



SRE GROUP LIMITED

上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

Board of Directors:

Shi Jian (Chairman)

Wang Zi Xiong

(Co-chairman & Chief Executive Officer)

Shi Janson Bing (Vice-chairman)

Ma Dayu

Li Genfa

Shi Lizhou

Cheung Wing Yui*

Jin Bing Rong*

Zhuo Fumin**

Chan, Charles Sheung Wai**

Yang Chao**

Guoping**

Registered office:

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Hamilton HM11

Bermuda

*Head office and principal place
of business in Hong Kong:*

Suite 4006, 40/F

Central Plaza

18 Harbour Road

Wanchai

Hong Kong

* *Non-executive Directors*

** *Independent Non-executive Directors*

16 November 2015

To the Shareholders,

Dear Sir or Madam,

- (1) PROPOSED ISSUE OF NEW SHARES TO THE SUBSCRIBERS
UNDER SPECIFIC MANDATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) OTHER ARRANGEMENT;
(4) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
AND
(5) PROPOSED REMOVAL, APPOINTMENT AND
RE-ELECTION OF DIRECTORS**

1 INTRODUCTION

Reference is made to the Announcement. On 9 October 2015, the Company, the Subscribers (including China Minsheng Jiaye and the Investors) and SREI entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and

* *For identification purpose only*

the Subscribers conditionally agreed to subscribe for, an aggregate of 14,900,000,000 Subscription Shares at the Subscription Price of HK\$0.10 per Subscription Share for a total cash consideration of HK\$1,490,000,000.

The purpose of this Circular is to provide the Shareholders with, among other things: (a) further information about the Subscription, the Specific Mandate, the Share Capital Increase, the Whitewash Waiver and the proposed removal, appointment and re-election of Directors; (b) the letter of recommendation from the IBC; (c) the letter of advice from the IFA in respect of the Subscription and the Whitewash Waiver; (d) the notice of the SGM; and (e) other information required by the Listing Rules and the Takeovers Code.

2 THE SUBSCRIPTION AGREEMENT

Date

9 October 2015 (after trading hours)

Parties

- (1) The Company (as issuer)
- (2) The Subscribers, namely, China Minsheng Jiaye, Investor A, Investor B, Investor C, Investor D and Investor E; and
- (3) SREI.

Further details about the Subscribers are set out in the sub-section headed “Other Information” in this section.

To the best of the knowledge, information and belief of the Directors, each of the Subscribers and their ultimate beneficial owners is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

SREI is the controlling shareholder of the Company currently holding 2,889,659,128 Shares, representing approximately 51.01% of the issued share capital of the Company. The principal activity of SREI is investment holding. Under the Subscription Agreement, SREI, as the controlling shareholder of the Company, has given certain representations and warranties to the Subscribers in respect of, among other things, the underlying business and operations of the Group. Please refer to the sub-section headed “Representations and Warranties” below for more details.

As at the Latest Practicable Date, based on the information available to the Company:

- (a) The legal and beneficial shareholders of SREI are Mr. Shi Jian (a director of the Company and SREI, holding 36% interest in SREI), Madam Si Xiao Dong (the spouse of Mr. Shi Jian and a director of SREI, holding 30% interest in SREI), Mr. Li Yao Min (a director of SREI, holding 5% interest

in SREI), Mr. Shi Jian Dong (close relative of Mr. Shi Jian and a director of SREI, holding 5% interest in SREI), close relatives (as defined in the Takeovers Code) of Mr. Shi Jian and/or Madam Si Xiao Dong (holding in aggregate 6% interest in SREI), other relatives (but not being “close relatives” as defined in the Takeovers Code) of Mr. Shi Jian and/or Madam Si Xiao Dong (holding in aggregate 2% interest in SREI) and some other individuals (holding in aggregate 16% interest in SREI).

- (b) SREI has four directors. The SREI Directors, namely Mr. Shi Jian, Madam Si Xiao Dong, Mr. Shi Jian Dong and Mr. Li Yao Min, and their “close relatives” (as defined in the Takeovers Code) are presumed to be acting in concert with SREI under Class 2 presumption in the definition of “acting in concert” in the Takeovers Code.
- (c) Apart from their indirect shareholding interest in the Company through SREI, the SREI Concert Parties hold direct interest in 20,699,274 Shares, representing 0.37% of the issued share capital of the Company. Other shareholders of SREI (not being parties presumed to be acting in concert with SREI) directly owns 6,636,091 Shares, representing 0.12% of the issued share capital of the Company.

The Subscription

Before engaging in negotiation with the Company in respect of the Subscription, China Minsheng Jiaye had been looking for good investment opportunities in the real estate sector of Hong Kong capital markets. On 14 August 2015, the Company issued an announcement in relation to the termination of the memorandum of understanding between the Company, Poly Real Estate Group Co., Ltd. and SREI for a possible subscription of Shares. Considering the Company an investment target with high potential, China Minsheng Jiaye contacted the Company and expressed an interest in investment in the Company by way of share subscription. After the publication of the MOU Announcement on 15 September 2015, the Investors approached China Minsheng Jiaye and expressed their interest in participating in the Subscription. China Minsheng Jiaye then forwarded the Investors’ contacts to the Company accordingly.

On 9 October 2015, the Company, the Subscribers (including China Minsheng Jiaye and the Investors) and SREI entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 14,900,000,000 Subscription Shares at the Subscription Price of HK\$0.10 per Subscription Share for a total cash consideration of HK\$1,490,000,000.

The amount of subscription monies, the number of Subscription Shares and the percentage shareholding (on the basis of the issued share capital of the Company as enlarged by the Subscription Shares) of each of the Subscribers are set out below:

Subscriber	Subscription monies	Subscription Shares	%
China Minsheng Jiaye	HK\$1,250,000,000.00	12,500,000,000	60.78%
Investor A	HK\$70,000,000.00	700,000,000	3.40%
Investor B	HK\$50,000,000.00	500,000,000	2.43%
Investor C	HK\$50,000,000.00	500,000,000	2.43%
Investor D	HK\$50,000,000.00	500,000,000	2.43%
Investor E	<u>HK\$20,000,000.00</u>	<u>200,000,000</u>	<u>0.98%</u>
Total:	<u>HK\$1,490,000,000.00</u>	<u>14,900,000,000</u>	<u>72.45%</u>

Pursuant to the terms of the Subscription Agreement, China Minsheng Jiaye has the right to nominate any affiliate such as its wholly-owned subsidiary to take up all of its Subscription Shares on the Subscription Completion Date.

