A. Background of the Report

Rider Levett Bucknall ("RLB") is engaged by the Client to conduct a feasibility study in respect of the possible redevelopment of its Namtai Industrial Estate located in Xixiang Sub-district, Baoan District, Shenzhen (the "Site"). The purpose of the feasibility study is to provide a development plan for the site highlighting information on schedule, budget and general floor areas.

The scope of the feasibility study includes an overview of the development in Shenzhen in particular Baoan, listing of comparable property developments in the city and those in Hong Kong, review of comprehensive property developments, international hotels and major retail stores in Baoan, propose development mix for redevelopment of the site with development cost model and tax implications, explain procedures to obtain development consent, proposed teams required for the redevelopment, tentative development programme and discuss possible issues upon the redevelopment process.

B. Site Analysis

1. Recent Developments in Shenzhen and Baoan

a. Overall City Development

Shenzhen moved three places up the Nature Publishing Index China rankings in 2012, overtaking Nanjing as the sixth most productive city, pursuant to Nature Publishing Index 2012 China published in May 2013. High-tech, modern logistics, financial services and cultural industry are the four pillar industries in Shenzhen according to Shenzhen Government Online. The city ranked sixth among Chinese cities in high quality basic research, pursuant to the Nature Publishing Index 2010 China. Strength in research and development of new technology and a good environment for industry have made high-tech industry the most important pillar of Shenzhen. The city's GDP reported a record high of RMB 1,295 billion in 2012, a 10% increase over the previous year, reflecting an accelerating, stable and high-quality growth of the economy. The city's GDP ranked fourth after Shanghai, Beijing and Guangzhou.

During the process of the study, RLB met with Xixiang government officials to sound out their idea of the development in Xixiang which is a sub-district of the Baoan District. From the discussion, government's strategy is to transform Xixiang into a high-tech/science park area in support of the development of the Qianhai district which is to the south of Xixiang and 16km from the Site. The Shenzhen government is actively developing Qianhai into a financial, logistics and information technology centre with a working population expected to be 800,000 people.

B. Site Analysis (Cont'd)

1. Recent Developments in Shenzhen and Baoan (Cont'd)

a. Overall City Development (Cont'd)

Offices are therefore expected to be in need in Xixiang for the high-tech industries and the science park with residential, hotel, shopping accommodation as support.

b. The "Three Belts, Two Hearts and One Valley" Development Concept in Baoan

Shenzhen has developed rapidly over the last three decades, the city core concentrating mainly around Luohu, Futian and Nanshan Districts. As development in these Districts is about to reach their saturation, the government plans to create another city centre in Baoan where the Shenzhen Baoan International Airport is located and Qianhai where the government plans to develop.

The city government endorsed Baoan's modernization plan during the mayor's visit to the district in August 2013 as well as reassured the District's main comprehensive development concept of "Three Belts, Two Hearts and One Valley".

B. Site Analysis (Cont'd)

1. Recent Developments in Shenzhen and Baoan (Cont'd)

b. The "Three Belts, Two Hearts and One Valley" Development Concept in Baoan (Cont'd)

The Three Belts include:

(i) a coastal belt in the west with a 45km promenade to be developed along the waterfront;

(ii) a golden development belt in the district centre with the upgrade of National Highway G107 at a budget of RMB 50 million; and

(iii) a leisure natural belt in the east.

B. Site Analysis (Cont'd)

1. Recent Developments in Shenzhen and Baoan (Cont'd)

b. The "Three Belts, Two Hearts and One Valley" Development Concept in Baoan (Cont'd)

The Two Hearts concept means:

> Shenzhen's existing city centre of "Luohu and Futian" and another city centre at "Baoan and Qianhai" to be developed in the next ten years to cope with the rapid development of the city.

The One Valley refers to the development of the dam in the east into a valley of green and leisure space.

A diagram showing conceptually the development concept is enclosed as Appendix A.

As part of the golden belt development, the Xixiang government plans to develop a high-tech/science park area with an area of approximately 15km^2 in support of one of the city's pillar industries and as part of the Xixiang's urban renewal exercise. With this in mind, the Xixiang government encourages property redevelopments in the area with a view to meet the city's vision.

