transactions of the Company under the Listing Rules.

Based on the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million), one of the applicable percentage ratios under Listing Rule 14.07 exceeds 5%. Accordingly, the provision of guarantees by Shanghai Urban Development in respect of the loans and credit facilities obtained by State-owned Management Company under the Amended Cross Guarantee Agreement constitutes non-exempt continuing connected transactions of the Company, and the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit (in respect of guarantees provided by Shanghai Urban Development) are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Doo Wai Hoi, William, J.P., Dr. Wong Ying Ho, Kennedy, BBS, J.P., Mr. Fan Ren Da, Anthony and Mr. Li Ka Fai, David, all being independent non-executive Directors, have been appointed to form the Independent Board Committee to advise the Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit. Guotai Junan Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit.

The provision of guarantees by Shanghai Urban Development in respect of the loans and credit facilities obtained by State-owned Management Company under the Amended Cross Guarantee Agreement also constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

None of the Directors is materially interested in the Amended Cross Guarantee Arrangement and thus no Director was required to obtain from voting on the board resolution approving the Second Supplemental Agreement.

SHAREHOLDERS' APPROVAL

To the best of the Directors' knowledge and belief, as at the Latest Practicable Date, none of the Shareholders was materially interested in the Amended Cross Guarantee Arrangement and, as such, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit.

Pursuant to Rules 14A.43 and 14A.53 of the Listing Rules, the Company has applied for, and the Stock Exchange has granted, a waiver from compliance with the requirement to hold a general meeting of the Company provided that a written independent shareholders' approval has been obtained from a Shareholder or closely allied group of Shareholders who (together) hold more than 50% in nominal value of the securities giving

LETTER FROM THE BOARD

the right to attend and vote at the general meeting of the Company. The Company has obtained the Written Approval for the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit from Novel Good, a Shareholder which holds 3,365,883,000 Shares, representing approximately 69.95% in nominal value of the securities giving the right to attend and vote at the general meeting of the Company.

INFORMATION ON THE GROUP

The Group is one of the leading property developers in the PRC. The Group principally engages in the businesses of property development, property investment and hotel operations.

INFORMATION ON STATE-OWNED MANAGEMENT COMPANY

State-owned Management Company is a wholly state-owned enterprise, whose establishment was approved by the People's Government of Xuhui District and authorised by Xuhui SASAC. It is principally engaged in the business of investment, asset management and project financing.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 10 of this circular which contains its recommendation to the Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit. Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 11 to 16 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit and the principal factors and reasons considered by it in formulating its advice.

The Independent Board Committee, after taking into account the advice of Independent Financial Adviser, is of the opinion that Amended Cross Guarantee Arrangement and the Revised Guarantee Limit are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee agrees with the decision of Novel Good to approve the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
Shanghai Industrial Urban Development Group Limited
Ni Jianda
Chairman of 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)

31 December 2012

To the Independent Shareholders

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE AMENDED CROSS GUARANTEE ARRANGEMENT**

We refer to the circular of the Company to the Shareholders dated 31 December 2012 (the “Circular”), in 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 Amended Cross Guarantee Arrangement and the Revised Guarantee Limit are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

We wish to draw your attention to the letter of advice from Guotai Junan Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit, as set out on pages 11 to 16 of the Circular and the letter from the Board set out on pages 5 to 9 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of, Guotai Junan Capital Limited as stated in its letter of advice, we consider that the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. We accordingly agree with the decision of Novel Good, a Shareholder which holds 3,365,883,000 Shares, representing approximately 69.95% in nominal value of the securities giving the right to attend and vote at the general meeting of the Company, to approve the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit.

Yours faithfully,
The Independent Board Committee of
Shanghai Industrial Urban Development Group Limited
Mr. Doo Wai Hoi, William, J.P.
Dr. Wong Ying Ho, Kennedy, BBS, J.P.
Mr. Fan Ren Da, Anthony
Mr. Li Ka Fai, David
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Guotai Junan Capital Limited to the Independent Board Committee in respect of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit, which has been prepared for the purpose of inclusion in this Circular.