The size of the Subscription and the distribution of the Subscription Shares among the Subscribers was a result of arm's length negotiations between the Company and the Subscribers with reference to a number of considerations, including: (1) capital needs of the Company; (2) the public float requirement under the Listing Rules; (3) investment objectives of each of the Subscribers; and (4) China Minsheng Jiaye becoming the single largest shareholder of the Company holding more than 50% of the enlarged issued share capital upon the Subscription Completion, an intention which has been stated in the memorandum of understanding entered into between the Company, China Minsheng Jiaye and SREI on 12 September 2015.

There is no understanding, agreements or arrangements between China Minsheng Jiaye and the Investors in relation to the voting rights of the Company (including their acquisition or disposal of the voting rights of the Company). China Minsheng Jiaye on one hand and each of the Investors on the other hand do not fall within any of the 9 classes of presumptions of acting in concert under the Takeovers Code.

The 14,900,000,000 Subscription Shares represent: (i) approximately 263.03% of the existing issued share capital of the Company; and (ii) approximately 72.45% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

Subscription Price

The Subscription Price for the Subscription of HK\$0.10 per Subscription Share represents:

- (a) a discount of approximately 72.60% to the closing price of HK\$0.365 per Share on the Latest Practicable Date;

- (b) a discount of approximately 74.36% to the closing price of HK\$0.390 per Share on the Last Trading Day;
- (c) a discount of approximately 73.33% to the average closing price of HK\$0.375 per Share for the last 5 Trading Days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 73.54% to the average closing price of HK\$0.378 per Share for the last 10 Trading Days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 93.73% to the NAV of approximately HK\$1.595 per Share as at 31 December 2014, based on the Annual Report of the Company for the year ended 31 December 2014; and
- (f) a discount of approximately 93.55% to the NAV of approximately HK\$1.550 per Share as at 30 June 2015, based on the Interim Report of the Company for the six months ended 30 June 2015.

Basis for Determining the Subscription Price

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers with reference to, and was agreed at below the then prevailing and historical trading prices of the Shares and at a significant deep discount of the NAV per Share after taking into account, certain factors including:

- (i) the weak business performance of the Group, in particular the continuing losses attributable to owners of the parent for the six months ended 30 June 2015 and the year ended 31 December 2014, and the potential strategic benefits to be brought by China Minsheng Jiaye's Subscription for a controlling interest in the Company given China Minsheng Jiaye's strong business background, industry expertise and financing capability;
- (ii) the significant indebtedness and funding requirements of the Group as at 30 June 2015 and the Loan in the amount of RMB560 million provided by China Minsheng Jiaye to the Group to satisfy the Group's short term indebtedness repayment obligations; and
- (iii) the contingent liabilities of the Group in respect of the Third Party Indebtedness and the back-to-back indemnity to be provided by China Minsheng Jiaye which is intended to remedy the undesirable financial implications of the Group's exposure to such contingent liabilities.

Despite the size of its NAV, the Group has an urgent need of new capital to meet its short term cash flow requirements and it may not be able to liquidate its assets readily or successfully. The Company expects that the Subscription by China Minsheng Jiaye as a strategic investor will bring about significant benefits to the Group.

For a more detailed discussion of the above factors, please refer to the sub-sections headed “Other Information – Intention in relation to the Group”, “Other Information – Reasons for and Benefits of the Subscription” and “Other Arrangement” below.

The gross proceeds from the Subscription would amount to HK\$1,490 million. The net proceeds of the Subscription, after deducting professional fees and other related expenses, are estimated to be approximately HK\$1,486 million, representing a net price of approximately HK\$0.0997 per Subscription Share.

Subscription Conditions

The Subscription Completion is conditional upon, inter alia, the following Subscription Conditions having been satisfied (or, if applicable, waived):

- (a) the Share Capital Increase being approved by the Shareholders, the Subscription, the Specific Mandate and the appointment of directors nominated by China Minsheng Jiaye being approved by the LR Independent Shareholders, and the Subscription and the Whitewash Waiver being approved by the TC Independent Shareholders, in each case by way of poll at the SGM;
- (b) the Executive having granted to China Minsheng Jiaye (and parties acting in concert with it) the Whitewash Waiver, and any conditions attaching to the Whitewash Waiver having been satisfied;
- (c) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, and such approval not having been revoked or cancelled prior to Subscription Completion;
- (d) China Minsheng Jiaye having completed its due diligence on the Company and being satisfied with its results;
- (e) the representations and warranties of the Company and SREI set out in the Subscription Agreement remaining true, accurate, complete and not misleading on Subscription Completion, and the Company and SREI having complied with all of their undertakings (including those in relation to pre-completion undertakings and covenants) under the Subscription Agreement;
- (f) from the date of the Subscription Agreement until the Subscription Completion Date, the Shares continuing to be listed and traded on the Stock Exchange (except for suspension of trading in connection with the Subscription Agreement or suspension of trading for not more than five trading days) and no requests having been received from the SFC and/or the

Stock Exchange that the listing status of the Shares on the Stock Exchange will be revoked or cancelled as a result of the completion under the Subscription Agreement or any terms thereunder or other matters;

- (g) from the date of the Subscription Agreement until the Subscription Completion Date, no person (except a party to the Subscription Agreement) having obtained a binding order from any relevant authorities restricting or prohibiting any party to the Subscription Agreement to complete the transactions contemplated thereunder at any relevant authorities and the Subscription Agreement and the transactions contemplated thereunder comply with applicable laws and regulations;
- (h) all relevant government authorities or regulatory authorities or other relevant third parties (including banks and other creditors) having granted to the Company or the Subscribers all necessary consents, approvals, reports and filings (if applicable) in respect of the entry into and performance of the Subscription Agreement;
- (i) since the date of the Subscription Agreement, (i) there having been no events, conditions, occurrence or development of a state of circumstances or facts which has had or reasonably could be expected to have a material and adverse change or effect on the business, operations, assets or liabilities, financial conditions or prospects of the Group or any of its subsidiaries (as applicable) and; (ii) there having been no change in the applicable laws in each of the jurisdictions in which the Group has business operations which may lead to material and adverse effect to the Group as a whole;
- (j) the Subscribers having received a legal opinion issued by Bermuda counsel on matters of Bermuda law in a form reasonably satisfactory to the Subscribers; and
- (k) the Company and its subsidiaries not having defaulted any of its contractual obligations under any agreements, tenancies, mortgages, charges, trust deeds, notes or bonds.