B. Site Analysis (Cont'd)

1. Recent Developments in Shenzhen and Baoan (Cont'd)

b. The "Three Belts, Two Hearts and One Valley" Development Concept in Baoan (Cont'd)

The Site sits right in the middle of the proposed high-tech/science park area and is conveniently located next to National Highway G107 and just 9.7km away from the airport. As such, the Xixiang government encourages the Site's redevelopment with a view to make it the landmark of the high-tech/science park area and as a catalyst to promote redevelopment of similar properties in the vicinity.

B. Site Analysis (Cont'd)

1. Recent Developments in Shenzhen and Baoan (Cont'd)

c. Traffic around Baoan

As Baoan is home to the Shenzhen Baoan International Airport, it is easily accessible by all forms of public transportation. The city is currently served by five metro routes (Appendix B) with Metro Route 1 passing through the area terminating at the airport. There are two additional Metro Routes 10 and 11 under planning which are close to the site and run parallel to Metro Route 1 (Appendix C). While Metro Route 11 is an express train to the airport, Metro Route 10 has a Baotian station which is located within ten minute walk from the Site. Metro Route 10 is at present scheduled to commence construction in 2015.

A major thoroughfare, the Riverside Highway, has just been added to the highway system in Baoan this September easing the busy traffic of the other three thoroughfares of Baoan Avenue, National Highway G107 and the Guangzhou/Shenzhen Highway (Appendix D). All four major thoroughfares run approximately parrallel to each other in this part of Baoan connecting the area to other parts of China in particular the nearby Guangzhou, the capital city of the Guangdong Province.

B. Site Analysis (Cont'd)

1. Recent Developments in Shenzhen and Baoan (Cont'd)

c. Traffic around Baoan (Cont'd)

It must be noted that National Highway G107 is immediately to the east of the Site and the government intends to upgrade it with a RMB 50 million budget through widening and addition of two exits in front of and at the back of the Site. Furthermore, there will be limited truck usage along the highway save for designated factories making it more environmental friendly with less noise pollution as part of the government golden development belt exercise. These will enhance both the connectivity and the visibility of the Site.

B. Site Analysis (Cont'd)

2. Property Developments in the Area

a. Comprehensive Developments

There are many comprehensive property developments in Shenzhen in recent years but there have only been limited number in the Xixiang area. The recent developments in the Xixiang area include the Airport City Phases 1 and 2, We Town and Gu Shu Hau Ting which are mainly residential. However, there have recently been a number of industrial renewal projects in Baoan which are of greater relevance to the Site. All these are further elaborated below. For reference purpose, a number of comprehensive developments in Shenzhen and Hong Kong are also provided to give an idea on what might be developed on the Site.

i. Airport City Development

The Airport City Development is a project conducted by the Shenzhen Baoan International Airport with a view to develop the airport and its vicinity areas into a mini-city with various businesses supporting the airport activities. The initial idea comes from the Nederlands with the success of the development of office, hotel, logistics, airport supporting industries, etc. around the Amsterdam Schiphol Airport.

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

a. Comprehensive Developments(Cont'd)

i Airport City Development (Cont'd)

Apart from the construction of the third terminal building, the airport city's Pilot City is another major project at present located just a few blocks away from the Site (Appendix D). It is expected that such a development would pioneer

redevelopments in the areas nearby.

Pilot City has a site area of approximately 330,000m^2 located at the crossroad of National Highway G107 and the Airport City Boulevard which is very close to the Site on the north. The planned gross floor areas are approximately 1,300,000m^2 to be constructed in six phases with final completion expected in 2017. Pilot City will provide luxurious residential accommodation, offices for corporate headquarters, high end hotel and an innovative industrial park.

Construction of residential accommodation will lead the Pilot City development in the early stage and Phase 1 is already on sale. Phase 2 started construction at the end of 2012 with sale targeted in 2014. It has a site area of approximately 55,000m^2. Including those non-accountable gross floor areas (GFA), Phase 2 has a total GFA of approximately 240,000m^2.

