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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)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION SALE OF EQUITY INTEREST IN A SUBSIDIARY — SHANGHAI HUANYU

THE DISPOSAL

The Board announces that on 20 October 2021, SUD, a non-wholly owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Buyer on the disposal of the Equity Interest, representing 60% equity interest in Shanghai Huanyu (being the Group's entire interest in Shanghai Huanyu) for a total consideration of RMB3,576 million. The Equity Interest was offered for sale through the Public Tender on the Shanghai Assets Exchange and the Buyer, as the sole bidder, succeeded in the open bid in relation to the Disposal.

Upon completion of the Disposal, Shanghai Huanyu will cease to be a subsidiary of the Company and the Group will cease to have any interest in Shanghai Huanyu. The financial results of Shanghai Huanyu will no longer be consolidated with the financial statements of the Group following Completion.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Buyer is wholly-owned by Xuhui SASAC (a substantial shareholder of SUD). Given SUD is a 59% owned subsidiary of the Company, the Buyer is therefore an associate of Xuhui SASAC and a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under the Listing Rules.

Pursuant to Rule 14A.101 of the Listing Rules, a connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if: (1) the listed issuer's board of directors have approved the transaction; and (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuer and its shareholders as a whole.

The Company has obtained approval from the Board (including the independent non-executive Directors) regarding the Disposal and the Directors (including the independent non-executive Directors) have confirmed that the terms of the Disposal are fair and reasonable, and that the Disposal are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. As such, pursuant to Rule 14A.101 of the Listing Rules, the Disposal is exempted from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

However, as the highest applicable percentage ratio in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company. Accordingly, the Disposal is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular containing, amongst other things, further information on the Disposal, a valuation report of the business of Shanghai Huanyu, other information as required under the Listing Rules and a notice of the SGM of the Company will be despatched to the Shareholders on or before 10 November 2021.

THE DISPOSAL

The Board announces that on 20 October 2021, SUD, a non-wholly owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Buyer on the disposal of the Equity Interest, representing 60% equity interest in Shanghai Huanyu (being the Group's entire interest in Shanghai Huanyu) for a total consideration of RMB3,576 million. The Equity Interest was offered for sale through the Public Tender conducted on the Shanghai Assets Exchange and the Buyer, as the sole bidder, succeeded in the open bid in relation to the Disposal.

The following summarises certain salient terms of the Equity Transfer Agreement.

Date

20 October 2021

Parties

- (1) SUD, a 59% owned subsidiary of the Company (as the seller)
- (2) the Buyer (as the successful bidder to the Public Tender and buyer)

The Buyer is wholly-owned by Xuhui SASAC (a substantial shareholder of SUD). Therefore, the Buyer is an associate of Xuhui SASAC and a connected person of the Company.

Disposal

Pursuant to the Equity Transfer Agreement, SUD has agreed to sell and the Buyer has agreed to buy, 60% equity interest in Shanghai Huanyu, representing the Group's entire interest in Shanghai Huanyu.

Given the equity interest in Shanghai Huanyu is regarded as state-owned assets under the relevant PRC rules, transfer of the equity interest in Shanghai Huanyu was subject to the Public Tender through the Shanghai Assets Exchange with a minimum bidding price of RMB3,576 million (the "**Minimum Bidding Price**") which was determined with reference to its appraised value as further set out in the paragraph headed "Consideration and Payment Terms" in this announcement. The Public Tender was conducted in accordance with the relevant laws and regulations of the PRC, and took place from 13 September 2021 and concluded on 14 October 2021 (the "**Publication Period**"). During the Publication Period, interested bidders were invited to indicate their intention to purchase the Equity Interest and register themselves as an interested bidder. Pursuant to the terms of the Public Tender, in the event of receiving a sole bid, the sole bidder may still be selected as the winning bidder as long as the Minimum Bidding Price is met. The Buyer, as the sole bidder, succeeded in the open bid in relation to the Disposal having met the Minimum Bidding Price. Upon conclusion of the Public Tender on 14 October 2021 followed by a satisfactory assessment by the Shanghai Assets Exchange on the qualifications of the winning bidder, negotiation on the specific terms of the Disposal between SUD and the Buyer commenced for the purpose of entering into the Equity Transfer Agreement upon agreement between the parties. Upon signing of the Equity Transfer Agreement and subject to the satisfaction of the Conditions as further set out in the paragraph headed "Completion" in this announcement, both SUD and the Buyer shall become committed to complete the Disposal.