Waiver of the Subscription Conditions

The Subscribers may at any time waive any or all of the Subscription Conditions set out in paragraphs (d) through (k) of the sub-section headed "Subscription Conditions" above. The remaining Subscription Conditions cannot be waived.

Long Stop Date

If the Subscription Conditions have not been satisfied or waived by the parties on or before the Long Stop Date, the Subscription Agreement will be terminated, but without prejudice to any rights accrued by the parties prior to termination.

Events of Default

Each party to the Subscription Agreement has undertaken to make its best efforts to complete the Subscription. Subject to the absence of any material risks in the due diligence review by China Minsheng Jiaye and to its satisfaction with the due diligence results, any failure to perform the foregoing undertaken obligation on the part of any party to the Subscription Agreement will constitute an Event of Default and will result in liability for liquidated damages in the amount of RMB200 million.

Pursuant to the terms of the Subscription Agreement, the liability for the RMB200 million liquidated damages is bilateral. It means that if either the Company or China Minsheng Jiaye fails to perform its undertaken obligation to make its best efforts to complete the Subscription, it shall pay RMB200 million to the non-defaulting party. The amount of such liquidated damages was determined after arm's length negotiations between the parties, taking into consideration various factors, including: (1) cost of capital in respect of the subscription monies; (2) the size of the Subscription and the Loan; (3) the risk of default with respect to the Subscription; (4) the risk of default with respect to the Loan; and (5) the determination of the parties to complete the Subscription.

As announced by the Company on 15 September 2015, in view of the capital needs of the Group in the near term, China Minsheng Jiaye intended to provide an interest-bearing short-term loan to the Group. On 16 September 2015, the Company and certain of its subsidiaries entered into the Loan Agreement with China Minsheng Jiaye, whereby (a) the Loan, being a 3 month fixed loan in the amount of RMB560 million at an interest rate of 12% per annum, was provided by China Minsheng Jiaye to the Group; (b) the obligations of the borrower were secured by the corporate guarantee of the Company and the personal guarantee of Mr. Shi Janson Bing (an executive Director); and (c) share charges were entered into by certain subsidiaries of the Company by way of collaterals in support of the Loan. The interest rate of the Loan was determined after arm's length negotiation between the parties, taking into consideration various factors, including: (1) the other trust loans of the Group in the PRC with annual total cost (including interest and management fee) ranging from 9% to 16% which were mainly secured by fixed assets; (2) the fact that the Loan is secured by share charges and guarantees, instead of real properties; and (3) the financial condition and liquidity position, in particular the gearing level, of the Group at the relevant time.

It is agreed that if an Event of Default occurs, the Group shall repay the Loan (and accrued interest) to China Minsheng Jiaye in full within five days after the occurrence of the Event of Default.

The Subscription Completion

Pursuant to the Subscription Agreement, the Subscription Completion shall take place on the second Business Day following the notification of the satisfaction or waiver of the Subscription Conditions. It is the intention of the parties to complete the Subscription as soon as practicable in accordance with the terms and conditions of the

Subscription Agreement. Subject to the satisfaction or waiver of the Subscription Conditions, the Company currently expects that the Subscription Completion will likely take place no later than 31 December 2015.

As at the Latest Practicable Date, none of the Subscription Conditions has been satisfied or waived.

Ranking

The Subscription Shares will, when issued, rank pari passu in all respects with the other Shares then in issue, including the rights to all dividends and other distributions declared, made or paid at any time after the date of allotment, free and clear of liens, charges, security interests, encumbrances and third party rights.

Representations and Warranties

In connection with the Subscription, the Company and SREI have given certain representations and warranties to the Subscribers in respect of, among other things, the underlying business and operations of the Group, ownership of the properties owned by the Group, compliance with applicable laws and litigation against the Group.

Specific Mandate

At the SGM, the Company will seek the Specific Mandate from the LR Independent Shareholders in order to issue the Subscription Shares.

Application for Listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Other Information

Information about the Company

The Group is mainly engaged in real estate development, property leasing and hotel operations in Mainland China. The Group is an integrated real estate developer specialising in property development business. Geographically, Shanghai is the base for the Group's real estate development business, but the Group has been gradually expanding into capitals of various provinces and regional hubs with strong economic development potentials. While we are mainly a developer for medium-to-high end residential properties, we have been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer. Properties developed by the Group under the brand names of "Oasis Garden", "Rich Gate", "Skyway" and "Albany" enjoy a good reputation in both onshore and offshore markets including Shanghai, Shenyang, Haikou, Wuxi and Hong Kong.

Information about China Minsheng Jiaye and China Minsheng Investment

China Minsheng Jiaye is the real estate and industrial investment arm of China Minsheng Investment. The investment scope of China Minsheng Jiaye includes high quality real properties in key cities, investment and operation of multipliable assets, industrialisation of construction, industrial and cold chain logistics, healthcare, theme industry such as aged care and tourist industry, and other high criterion and high profitability industrial investment opportunities. Based on the information provided by China Minsheng Jiaye, the entire equity interest in China Minsheng Jiaye is held by China Minsheng Investment.

China Minsheng Investment is a large private investment company in Shanghai which was organised by The All-China Federation of Industry and Commerce in China and launched by 59 large scale private enterprises in China, some of which are among China's top 500 companies. China Minsheng Investment is a conglomerate with a wide variety of businesses including equity investment, equity investment management, business consulting, financial consulting, industrial investment, asset management, and investment consulting. Based on the information provided by China Minsheng Jiaye, as at the Latest Practicable Date, no single shareholder of China Minsheng Investment holds more than 4% of the voting rights or paid-up capital of China Minsheng Investment.

Information about Investor A

Investor A is a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Mu Yan, a merchant in Shandong Province, China. The principal activity of Investor A is investment holding.

Information about Investor B

Investor B is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Ms. Dong Xiao Li, a merchant in Beijing, China. The principal activity of Investor B is investment holding.

Information about Investor C

Investor C is a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Tsar Chun Yeung, a merchant in Hong Kong. The principal activity of Investor C is investment holding.

Information about Investor D

Investor D is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Liu Kun, a merchant in Beijing, China. The principal activity of Investor D is investment holding.