Guotai Junan Capital Limited

27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

31 December 2012

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE AMENDED CROSS GUARANTEE ARRANGEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transactions contemplated under the terms of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit. Details of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit are set out in the letter from the Board (the "**Letter from the Board**") as contained in the circular of the Company dated 31 December 2012 (the "**Circular**") of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Shanghai Urban Development is owned as to 41% by Xuhui SASAC and as to 59% by Joy Century, an indirect wholly-owned subsidiary of the Company. Xuhui SASAC, being the holder of 41% equity interest in Shanghai Urban Development, is a substantial shareholder of a subsidiary of the Company and hence a connected person of the Company. The operation of State-owned Management Company, a state-owned enterprise, is authorised by Xuhui SASAC and Xuhui SASAC exercises the authority as the state-owned shareholder of State-owned Management Company. State-owned Management Company is therefore regarded as a connected person of the Company for the purpose of Chapter 14A of the Listing Rules, and as such the provision of guarantees by Shanghai Urban Development in respect of the loans and credit facilities obtained by State-owned Management Company pursuant to the Amended Cross Guarantee Agreement constitutes continuing connected transactions of the Company under the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million), one of the applicable percentage ratios under Rule 14.07 of the Listing Rules exceeds 5%. Accordingly, the provision of guarantees by Shanghai Urban Development in respect of the loans and credit facilities obtained by State-owned Management Company under the Amended Cross Guarantee Agreement constitutes non-exempt continuing connected transactions for the Company, and the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit (in respect of guarantees provided by Shanghai Urban Development) are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As stated in the Letter from the Board, so far as the Company is aware, as at the Latest Practicable Date, none of the Shareholders was materially interested in the Amended Cross Guarantee Arrangement and, as such, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit. Pursuant to Rules 14A.43 and 14A.53 of the Listing Rules, the Company has applied for, and the Stock Exchange has granted, a waiver from compliance with the requirement to hold a general meeting of the Company provided that a written independent shareholders' approval has been obtained from a Shareholder or closely allied group of Shareholders who (together) hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting of the Company. The Company has obtained the Written Approval for the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit from Novel Good, a Shareholder which, on the date of the Written Approval, held 3,365,883,000 Shares, representing approximately 69.95% in nominal value of the securities giving the right to attend and vote at the general meeting of the Company.

In formulating our opinion, we have relied on the statements, information, opinion and representations expressed to us by the executive Directors and management of the Company. We have assumed that all such statements, information, opinion and representations expressed to us by the executive Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of this Circular. We have also assumed that all the opinion and representations have been reasonably made by the executive Directors and the management of the Company after due and careful enquiry. We have also sought and obtained confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinion expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders in this regard, we have taken into account the following principal factors and reasons.

1. Background of the Cross Guarantee Agreement and the Existing Guarantee Limit

The Group is one of the leading property developers in the PRC, the principal business of which includes the businesses of property development, property investment and hotel operations. Shanghai Urban Development, which is principally engaged in the business of property development in the PRC, is a subsidiary of the Company and owned as to 59% by the Company and as to the remaining 41% by Xuhui SASAC. Xuhui SASAC is a government authority authorised by and established directly under Shanghai Xuhui District People's Government for supervising and managing state-owned assets in the possession of Xuhui District, including but not limited to, exercising state-owned shareholders' right over Shanghai Urban Development.

Shanghai Urban Development and State-owned Management Company entered into the Cross Guarantee Agreement on 26 December 2002, as amended by the First Supplemental Agreement dated 15 December 2009, pursuant to which Shanghai Urban Development and State-owned Management Company have agreed to provide guarantees in respect of each other's obligations under loans and credit facilities obtained from banks from time to time subject to a cap of RMB1,200 million (equivalent to approximately HK\$1,480 million). The Cross Guarantee Agreement will expire on 31 December 2012.

2. Terms of the Second Supplemental Agreement and the Revised Guarantee Limit

As stated in the Letter from the Board, on 6 December 2012, Shanghai Urban Development and State-owned Management Company entered into the Second Supplemental Agreement amending the terms of the Cross Guarantee Agreement. Pursuant to the Second Supplemental Agreement, the parties have agreed to (i) extend the term of the Cross Guarantee Agreement for three years so that it ends on 31 December 2015; and (ii) revise the Existing Guarantee Limit of RMB1,200 million (equivalent to approximately HK\$1,480 million) to the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million).

3. Analysis of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit

As stated in the Letter from the Board, the purpose of the Cross Guarantee Agreement is to enable State-owned Management Company and Shanghai Urban Development to obtain certain loans and credit facilities which are required to meet their respective funding needs.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Directors, with the Amended Cross Guarantee Arrangement in place, the Group does not need to pledge its assets to banks for obtaining financing, and would have more flexibility in managing its assets. Pursuant to the Cross Guarantee Agreement, Shanghai Urban Development and State-owned Management Company have been providing guarantees to each other in respect of certain loans and credit facilities obtained from banks or credit unions by them respectively to the extent of not more than the Existing Guarantee Limit (i.e. RMB1,200 million (equivalent to approximately HK\$1,480 million)) since 2002 for facilitating their respective financial needs.