As at the date of this announcement, Shanghai Huanyu is owned as to 60% by SUD, 30% by Shanghai West Coast and 10% by Shanghai Xujiahui Center. After Completion, the Group will cease to have any interest in Shanghai Huanyu and its financial results will no longer be consolidated with the financial statements of the Group.

Consideration and Payment Terms

The Consideration payable by the Buyer for the Equity Interest is RMB3,576 million. The Consideration is the outcome of the Public Tender which was accepted by the Group with reference to the appraised value of Shanghai Huanyu as at 30 June 2021. According to the valuation report issued by Shanghai Cai Rui Assets Evaluation Co. Ltd (上海財瑞資產評估有限公司), an independent valuer, having conducted a valuation on Shanghai Huanyu using an asset-based approach, the appraised value of shareholders' equity interest of Shanghai Huanyu as at 30 June 2021 was approximately RMB5,957 million, and the appraised value of the Equity Interest amounted to approximately RMB3,574 million.

Pursuant to the Equity Transfer Agreement, the Consideration shall be payable by the Buyer to SUD in cash according to the following schedule:

- (i) an initial deposit: the Buyer has already paid a deposit in the amount of RMB1,072.8 million to participate in the Public Tender, and such amount shall be applied towards payment of the Consideration after the Effective Date; and
- (ii) the remaining Consideration: the Buyer shall pay the balance of the Consideration in the amount of RMB2,503.2 million within three business days after the Effective Date.

Completion

Completion of the Disposal (“**Completion**”) is conditional upon the satisfaction of the following conditions (the “**Conditions**”):

- (i) the Shareholders having passed the resolution (the “**Shareholders’ Approval**”) at the general meeting of the Company to approve the Disposal in accordance with the relevant requirements of the Listing Rules; and
- (ii) the Shanghai Assets Exchange having issued the proof for the transfer of equity interest (the “**Transfer of Equity Interest Proof**”) upon the Shareholders’ Approval.

The effective date of the Equity Transfer Agreement (the “**Effective Date**”) shall be the date of the Shareholders’ Approval. The date of Completion shall be the date of satisfaction of all the Conditions.

No long stop date is specified in the Equity Transfer Agreement, and the parties intend to complete the Equity Transfer Agreement as soon as practicable after obtaining the Shareholders’ Approval at the SGM.

As post-Completion obligations, (i) SUD shall assist the Buyer to complete all administrative transitional matters for the purpose of the Disposal; and (ii) SUD and the Buyer will assist Shanghai Huanyu with the relevant industrial and commercial registration of change within 10 working days upon receipt of the Transfer of Equity Interest Proof.

To ensure smooth transition and continuation of the business of Shanghai Huanyu after Completion, on 20 October 2021, the relevant parties have entered into (i) the Management Consulting Service Agreement in respect of certain management consulting services for Binjiang U Center to be provided by SUD Qianzhiyuan to Shanghai Huanyu from the date of issuance of the Transfer of Equity Interest Proof to 31 December 2023, which involves the provision by SUD Qianzhiyuan of all aspects of the daily operation management of Binjiang U Center (including but not limited to project management, financial management and other administrative management) and designating management staff from SUD Qianzhiyuan to Shanghai Huanyu (the “**Management Staff Transitional Arrangement**”) for a management service fee to be calculated monthly based on labour cost incurred from the Management Staff

Transitional Arrangement so as to facilitate a continuous and smooth development of Binjiang U Center following Completion; and (ii) the Project Management Services Agreement in respect of certain project management services for Binjiang U Center to be provided by SUD Qianzhiyuan to Shanghai Huanyu from the date of issuance of the Transfer of Equity Interest Proof to the completion of Binjiang U Center for a management fee of RMB22,732,500, which includes the overall project management, initial planning, organising and managing tender processes, managing the design, progress and inspection of the construction works, assisting with settlement of the project and other related supporting services.

Upon Completion, Shanghai Huanyu will cease to be a subsidiary of the Company. Given Xuhui SASAC is a substantial shareholder of SUD, Shanghai Huanyu will become an associate of Xuhui SASAC and a connected person at the subsidiary level of the Company. The Company will comply with all applicable requirements pursuant to Chapter 14A of the Listing Rules upon Completion.