Information about Investor E

Investor E is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Xia Wu Jie, a merchant in Zhejiang Province, China. The principal activity of Investor E is investment holding.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, China Minsheng Jiaye and the Investors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Intention in relation to the Group

China Minsheng Jiaye and the Company intend to maintain the listing of the Shares on the Main Board of the Stock Exchange. The Subscription Agreement provides that to the extent permitted under the Listing Rules and the Takeovers Code, China Minsheng Jiaye has the right to nominate Directors for election at the SGM, such appointment being effective as of the Subscription Completion Date. None of the Investors are given any right to nominate any Directors. Pursuant to Bye-law 58 of the Bye-laws, Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to require a special general meeting to be called by the Board for the transaction of any business, including election or appointment of Directors, by written requisition to the Board or the Secretary of the Company.

Following the Subscription Completion, China Minsheng Jiaye intends to regularly review the operations and business activities of the Company and will explore other opportunities available to the Company. The core strategic focus of the Company will be on quality as opposed to scale for its high-quality development projects and renewal projects in the first-tier cities.

It is currently intended that China Minsheng Jiaye will introduce five strategic initiatives to support or grow the business of the Company as follows:

- (a) *Injecting assets into the Company.* China Minsheng Jiaye will from time to time seek to inject its high-quality real estate projects or assets into the Company to the extent commercially reasonable, with a view to optimising the assets and capital structure of the Company and improving the stability and sustainability of the business of the Group in the long run. The Company will also seek to explore opportunities in mergers and acquisitions in the real estate sector and to enhance resource allocation, credit rating and market value of the Company.
- (b) *Improving the financing structure of the Company.* Leveraging the strength of China Minsheng Investment in integrating its sector and financial capabilities, its high credit rating and its broad scope of licensed financial

businesses, the Company will seek to utilise various onshore and offshore financial channels at a lower cost, with a view to improving its profitability significantly over time.

- (c) *Focusing on opportunities in first-tier cities.* The Company will seek to focus primarily on high-quality property development opportunities in first-tier cities and particularly aim at seizing quality resources in core areas in Shanghai. The Company will extend its capabilities in primary development of land parcels and urban operation developed in the past years by integrating the same with the broad range of social resources of China Minsheng Investment, with a view to participating in both the upstream and downstream real estate sectors. The Company will also pay close attention to the Shanghai “Thirteenth Five-Year” plan for urban development and the overall development strategies of China, and explore new opportunities in urban redevelopment and renewal, medical and senior properties and cultural tourism and innovative technology properties.
- (d) *Refining the existing products and services of the Company.* The Company will seek to reshape and increase the value of its existing brand names of “Rich Gate”, “Oasis Garden”, “SRE” and “SRE Property”, enhance its business positioning in high-quality property development, provide better will also seek to take advantage of the size of its customer base in the real estate industry and further develop its internet finance business and the “i love e-home” O2O service platform, with a view to expanding the value-added services segment of its business.
- (e) *Exploring the international market.* The Company will follow the economic cycle, China’s “One Belt One Road” and “Going Global” strategies and the global sector strategy of China Minsheng Investment, and seek to enter major cities in the international market and develop an international asset and property portfolio.

At present, no definitive plan or timing has been determined for implementing any of the above strategies. China Minsheng Jiaye has no current intention to introduce to the Company any new business which is different in nature from the existing business of the Company, or to terminate the continued employment of the employees of the Group.

Use of Proceeds from the Subscription

The estimated net proceeds from the issue of the Subscription Shares to the Subscribers, after deduction of expenses, are approximately HK\$1,486 million. Based on the repayment schedule of existing indebtedness and the existing level of cash reserve of the Group, approximately 70% of the net proceeds from the issue of the Subscription Shares is intended to be used to repay banks loans of the Group. The remaining approximately 30% will be used as general working capital and for the future development of the Group’s real estate projects.

Having considered (i) for the three months ending 31 December 2015, the Group being required to repay the principal amount and interest of the Group's outstanding loans in an aggregate amount of approximately RMB2,365 million (taking into account the effect of the disposal of 60% equity interest in Mayson Resources Limited and 60% of the shareholder's loan owed by Mayson Resources Limited to Sinopower Investment Limited, a wholly owned subsidiary of the Company, as disclosed in the Company's announcement dated 30 October 2015 (the "**Major Disposal**")) falling due during the three months ending 31 December 2015, out of which the Loan in the amount of RMB560 million due in December 2015 could be extended by China Minsheng Jiaye after the Subscription Completion; (ii) free cash and bank balances of the Group amounting to approximately RMB918 million as at 30 September 2015; and (iii) the shortfall of the (i) and (ii) above of approximately HK\$887 million could be covered by 70% of the estimated net proceeds of the Subscription amounting to approximately HK\$ 1,040 million, the Directors consider that the allocation of approximately 70% of the net proceeds is in line with the short term capital needs of the Group in terms of repayment of its bank loans.

According to the annual report 2014 of the Company, the total selling and marketing expenses and administrative expenses of the Group for each of the past two years were approximately HK\$340 million. The Group also expects to incur pre-construction expenses for its new real estate projects in the short term, subject to market conditions and financial position of the Group. Therefore the Directors consider that the allocation of approximately 30% of the net proceeds, amounting to approximately HK\$446 million, for the purposes stated above is in line with the capital needs of the Group in terms of its daily operation and future project development.

Interests of the Subscribers

As at the Latest Practicable Date, neither China Minsheng Jiaye nor any party acting in concert with them owns, controls or directs any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

As at the Latest Practicable Date, none of Investor A, Investor B, Investor C, Investor D and Investor E nor any of their respective ultimate beneficial owners owns, controls or directs any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

Save for the entering into of the Subscription Agreement by the Subscribers, none of China Minsheng Jiaye nor any party acting in concert with them, Investor A, Investor B, Investor C, Investor D and Investor E nor any of their respective ultimate beneficial owners has dealt for value in any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares during the Relevant Period.

Reasons for and Benefits of the Subscription

As disclosed in the annual report of the Group for the fiscal year 2014, the business of the Group has been significantly and negatively affected by the weak macro environment, as a result of which the Group's contracted sales, revenue and net

profit have declined significantly over the years. In 2015, the Group's results of operation continued to underperform. In particular, revenue for the six months ended 30 June 2015 decreased by 48% to HK\$536 million, as compared to the six months ended 30 June 2014, and loss attributable to owners of parent further deteriorated to reach HK\$262 million.