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

a. Comprehensive Developments(Cont'd)

ii. Other Recent Nearby Developments

There is a comprehensive development called We Town about a block away to the west of the Site (Appendix D). Construction has commenced which has an area of 28,129.71m^2, providing the following:

	Approx. GFA
Residential	38,242.00m^2
Office	9,876.00m^2
Serviced Apartment	4,166.58m^2
Commercial	16,879.75m^2
	69,164.33m^2

There is another property development within 1km to the southwest developed by a local developer, Gu Shu Hua Ting which has recently been completed and sold out upon enquiry. The development has several 22-storey residential towers sitting on top of a commercial podium. The development helps to modernise the vicinity area.

iii. Industrial Renewal Projects in Baoan

There are a number of industrial renewal projects submitted to the Baoan government for approval in recent years. Those provided with relevant development information are summarized in the table below with details attached as Appendix E:

Information on Some Recent Industrial Renewal in Baoan (An Extract from Baoan Government Gazette)

	Gross Site Area (m^2)		Approx Plot Ratio	GFA (m^2)	%	Use
	Renewal	Demolished				
1. 寶安區石岩街道上屋工業上屋電業廠	21,286.10	21,286.10	5.0	62,230	70.0%	Factory
An Electrical Factory at Shiyan Road, Baoan				26,700	30.0%	Other Facilities
2. 寶安區沙井沙頭香楊下片區	49,979.40	40,473.30	2.9	110,000	94.7%	R&D Centre
A district in Shajing Shatou Xiangyang Xiapian Qu, Baoan				6,100	5.3%	Other Facilities
3. 寶安區石岩街道添好工業區	25,357.50	25,357.50	4.5	114,110		Not Specified
An industrial district at Shiyan Road, Tian Hao Industrial Estate Baoan						
4. 寶安區新安凸版印刷工業區地塊	38,801.95	38,801.95	5.5	213,410		Not Specified
An industrial site in Xin'an Printing Area, Baoan						
5. 寶安區沙井街道東塘舊工業區地塊	20,749.17	19,998.75	4.8	96,000		Not Specified
An industrial land at Shajing Street, Old Tongtang Industrial Estate, Baoan						
6. 寶安區西鄉黃麻布社區百靈達工業區園	43,314.80	46,866.1	4.0	150,940	93.6%	Residential
An industrial site in Xixiang Huangmabu Bailingda Industrial Estate, Baoan				8,000	5.0%	Commercial
(Note: 2nd Class Residential Land)				2,400	1.5%	Other Facilities

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

a. Comprehensive Developments(Cont'd)

iii. Other Recent Nearby Developments (Cont'd)

It can be noted from the information provided above that the plot ratio upon industrial renewal in Baoan is in the range of 4.0 to 5.5. Apart from the last site which has a residential land use instead of industrial, the other two sites have to be redeveloped into either factory or R&D uses with other facilities up to 30% of the total GFA.

iv. Similar Developments in Shenzhen and in Hong Kong

There are a number of major similar property developments completed or in the process of construction in Shenzhen. A summary of such developments is provided in Appendix F for reference information.

Furthermore and as a result of promoting the development of the Qianhai area to the south of Xixiang, the government recently auctioned three pieces of land there. Result of the land auctions carried out on 26 July 2013 (2 pieces) and 16 August 2013 are attached as Appendix G. The three pieces of land are all for commercial/office use with site area ranging between 49,000m^2 to 62,000m^2 and plot ratios between 6.5 to 8.1.

Similarly, information on a number of comparable property developments in Hong Kong is attached as Appendix H for reference.

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

b. International Hotels

Major international hotels cluster in the Luohu, Futian and Namshan Districts. These areas are Shenzhen's central business districts and were developed in sequence in the past 30 years. A map showing the locations of such hotels together with information on the number of rooms and indicative room rates are attached as Appendix I.

The only international hotel in Baoan is Best Western located close to the airport providing 250 rooms. The district is also served by a number of local hotels located mostly around the Xixiang town centre. According to market sources, Marriott has recently committed to manage a high quality international hotel in Baoan.