INFORMATION OF THE GROUP

The Company is a public company incorporated in Bermuda as an exempt company with limited liability, and is an investment holding company. The principal activities of the Group are residential and commercial properties development, property investment and hotel operations in the PRC.

INFORMATION OF THE BUYER

The Buyer is a company established in the PRC with limited liability and a wholly-owned subsidiary of Xuhui SASAC. It is principally engaged in investment-related activities including asset management, investment consulting and venture capital investment. Xuhui SASAC is a government authority authorised by and established directly under the Shanghai Xuhui District People's Government for supervising and managing state-owned assets in the possession of Xuhui District, the PRC.

INFORMATION OF SHANGHAI HUANYU

Shanghai Huanyu is a limited liability company established in the PRC. It is owned as to 60% by SUD, 30% by Shanghai West Coast and 10% by Shanghai Xujiahui Center. Shanghai Huanyu is the owner and developer of Binjiang U Center, a proposed composite commercial development located in Shanghai in the Xuhui District occupying a total site area of approximately 77,370.5 sq.m.

As at the date of this announcement, Phase I of Binjiang U Center has been completed and is already in operation. Phase I of Binjiang U Center comprises five office buildings of four to six-storey high with a total gross floor area of 26,943.30 sq.m., and one multi-purpose building which contains parking spaces, retail shops and storage spaces with a total gross floor area of 33,891.38 sq.m.

The table below sets out certain audited consolidated financial information of Shanghai Huanyu for the years ended 31 December 2019 and 2020:

	For the year ended	
	31 December	
	2019	2020
	<i>(RMB)</i>	<i>(RMB)</i>
Revenue	—	24,414,464
(Loss) before and after taxation and extraordinary items	(3,395,403)	(14,561,326)

The audited consolidated net asset value of Shanghai Huanyu as at 31 December 2020 was approximately RMB1,634,850,680.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The development of the entire Binjiang U Center project involves a long construction period and requires a substantial amount of investment. The project is experiencing a longer-than-expected investment recovery period. The Group expects that the Binjiang U Center project would impose a relatively large impact on the debt ratio of the Group and would not make any significant levels of positive performance contributions to the Group in the short run. Therefore, with a view to lowering the debt ratio of the Group, increasing its cash reserve, facilitating the carryover of profits and laying a solid foundation for the long-term development, active investment and expansion of new projects by the Group, the Group believes that the Disposal represents a good opportunity for the Group to realise its investment in Shanghai Huanyu and any potential gain from the Binjiang U Center project. On the above basis, the Directors are of the view that the terms of the Disposal are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT ARISING FROM THE DISPOSAL

Upon Completion, Shanghai Huanyu will cease to be a subsidiary of the Company and the Group will cease to have any interest in Shanghai Huanyu. The financial results of Shanghai Huanyu will no longer be consolidated with the financial statements of the Group following Completion.

Based on a preliminary assessment, it is estimated that the SUD will record an unaudited gain after taxation on the Disposal of approximately RMB164,000,000 which represents:

- (i) the Consideration; less
- (ii) RMB2,717,000,000 being SUD's interest and its historical acquisition premium in Shanghai Huanyu as at 31 December 2020; less
- (iii) RMB695,000,000, being the estimated taxation (the "**Estimated Taxation**") to be provided based on the Consideration and the initial investment cost.

The actual gain or loss as a result of the Disposal to be recorded by SUD is subject to a final audit to be performed by the auditors of the Company upon Completion.

Based on a preliminary assessment, it is estimated that the net proceeds before taxation from the Disposal amounts to approximately RMB3,505,000,000, which represents:

- (i) the Consideration; less
- (ii) RMB71,326,733, being the audited cash and cash equivalents of Shanghai Huanyu as at 31 December 2020.

Taking into account the Estimated Taxation, the net proceeds from the Disposal which is expected to be approximately RMB2,810,000,000 will be used by the Group for (i) repayment of existing loans of the Group; (ii) payment of further land parcels to increase the land bank of the Group as and when opportunities arise; and (iii) settlement of daily operational and capital expenditures of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Buyer is wholly-owned by Xuhui SASAC (a substantial shareholder of SUD). Given SUD is a 59% owned subsidiary of the Company, the Buyer is therefore an associate of Xuhui SASAC and a connected person of the Company. Accordingly, the Disposal constitutes a connected transaction of the Company under the Listing Rules.