While the Group is suffering declining sales and results of operations, it has expanded significantly in terms of business scale in recent years, which resulted in substantial increases in its cash requirements. As at 30 June 2015, the Group had outstanding borrowings in an aggregate amount of HK\$19,172 million and had contracted for capital commitments amounting to HK\$3,944 million. Nonetheless, as at the same date, the Group only had HK\$2,240 million in cash reserves. A substantial amount of the Group's borrowings will be due before 31 December 2015, putting the Group under immense financial pressure to obtain immediate cash and financial resources and support in order to fund its cash flow requirements in the short term and to improve its financial condition in the medium to long term.

In view of the significant cash requirements for repayment of borrowings and its capital expenditures, the Company considers that China Minsheng Jiaye's investment will provide an immediate source of funds to enhance its cash flow in the short term. While China Minsheng Jiaye has provided short-term loans in an aggregate amount of RMB560 million to the Group during the past three weeks before the Subscription Agreement was concluded and entered into, it is estimated that upon the Subscription Completion, the Company will receive net proceeds amounting to HK\$1,486 million from the Subscription. With the strong financial background of China Minsheng Jiaye as the Company's controlling shareholder upon the Subscription Completion, the Subscription is expected to also enable the Group to access broader financing options and borrow at lower interest costs in the medium to long term.

Upon the Subscription Completion, China Minsheng Jiaye will also provide a back-to-back indemnity in favour of the Company, with a view to remedying the undesirable financial implications of the Group's exposure to the contingent liabilities of the Third Party Indebtedness (as disclosed in the announcement of the Company dated 24 September 2015). The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million and the Group may be required to assume all repayment obligations in the event of payment default by third parties on the Third Party Indebtedness. The back-to-back indemnity will be given by China Minsheng Jiaye only upon the Subscription Completion as China Minsheng Jiaye will become the controlling shareholder of the Company and it is intended that the back-to-back indemnity will benefit the Company and all Shareholders as a whole.

Furthermore, the Company considers that the Subscription by China Minsheng Jiaye will bring about significant strategic benefits to the Group due to China Minsheng Jiaye's established operations in the real estate sector in China. See "Intention in relation to the Group" above.

The Company has considered other fund raising methods such as rights issue or open offer, and debt financing and considered that the Subscription is preferable for the following reasons:

- (a) it would be difficult for financial institutions to provide facility up to such a substantial amount to the Group as proposed under the Subscription and debt financing would inevitably increase the financial costs of the Group; and
- (b) a pre-emptive issue such as rights issue or open offer would not be able to bring in strategic investors as Shareholders, particularly China Minsheng Jiaye with a strong background and professional expertise.

In assessing the Group's funding need required for the repayment of the Group's outstanding loan, general working capital for the business operations of the Group and for the future property development projects of the Group, the Directors are of the view that the Subscription presents a good opportunity for the Company to raise a substantial amount of funds from the equity market to strengthen its financial position and the proceeds from the Subscription can satisfy the Company's expected funding needs for the next 12 months' period. The Directors are of the opinion that, after taking into account the financial resources and credit facilities available to Group, the net proceeds from the Major Disposal and the net proceeds from the Subscription, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances. As at the Latest Practicable Date, the Company has no intention to carry out any equity fund raising activities for the next 12 months

The Board (including the independent non-executive Directors whose opinion is set out in the letter of recommendation from the IBC as contained in this circular) considers that the terms of the Subscription as a whole and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Amongst the members of the Board:

- (a) Mr. Shi Jian is a director and 36% shareholder of SREI and is materially interested in the Subscription; and
- (b) Mr. Shi Janson Bing is the son of Mr. Shi Jian, which falls under the definition of associate of Mr. Shi Jian, and is therefore materially interested in the Subscription.

Mr. Shi Jian absented from the board meeting of the Company in which the resolutions approving the Subscription was considered and voted upon.

Pursuant to the Bye-laws, Mr. Shi Janson Bing abstained from voting at the board meeting of the Company in respect of the resolutions approving the Subscription, nor was he counted towards the quorum in respect of such resolutions.

Equity Fund Raising Activities in the Last 12 Months

The Company did not raise any funds from any equity fund raising activities in the past 12 months immediately before the date of the Announcement.

APPLICATION FOR WHITEWASH WAIVER

China Minsheng Jiaye and parties acting in concert with them do not (as at the Latest Practicable Date) own, control or direct any Shares or convertible securities, warrants or options (or outstanding derivatives) in respect of Shares.

Upon the Subscription Completion, China Minsheng Jiaye and parties acting in concert with them will hold 12,500,000,000 Shares, representing approximately 60.78% of the voting rights of the Company as enlarged by the issue of the Subscription Shares. As a result, China Minsheng Jiaye and parties acting in concert with them will be obliged to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by China Minsheng Jiaye and parties acting in concert with them) pursuant to Rule 26.1 of the Takeovers Code.

China Minsheng Jiaye has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code which, if granted, will be subject to, among other things, approval by the TC Independent Shareholders in respect of the Subscription and the Whitewash Waiver at the SGM by way of poll. The granting by the Executive of the Whitewash Waiver and the approval of the TC Independent Shareholders are part of the Subscription Conditions and cannot be waived.

If the Whitewash Waiver is approved by the TC Independent Shareholders, the shareholding of China Minsheng Jiaye in the Company will exceed 50% upon the Subscription Completion. China Minsheng Jiaye may further increase its shareholding in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

OTHER ARRANGEMENT

Reference is made to the announcement of the Company on 24 September 2015 (the “**Financing Transaction Announcement**”) and 3 November 2015 regarding certain Financing Transactions (as defined therein). In connection with those Financing Transactions, the Company and/or certain of its subsidiaries were found to have executed certain guarantee and a mortgage in favour of banks for the Third Party Indebtedness of certain connected persons of Mr. Shi Jian (the “**Connected Persons**”). The aggregate outstanding principal amount of the Third Party Indebtedness as at 31 August 2015 was approximately RMB2,382.7 million.