The general terms for an international hotel operator to run a hotel in China are provided below for reference:

i. Brand:	an international hotel brand
ii. Term:	20 years
iii. Basic Fee:	2.5% of gross revenue (incl. income tax) (i) Management fee: 0.25% of gross revenue (ii) Base Royalty: 2.25% of gross revenue
iv. Incentive Royalty:	10% of gross operating profit (incl. income tax)

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

b. International Hotels (Cont'd)

v. Reimbursable expense (unified standard):

· International marketing Service:	1.5% of gross revenue.
· Reservation System Cost:	about US$5.00
· Frequent traveller program:	The charge is roughly 4% of a programme member's folio during a stay.
vi. Technical Services:	About RMB 3 million

More detailed provisions will be shown in the memorandum of understanding and interim technical services agreement to be signed by both sides. These two will be the basis of hotel manage agreement negotiation.

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

c. Major Retail Stores

As Baoan is more of a residential area as compared with its nearby district like Futian and Nanshan, a number of international retail stores have already established there (Appendix D) providing various daily necessities to the residents. These include:

i. a relatively new Jusco store opened in April 2012, located close to the Baoan Centre Station along Metro Route 1;

ii. two Walmarts in Baoan out of the total 12 Shenzhen stores, one close to Metro Route 1's Xixiang Station and the other on the east along Qianjin Road; and

iii. two Carrefours are in Xixiang out the the total eight stores in Shenzhen (one within Ganglong Shopping Mall on Xixiang Street and another within Xiangbin Square on the crossroad between Jianan No. 1 Road and Xinzhen Road).

The general terms for an U.S. based international retail store to run a store in China are provided below for reference:

a. Location	no other competitor within three kilometers
b. Population	150,000 required within three kilometers
c. Size	12,000m^2 to 15,000m^2, with ground floor main entrance area of approximately 3,000m^2 and the remaining area either on the first floor or the basement

B. Site Analysis (Cont'd)

2. Property Developments in the Area (Cont'd)

c. Major Retail Stores (Cont'd)

d. Rent	less than RMB 50/m^2/month with roughly six month rent free; rent escalation after three years
e. Fitting out	Works all provided by owner, including air-conditioners, travellators, etc.

The Site and the redevelopment will generally fulfill the requirements above with the terms and conditions of the lease subject to future discussions between the owner and the tenant.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site

In order to implement renewal of the city's old districts, the Shenzhen government announced its Shenzhen Urban Renewal Regulation (Shenzhen People's Government Notice No. 211) (Appendix J) on 22 September 2009 for implementation commencing 1 December 2009. In accordance with Article 15 of the Regulation, individual businesses can submit an application using the Shenzhen Urban Renewal for Individual Business' Planning Formulation Plan Application Form. Such an application has been made on the Site on 31 October 2012 and an revised submission was made on 9 July 2013 (Appendix K).

It must be noted that pursuant to Item (3), Article 12 of the Regulation's implementation details (Appendix L), the owner of the land to be redeveloped has to contribute not less than 3,000 sq.m. and not less than 15% of the redevelopment area for construction of the city's infrastructure, public facilities and other facilities of public interests. The government will not make any compensation for such contribution and the construction cost of such facilities has to be absorbed by the land owner. It is noted that such contribution has been made in the Site's urban renewal submission.

To compensate for the loss of site area and to promote urban renewal of industrial sites, the government usually allows additional plot ratio upon redevelopment subject to payment of land premium. Having reviewed similar renewals in Baoan above, it is RLB's view that a total plot ratio of 6 for the Site on a revised site area basis appears to be a workable situation as compared to the existing plot ratio of 2 on the existing site area basis. Although there might be possibility of addition upon further

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

negotiations with the government, it will take time and efforts to test the government's bottom line.

Should there be no adverse comments from the Xixiang government on the urban renewal application, it will be submitted to the city government for approval requesting inclusion as one of the urban renewal projects in the relevant year pursuant to Article 15 of the Regulation. Once approval is granted, land premium is required to be paid on the additional plot ratio. For the urban renewal of industrial sites, the land premium payable is 50% of the public benchmark land price standard as stipulated in Article 38 of the Regulation.

a. Proposed Development Mix

Based on the Site's revised urban renewal application, the site area, gross floor areas (GFA) and use of the Site are as follows:

Site area:

Original	52,627.20m^2	100%
Less area for public facilities	7,894.08m^2	15%
Revised site area	44,733.12m^2	85%

GFA:

Use	Area	Plot Ratio	%
R&D office	187,879.1m^2	4.2	70%
Other uses	80,519.6m^2	1.8	30%
	268,398.7m^2	6.0	100%

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

a. Proposed Development Mix (Cont'd)

Of the total GFA upon redevelopment, 70% has been specified as R&D office use. For the remaining 30% other uses, RLB proposes the following to maximize the Site's potential:

Use	Area	% of Total
Hotel (about 250 rooms)	20,000.0m^2	7.5%
Retail	20,000.0m^2	7.5%
Residential	40,519.6m^2	15.0%
	80,519.6m^2	30.0%

The above development mix has made reference to that of the other similar mixed use developments in Shenzhen. These developments are all owned by prominent developers and some of them have been in use and are successful.