As at 31 December 2010 and 2011 and 30 September 2012, the aggregate amounts of loans and credit facilities of State-owned Management Company guaranteed by Shanghai Urban Development amounted to RMB466 million, RMB216 million and RMB316 million respectively, representing approximately 38.8%, 18.0% and 26.3% of the Existing Guarantee Limit of RMB1,200 million.

As at 31 December 2010 and 2011 and 30 September 2012, the aggregate amounts of loans and credit facilities utilised by Shanghai Urban Development guaranteed by State-owned Management Company amounted to RMB596 million (equivalent to approximately HK\$735 million), RMB584 million (equivalent to approximately HK\$720 million) and RMB333 million (equivalent to approximately HK\$411 million) respectively, representing approximately 49.7%, 48.7% and 27.8% of the Existing Guarantee Limit of RMB1,200 million. The aggregate amounts of loans and credit facilities of Shanghai Urban Development guaranteed by State-owned Management Company as at 31 December 2010 and 2011 and 30 September 2012 as disclosed above represent approximately 6.0%, 5.1% and 2.6% of the Group's total borrowings as at 31 December 2010 and 2011 and 30 September 2012 amounted to HK\$12,322 million, HK\$14,190 million and HK\$15,768 million respectively.

As advised by the Directors, the aggregate amount of loans and credit facilities obtained by State-owned Management Company in respect of which guarantees were provided by Shanghai Urban Development and loans and credit facilities obtained by Shanghai Urban Development in respect of which guarantees were provided by State-owned Management Company at any point in time during the two years ended 31 December 2010 and 2011 and the nine months ended 30 September 2012 did not exceed the Existing Guarantee Limit, the parties have entered into the Second Supplemental Agreement to reduce the guarantee limit to the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million) to reflect the latest circumstances.

The provision of guarantee amount for bank loans and credit facilities to State-owned Management Company would not have any direct impact on the Group's liquidity position but will constitute contingent liability of the Group. In the event State-owned Management Company fails to meet its obligation to repay part or all of the relevant bank loans and credit facilities (together with the interest thereon), Shanghai Urban Development, by virtue of its provision of the guarantees, may be required to assume full obligation thereof. Based on the unaudited consolidated equity attributable to owners of the Company as at 30 June 2012 ("NAV") of approximately HK\$11,856 million, the facilities utilised by an entity controlled by Xuhui SASAC of RMB316 million (equivalent to approximately HK\$390 million) as at 30 September 2012 represented

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately 3.3% of the NAV; and the Revised Guarantee Limit of RMB400 million (equivalent to approximately HK\$493 million) represented approximately 4.2% of the NAV. In light of this, we consider the contingent liability that could be arisen from the Amended Cross Guarantee Arrangement is not likely to have substantial impact on the financial position of the Group.

As advised by the Directors, with respect to the previous borrowings of State-owned Management Company which Shanghai Urban Development has provided guarantees, Shanghai Urban Development has not been requested by any lenders to honour its guarantee obligations. Furthermore, the Directors are given to understand that State-owned Management Company always receives support from Xuhui SASAC. The management of the Company has, from time to time, reviewed the financial information of State-owned Management Company so as to monitor and assess the risk that may arise from the provision of guarantee by Shanghai Urban Development. The Directors are confident that State-owned Management Company will be able to fulfill their repayment obligations should they become due.

Based on our discussion with the management of the Company, the management of the Company believes that the liquid assets, the cash flow generated from the Group's operations and investments, the Amended Cross Guarantee Arrangement, and the bank and other loans borrowed or that may be borrowed by the Group in the future, taken together, would be able to satisfy the funding needs of the Group for the years ending 31 December 2015. In particular, the Group is able to access to various sources of financing in the event that the Group needs additional financing. As the Group is engaged in property development, property investment activities, property management and hotel operation, the bankers and/or other financiers of the Group would consider, among other things, the valuation, prospects and track record of the Group's property development projects in providing financial facilities to the Group. Based on the experience of the management, the Group is able to meet the requirements of the banks and/or other financiers in respect of loan application and obtain additional financing when the needs arise. Besides, the management of Group also plans for the timing and scale of the Group's properties development projects taking into account the Group's financial position, the Group's requirement and ability of financing.

Based on the above and taking into account the facts that (i) the Amended Cross Guarantee Arrangement would enable Shanghai Urban Development to continue to obtain loans and credit facilities which are required to meet its funding needs; (ii) the contingent liability on the part of the Group is not likely to be substantial as compared to the Group's asset base; (iii) the historical funding needs of State-owned Management Company and Shanghai Urban Development have not reached the Existing Guarantee Limit of RMB1,200 million (equivalent to approximately HK\$1,480 million) in the past two years; and (iv) the management of the Group has considered the future funding needs of the Group up to 31 December 2015 and the plans of the property development projects of the Group taking into account the Group's requirement and ability of financing, we concur with the view of the Directors that the terms of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Amended Cross Guarantee Arrangement is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Also, the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit are fair and reasonable so far as the Independent Shareholders are concerned.

Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the Amended Cross Guarantee Arrangement and the Revised Guarantee Limit if a general meeting were to convene.

Yours faithfully,
For and on behalf of
Guotai Junan Capital Limited
Wilson Lo
Executive Director

RESPONSIBILITY STATEMENTS

This circular, for which the Directors collectively and individually accept full responsibility, includes information given in compliance with the Listing Rules for the purpose of giving information with regard of the Company. 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 facts not contained in this circular, the omission of which would make any statement in this circular misleading.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules were as follows:

(i) Long position in the shares and underlying shares of the Company

Name of Director	Capacity	Number of Shares held	Number of underlying Shares subject to option granted (Note)	Percentage of share capital of the Company
Mr. Ni Jianda	Beneficial owner	-	8,000,000	0.17%
Mr. Ji Gang	Beneficial owner	150,000	-	0.003%
Mr. Zhou Jun	Beneficial owner	-	7,000,000	0.15%
Mr. Yang Biao	Beneficial owner	-	7,000,000	0.15%
Mr. Chen Anmin	Beneficial owner	-	7,000,000	0.15%
Mr. Doo Wai Hoi, William	Beneficial owner	-	1,000,000	0.02%
Dr. Wong Ying Ho, Kennedy	Beneficial owner	-	1,000,000	0.02%
Mr. Fan Ren Da, Anthony	Beneficial owner	-	1,000,000	0.02%
Mr. Li Ka Fai, David	Beneficial owner	-	1,000,000	0.02%

Note: These underlying Shares are Shares under the options granted by the Company under the share option scheme adopted pursuant to an ordinary resolution passed at a special general meeting of the Company held on 12 December 2002.

(ii) Long position in the shares and underlying shares of the associated company of the Company

SIH

Name of Director	Capacity held	Number of shares held	Number of underlying shares subject to option granted (Note)	Percentage of share capital of SIH
Ji Gang (Note)	Beneficial owner	20,000	990,000	0.09%
Zhou Jun (Note)	Beneficial owner	195,000	1,350,000	0.14%

Note: These represent the interests in the underlying shares of SIH in respect of the share options (which are unlisted and physically settled equity derivatives) granted by SIH under its share option scheme.

Other than as disclosed above, as at the Latest Practicable Date, none of Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and entered into the register to be kept under section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

None of the Directors or proposed Director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, save that (i) Mr. Ni Jianda is a deputy chief executive officer of SIH; (ii) Mr. Zhou Jun is an executive director and a deputy chief executive officer of SIH, and a vice president of SIIC; and (iii) Mr. Ji Gang is a director of SIIC.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any other business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

MATERIAL ADVERSE CHANGE

On 8 August 2012, the Company made a profit warning announcement in which the Board informed the Shareholders and potential investors of the Company that the Group was expected to incur a loss for the six months ended 30 June 2012. In addition, as set out in the Company's interim results announcement for the six months ended 30 June 2012 dated 23 August 2012, the Group announced a loss for the period. Save as disclosed in the announcements of the Company referred to above, 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 2011, being the date to which the latest published audited consolidated financial statements of the Company were made up.

EXPERT

Guotai Junan Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion in this circular of its letter and reference to its name in the form and context in which it appears. Guotai Junan Capital Limited is a licensed corporation authorised to carry out Type 6 (advising on corporate finance) regulated activity under the SFO.

As at the Latest Practicable Date, to the best of the Directors' knowledge and belief, Guotai Junan Capital Limited did not have (i) any shareholding in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and (ii) any interest, either direct or indirect, in any assets which, since 31 December 2011 (the date to which the latest audited consolidated financial statements of the Company were made up), had been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group.

DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or are proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to the Latest Practicable Date.

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

GENERAL

Unless otherwise specified, in case of inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Suites 3003–3007, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during 9:30 a.m. to 5:00 p.m., Monday to Friday (other than public holidays), from the date of this circular up to and including 14 January 2013:

- (a) the Cross Guarantee Agreement, First Supplemental Agreement and the Second Supplemental Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 10 of this circular;
- (c) the letter of advice from Guotai Junan Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 11 to 16 of this circular;
- (d) the written consent referred to in the paragraph headed "Expert" in this Appendix; and
- (e) this circular.