Based on the preliminary investigation of the Company, taking into account the Company’s enquiries with the borrowers of the Third Party Indebtedness and the lenders, (a) the total outstanding balance of the loans secured by the Financing Transactions was RMB2,382,740,000 (equivalent to approximately HK\$2,906,942,800)

as of 31 August 2015; (b) the Group does not have any immediate risk of monetary damages as there has been no default in repayment of the borrowers on any of the loans; (c) all the loans secured by the Financing Transactions (save and except the Fifth Loan with an outstanding balance of RMB30,000,000 (equivalent to approximately HK\$36,600,000) as of 31 August 2015) were also secured by mortgages or charges over properties, land or equity provided by the borrowers of the Third Party Indebtedness (collectively, the “**Security by Connected Persons**”), with market value of the Security by Connected Persons being above the current outstanding balance of the loans; and (d) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules. On that basis, the Board considers that the Financing Transactions have not brought about any immediate risks of material adverse impact on the financial position of the Group. However, the Company wishes to emphasize that the above findings and analysis are of a preliminary nature.

Due to the Financing Transactions, the Group may be required to assume all repayment obligations in respect of the Third Party Indebtedness in the event of payment default on the Third Party Indebtedness. China Minsheng Jiaye has confirmed that it has a comprehensive understanding of the Financing Transactions. In order to remedy the undesirable financial implications of the Group’s exposure to the contingent liabilities of the Third Party Indebtedness, China Minsheng Jiaye will, upon the Subscription Completion, provide a back-to-back indemnity in favour of the Company (the “**CMJI Indemnity**”) to indemnify and hold harmless the Group from and against any losses and costs that it has incurred as a result of the performance of the Financing Transactions by the Company or any of its subsidiaries, on the term that the Company shall account to China Minsheng Jiaye any proceeds, compensation or money that it may have received or recovered from any persons in relation to the Third Party Indebtedness as a result of the enforcement of the existing collateral provided to the lending banks by the borrowers of the Third Party Indebtedness or otherwise.

If it was later discovered that the Company has provided undisclosed guarantee(s) for other third party indebtedness:

- (a) China Minsheng Jiaye will not be required to provide further back-to-back indemnity in favour of the Company, but it may consider doing so at that time depending on, among other factors, the circumstances and amount of the contingent liabilities involved; and
- (b) it will constitute a breach of representation under the Subscription Agreement and as a result China Minsheng Jiaye will have the right to decide not to proceed with the Subscription Completion.

To further mitigate the potential loss arising from the Financing Transactions, on 3 November 2015, SREI and Madam Si Xiao Dong entered into an irrevocable and unconditional undertaking in favour of the Company (on its own and its subsidiaries’ behalf) to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions (the “**SREI Indemnities**”).

The Directors are of the view that the SREI Indemnities will, together with the CMJI Indemnity, be able to relieve the Group of the undesirable risk exposure, contingent liabilities and uncertainties caused by the Financing Transactions.

As disclosed in the Financing Transactions Announcement, the Board has established an investigation committee (the “**Investigation Committee**”), comprising all the independent non-executive Directors as members, to further investigate the Financing Transactions and to review the internal control system of the Group.

As of the Latest Practicable Date, the following work has been performed by the Company to identify unreported transactions, if any, which might have been executed by Mr. Shi Jian for and on behalf of the Group prior to his custody at a designated residence as required by the Changzhou City People’s Procuratorate of the PRC as announced by the Company on 9 June 2015 and his suspension of duties on 21 September 2015:

- (1) A special task force (the “**Investigation Team**”) comprising Mr. Ma Dayu, Mr. Wang Pei Liang and Ms. Cai Hongcha was formed to investigate the Financing Transactions and all works executed by Mr. Shi for the Group in the past. Mr. Ma, an Executive Director of the Company, is responsible for supervising the work of the Investigation Team and conducting enquiries with the family of Mr. Shi Jian, SREI and the directors of SREI. Mr. Wang, a Vice-President of the Group, has solid background and expertise relating to finance and is responsible for detailed review of financing-related contracts and documents and making contacts with banks. Ms. Cai, Head of Group Comprehensive Engineering Department, is familiar with the internal control, approval process and reporting lines of the Group and is responsible for detailed review of internal control records of the Group. No member of the Investigation Team is connected to Mr. Shi Jian or SREI.
- (2) All physical and electronic documents possessed in Mr. Shi Jian’s office have been retrieved and were reviewed by the Investigation Team.
- (3) The Investigation Team has conducted a series of internal interviews within the Group and external interviews with third parties. These included interviews with (i) key responsible officers of the Group and the Connected Persons, (ii) Madam Si Xiao Dong (spouse of Mr. Shi Jian), Mr. Shi Janson Bing (son of Mr. Shi Jian, Vice-chairman and Executive Director of the Company) and the other two directors of SREI, and (iii) the bank managers of the banks which have business relationship with the Company, SREI and the Connected Persons. The Investigation Team has also obtained confirmations from the lenders of the loans relating to the Financing Transactions, acknowledging that they are not aware of any other unreported financing transactions.
- (4) The Investigation Team has reviewed the existing internal control system and records of the Group.

- (5) The Investigation Team has reviewed the basic credit information reports provided by the credit reference system of the People's Bank of China as of October 2015. These credit reports did not reveal any other unreported transactions apart from the Financing Transactions.

Based on the Investigation Team's findings, and subject to further updates to be reported by the independent internal control adviser and forensic specialist, the Investigation Committee is of the view that:

- (1) Each of the Financing Transactions was executed or procured by a single Director, namely, Mr. Shi Jian, on behalf of the Company without the knowledge of the other Directors at the relevant time.
- (2) The Financing Transactions comprised a series of transactions relating to the Disposal Agreement (as defined in the Financing Transactions Announcement) entered into by SREI on 10 October 2013 or otherwise relating to the Disposal Assets (as defined in the Financing Transactions Announcement) or SREI and did not arise from six separate incidents of internal control failure.
- (3) Mr. Shi Jian and SREI have no side business and all businesses of Mr. Shi Jian and SREI were property in nature and were conducted through the Company, China New Town Development Company Limited and Black Eagle (Shanghai) Investment Management Limited.
- (4) The work performed by the Investigation Team did not reveal any other unreported transactions apart from the Financing Transactions which have been disclosed in the Financing Transactions Announcement.
- (5) The Company has put in place sufficient safeguards to monitor the provision of guarantee and collateral by the Group to parties outside the Group. No significant design failure or ineffectiveness of the Group's internal control system was identified.
- (6) In light of the evidence obtained or reviewed by the Investigation Team, the incidents arising from the Financing Transactions might have been resulted from the intentional circumvention of the internal control procedures by Mr. Shi Jian.