Pursuant to Rule 14A.101 of the Listing Rules, a connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if: (1) the listed issuer's board of directors have approved the transaction; and (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuer and its shareholders as a whole.

The Company has obtained approval from the Board (including the independent non-executive Directors) regarding the Disposal and the Directors (including the independent non-executive Directors) have confirmed that the terms of the Disposal are fair and reasonable, and that the Disposal are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. As such, pursuant to Rule 14A.101 of the Listing Rules, the Disposal is exempted from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

However, as the highest applicable percentage ratio in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company. Accordingly, the Disposal is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular containing, amongst other things, further information on the Disposal, a valuation report of the business of Shanghai Huanyu, other information as required under the Listing Rules and a notice of the SGM of the Company will be despatched to the Shareholders on or before 10 November 2021.

GENERAL

Completion of the Disposal is subject to the satisfaction of the Conditions and therefore, may or may not take place. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

None of the Directors had any material interest in the Disposal and thus no Director was required to abstain from voting on the Board resolutions approving the Disposal.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement have the following meanings:

“Binjiang U Center”	a proposed composite commercial development located in Shanghai Xuhui District occupying a total site area of approximately 77,370.5 sq.m
“Board”	the board of Directors
“Buyer”	上海徐匯資本投資有限公司 (Shanghai Xuhui Capital Investment Co., Ltd.), a state-owned enterprise established in the PRC and wholly-owned by Xuhui SASAC
“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
“Consideration”	the total consideration for the acquisition of the Equity Interest payable by the Buyer under the Equity Transfer Agreement
“Directors”	the directors of the Company

“Disposal”	the sale of the Equity Interest pursuant to the Equity Transfer Agreement
“Equity Interest”	the 60% equity interest in Shanghai Huanyu to be disposed of pursuant to the terms of the Equity Transfer Agreement
“Equity Transfer Agreement”	the equity transfer agreement in relation to the Equity Interest entered into between SUD and the Buyer dated 20 October 2021
“Group”	the Company together with its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Consulting Service Agreement”	the management consulting service agreement dated 20 October 2021 entered into between Shanghai Huanyu, SUD Qianzhiyuan and SUD pursuant to which Shanghai Huanyu engages SUD Qianzhiyuan to provide management consulting services in relation to Binjiang U Center
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Project Management Services Agreement”	the construction project entrusted management agreement dated 20 October 2021 entered into among Shanghai Huanyu, SUD Qianzhiyuan and SUD pursuant to which Shanghai Huanyu engages SUD Qianzhiyuan to provide project management services in relation to Binjiang U Center
“Public Tender”	the public tender for the disposal of 60% equity interests in Shanghai Huanyu through the Shanghai Assets Exchange which took place between 13 September 2021 and 14 October 2021
“SGM”	a special general meeting to be held by the Company to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions and arrangements contemplated thereunder

“Shanghai Assets Exchange”	Shanghai United Assets and Equity Exchange (上海聯合產權交易所)
“Shanghai Huanyu”	上海寰宇城市投資發展有限公司 (Shanghai Huanyu Urban Investment and Development Co., Ltd.), a 60% owned subsidiary of the Company and the subject of the Disposal
“Shanghai West Coast”	上海西岸開發(集團)有限公司 (Shanghai West Coast Development (Group) Co., Ltd.), a company incorporated in the PRC and wholly-owned by Xuhui SASAC
“Shanghai Xujiahui Center”	上海徐家匯商城(集團)有限公司 (Shanghai Xujiahui Center (Group) Co., Ltd.), a company incorporated in the PRC and wholly-owned by Xuhui SASAC
“Share(s)”	the ordinary share(s) with a par value of HK\$0.04 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SUD”	上海城開(集團)有限公司 (Shanghai Urban Development (Holdings) Co., Ltd.), a 59% owned subsidiary of the Company. The remaining 41% of SUD is owned by Xuhui SASAC
“SUD Qianzhiyuan”	上海城開乾之源城市建設管理有限公司 (Shanghai Urban Development Qianzhiyuan Urban Construction Management Co., Ltd.), a company incorporated in the PRC and wholly-owned by SUD
“Xuhui SASAC”	上海市徐匯區國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of Shanghai Xuhui District), a government authority authorised by and established directly under the 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 SUD

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

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

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

Hong Kong, 20 October 2021

As at the date of this announcement, the Board comprises Mr. Huang Haiping, Mr. Tang Jun, 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.