The Investigation Committee has resolved to carry out the following procedures to prevent the occurrence of similar incidents in future:

- (1) On 21 September 2015, the Board has already suspended all executive functions of Mr. Shi Jian in the Group with immediate effect. In light of the Investigation Team's findings, the Board and the Investigation Committee consider that it is no longer appropriate for Mr. Shi Jian to continue to be a

director of the Company or its subsidiaries. The Company is carrying out steps to remove Mr. Shi Jian from the board of directors of the Company and its subsidiaries.

- (2) The Board will engage a qualified internal control adviser to carry out a thorough internal control review on the Group and to make recommendations to the Company. Upon completion of this process, the Company will publish the key findings of the internal control review report by way of announcement.
- (3) The Board will also engage an independent forensic specialist to conduct a forensic investigation on the incidents arising from the Financing Transactions and to assess the impact on the Company's financial and operational position. Upon completion of this process, the Company will publish the key findings of the forensic investigation report by way of announcement.
- (4) Immediate actions have been taken to further tighten the internal control procedures of the Group as regards the use of company chops and seals, applications for loans and facilities and the provision of guarantees, indemnities, charges and pledges, and clear guidance and reiteration of the reporting line and approval process for all financing transactions.

The Company has carefully considered the existing disclosure of the Company's annual reports, taking into account, in particular, the facts that: (a) there has been no default in repayment of the borrowers on any of the loans; (b) all the loans secured by the Financing Transactions (save and except the Fifth Loan (as defined therein). with an outstanding balance of RMB25,000,000) were also secured by the Security by Connected Persons, with market value of the Security by Connected Persons being above the current outstanding balance of the loans; (c) the Company was informed by the borrowers that they intend to make, and are capable of making, punctual repayments on the loans in accordance with the repayment schedules; (d) subject to completion of the Subscription, China Minsheng Jiaye has agreed to provide the CMJI Indemnity to fully indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions; and (e) each of SREI and Madam Si Xiao Dong also provided the SREI Indemnities to indemnify and hold harmless the Group for any losses arising from its payment obligations arising from the Financing Transactions.

After considering the above, in particular the provision of the CMJI Indemnity and the SREI Indemnities in favour of the Company, the Company is of the view that (a) no provision is required to be made in connection with the provision of guarantees and collaterals under the Financing Transactions; and (b) there is no need to restate the net assets and net profit of the Group as reported in the Company's annual report for 2014 and previous years if all conditions stated in the paragraph above are satisfied.

The Company will closely monitor the development of the matters relating to the Financing Transactions and will make further announcements as and when there is significant development of the matters. So far as the Company is aware, as at the Latest Practicable Date, there is no other inside information that is required to be disclosed.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$800,000,000 divided into 8,000,000,000 Shares, of which 5,664,713,722 Shares have been allotted and issued as fully paid or credited as fully paid. In order for the Company to carry out the Subscription, the Board proposes to increase the authorised share capital of the Company from HK\$800,000,000 to HK\$5,000,000,000 by authorising the creation of an additional 42,000,000,000 Shares. The proposed Share Capital Increase is subject to the approval of the Shareholders at the SGM.

Immediately after the Share Capital Increase, the authorised share capital of the Company will be HK\$5,000,000,000 divided into 50,000,000,000 Shares.

An ordinary resolution, to be voted by way of a poll, to approve the Share Capital Increase will be proposed at the SGM.

CHANGES TO BOARD COMPOSITION OF THE COMPANY

Proposed removal of Mr. Shi Jian as a Director

Bye-law 86(4) of the Bye-laws provides that the Shareholders may, at any general meeting convened and held in accordance with the Bye-laws, by ordinary resolution remove a Director (including a managing Director or other executive Director) at any time before the expiration of his period of office notwithstanding anything in the Bye-laws or in any agreement between the Company and such Director.

As stated in the Company's announcement dated 9 June 2015, the Changzhou City People's Procuratorate of the People's Republic of China has required Mr. Shi Jian to stay under custody at a designated residence. In addition, as disclosed in the Company's announcement dated 24 September 2015, it was unraveled that certain Financing Transactions (as defined therein) were executed by Mr. Shi Jian, purportedly acting for and on behalf of certain members of the Group, between 2011 and 2014 with third party financial institutions without the knowledge of the other Directors at the relevant time. The above calls into question the ability of Mr. Shi Jian to be a fit and proper person to continue to discharge his responsibilities as an executive Director and the Chairman of the Board.

Accordingly, the Board is of the view that it would not be in the best interests of the Company and the Shareholders to allow Mr. Shi Jian to continue to be a Director and therefore proposes an ordinary resolution at the SGM to remove Mr. Shi Jian as an

executive Director and the Chairman of the Board in accordance with the Bye-laws. Mr. Shi Jian shall also cease to be the chairman of the Nomination Committee of the Board upon his removal as an executive Director.

Resignation of Directors

Subject to the Subscription Completion having taken place, each of Mr. Ma Dayu, Mr. Li Genfa, Mr. Shi Lizhou, Mr. Cheung Wing Yui and Mr. Jin Bing Rong will resign as Directors with effect from the Subscription Completion Date.

Proposed appointment of Directors

In place of the above resigning Directors, the Board proposes to appoint the following candidates, who are nominated by China Minsheng Jiaye pursuant to the Subscription Agreement, as Directors with effect upon the Subscription Completion, subject to the Shareholders' approval by ordinary resolutions at the SGM in accordance with Bye-law 86(1) of the Bye-laws:

- (a) Mr. HE Binwu as an executive Director;
- (b) Mr. PENG Xinkuang as an executive Director;
- (c) Mr. CHEN Chao as an executive Director;
- (d) Mr. ZHU Qiang as an executive Director; and
- (e) Mr. ZHAO Xiaodong as an executive Director.

The biographical details of the above candidates as required to be disclosed under the Listing Rules are provided by China Minsheng Jiaye and set out in Appendix II to this circular.

Proposed re-election of Mr. Shi Janson Bing as an executive Director

Reference is made to the announcement of the Company dated 17 July 2015 in relation to the appointment of Mr. Shi Janson Bing as an executive Director and a Vice-chairman of the Board. Pursuant to code provision A.4.2 of Appendix 14 of the Listing Rules, Mr. Shi Janson Bing will retire as an executive Director and, being eligible, offer himself for re-election at the SGM. Resolution for the re-election of Mr. Shi Janson Bing as an executive Director will be proposed at the SGM. The biographical details of Mr. Shi Janson Bing are set out in Appendix II to this circular.

EFFECT OF THE TRANSACTIONS

As at the Latest Practicable Date, the Company has in issue 5,664,713,722 Shares.

The table below sets out the shareholding structure of the Company: (a) as at the Latest Practicable Date; and (b) immediately after the Subscription Completion:

	As at the date of Latest Practicable Date		Immediately after the Subscription Completion	
	No. of Shares	%	No. of Shares	%
SREI	2,889,659,128	51.01	2,889,659,128	14.05
Directors				
Mr. Shi Jian & Md. Si Xiao Dong (<i>Note 1</i>)	13,009,315	0.23	13,009,315	0.06
Mr. Zhuo Fumin (<i>Note 2</i>)	160,000	0.00	160,000	0.00
China Minsheng Jiaye			12,500,000,000	60.78
Public shareholders				
Investor A			700,000,000	3.40
Investor B			500,000,000	2.43
Investor C			500,000,000	2.43
Investor D			500,000,000	2.43
Investor E			200,000,000	0.98
Existing public shareholders	2,761,885,279	48.76	2,761,885,279	13.44
Public sub-total	<u>2,761,885,279</u>	<u>48.76</u>	<u>5,161,885,279</u>	<u>25.11</u>
Total	<u>5,664,713,722</u>	<u>100.00%</u>	<u>20,564,713,722</u>	<u>100.00%</u>

Notes:

- Mr. Shi Jian is a director of the Company and holds 13,006,991 Shares. Md. Si Xiao Dong is Mr. Shi Jian's spouse and holds 2,324 Shares.
- Mr. Zhuo Fumin is a director of the Company. His spouse, Md. He Pei Pei, holds 160,000 Shares.

Following the Subscription Completion, the Shares held by the core connected persons, including China Minsheng Jiaye (or its wholly-owned subsidiary), SREI and the Directors, and their respective close associates, would not count towards the public float. As each of the Investors holds less than 10% of the issued Shares, they are not substantial shareholders of the Company and would count as part of the public float.

None of the securities of the Company is listed or dealt in on any stock exchange (other than the Stock Exchange) and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, the Company has no outstanding share options or convertible securities entitling any person to subscribe for Shares.

3 GENERAL

All resolutions to be put to vote at the SGM will be taken by way of a poll in accordance with the Listing Rules and the Takeovers Code.

As at the Latest Practicable Date and on the date of the SGM, China Minsheng Jiaye, China Minsheng Investment and parties acting in concert with them do not, and will not, hold any Shares or other securities in the Company. In any event, China Minsheng Jiaye, China Minsheng Investment and parties acting in concert with them are not entitled to vote on any of the resolutions relating to the Subscription, the Specific Mandate and the Whitewash Waiver.

Under the Takeovers Code, Shareholders who are involved or interested (as defined in the Takeovers Code) in the Subscription and the Whitewash Waiver shall abstain in voting on the relevant resolutions relating to the Subscription and the Whitewash Waiver. SREI and SREI Concert Parties are deemed to be involved or interested (as defined in the Takeovers Code) in the Subscription and the Whitewash Waiver and shall abstain in voting on the relevant resolutions relating to the Subscription and the Whitewash Waiver. Only the TC Independent Shareholders will be eligible to vote on the relevant resolutions relating to the Subscription and the Whitewash Waiver.

Under the Listing Rules, Shareholders who have a material interest (within the meaning of the Listing Rules) in the Subscription and the Specific Mandate shall abstain in voting on the relevant resolutions relating to the Subscription and the Specific Mandate. SREI, its directors, substantial shareholders and their respective associates are deemed to have a material interest (within the meaning of the Listing Rules) in the Subscription and the Specific Mandate and shall abstain in voting on the relevant resolutions relating to the Subscription and the Specific Mandate. Only the LR Independent Shareholders will be eligible to vote on the relevant resolutions relating to the Subscription and the Specific Mandate.

In addition, all other shareholders of SREI (who are neither SREI's directors or substantial shareholders or their respective associates, nor parties acting in concert or presumed to be acting in concert with SREI) who hold direct interest in Shares have undertaken to abstain from voting on the relevant resolutions relating to the Subscription, the Specific Mandate and the Whitewash Waiver at the SGM.

To the best of the Directors' knowledge, information and belief, no Shareholder has a material interest in the Share Capital Increase and accordingly, no Shareholder is required to abstain from voting on the resolution approving the Share Capital Increase.

To the best of the Directors' knowledge, information and belief, no Shareholder has a material interest in (a) the removal of Mr. Shi Jian as a Director; (b) the appointment of the new Directors nominated by China Minsheng Jiaye; and (c) the re-election of Mr. Shi Janson Bing as an executive Director, and accordingly no Shareholder is required to abstain from voting on the relevant resolutions at the SGM. That having said, the Company was informed

by SREI and Madam Si Xiao Dong that they intend to abstain in voting in respect of the relevant resolutions at the SGM in respect of the removal of Mr. Shi Jian, the appointment of directors nominated by China Minsheng Jiaye and the re-election of Mr. Shi Janson Bing.

4 RECOMMENDATION

Your attention is drawn to:

- (1) the letter of recommendation from the IBC set out on pages 33 to 34 of this circular which contains the recommendation of the IBC to the Independent Shareholders concerning, among others, the Subscription and the Whitewash Waiver; and
- (2) the letter of advice form the IFA set out on pages 35 to 60 of this circular which contains its recommendations to the IBC and the Independent Shareholders on, among others, the Subscription and the Whitewash Waiver and the principal factors and reasons considered by the IFA in arriving at its recommendations.

The Board considers that the Share Capital Increase, the Subscription, the Specific Mandate and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of all the relevant resolutions to be proposed at the SGM.

The Board also considers that the proposals for (a) the removal of Mr. Shi Jian as a Director; (b) the appointment of the new Directors nominated by China Minsheng Jiaye; and (c) the re-election of Mr. Shi Janson Bing as an executive Director are in the interests of the Company and the Shareholders as a whole, and accordingly recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

5 ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular and the notice of the SGM.

By Order of the Board
SRE Group Limited



Wang Zi Xiong

Co-chairman & Chief Executive Officer