The hotel could be an international 5-star hotel as there is a shortage of such kind of hotel in Baoan. An international hotel brand could attract guests from the international companies using the R&D office as well as overseas guests coming to Shenzhen using the airport. It would be advisable to sell the residential accommodation in order to ease the cash flow of the redevelopment; however, the value added income tax would be a consideration should the residential accommodation be sold in the market.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

a. Proposed Development Mix (Cont'd)

For the tower block planning based on the above floor areas, there could be a total of six towers with three for residential and the other three for office. The hotel will be built on the upper portion of one of the office tower facilitating guests to use the office facilities down below. Retail will all be on the ground level. The office towers should be placed closer to the G107 highway in order to serve as a noise barrier to the residential towers.

On the assumption that the average GFA of the residential unit is 150m^2, there will be a total of 270 units with 90 units in each tower of 23 storeys. The office towers are suggested to have a floor plate of approximately 2,000m^2 making each a 35-storey tower. All six towers cover approximately 18% of the site allowing plenty of space for a landscaped podium for the residential tenants and the office occupiers. Retail covers approximately 45% of the site on the ground providing sufficient space for public open space and for the run in and out of vehicles.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

b. Development Cost Model

i. Land Cost

From the Real Estate Certificates i.e. the title documents, the site comprises two pieces of land acquired on 31 December 1993 and 26 April 1999 for 50 years respectively. The historical acquisition cost is as follows:

Land Lot No. A116-0006	RMB 13,929,185
Land Lot No. A116-0018	RMB 5,667,719
	RMB 19,596,904

ii. Land Premium - Urban Renewal

An amount of land premium is payable as there are additional gross floor areas allowed upon redevelopment. In accordance with Article 38 of the Shenzhen Urban Renewal Method of the Shenzhen People's Government Notice No. 211 implemented since 1 December 2009 (Appendix J), land premium is assessed by two different methods for industrial site renewal depending upon the use of the completed redevelopment.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

b. Development Cost Model (Cont'd)

ii. Land Premium - Urban Renewal (Cont'd)

In case of renewal through demolition and redevelopment for industrial use or for the use as encouraged by the government, the original allowable GFA in the Land Certificates are not subject to land premium but the additional GFA will be assessed based on 50% of the public benchmark land price standard. A copy of the relevant public benchmark land price standard is attached as Appendix M which shows the land price standard for the Site is RMB 349/m^2.

In case of renovation through demolition and redevelopment for residential, office, commercial uses, etc not in line with existing use on the site, the original GFA are also subject to land premium payment by reference to the public benchmark land price standard and the additional GFA are subject to market land premium payment. If the redevelopment is not in accordance with the existing application, there are time and cost implications on the land premium presenting a substantial risk to the owner.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

b. Development Cost Model (Cont'd)

ii. Land Premium - Urban Renewal (Cont'd)

As the Site is to be redeveloped in accordance with the terms of the existing application, the amount of land premium payable is calculated as follows:

Original GFA	100,671.05m^2
Additional GFA upon Redevelopment	167,727.65m^2
Total GFA upon Redevelopment	268,398.70m^2

Land premium

167,727.65m^2 x RMB 349/m^2 x 50% = RMB 29,268,475

iii. Land Premium – Transfer of Renovated Non-Commodity Industrial Premises

The Real Estate Certificates or the title documents indicate that approximately 27.2% or 27,340.28m^2 of the existing GFA are under Red Cover, i.e. commodity housing which can be traded in the market, with the remaining 72.8% or 73,330.77m^2 under Green Cover, i.e. non-commodity housing which cannot be traded in the market unless land premium is paid. Should there be no sale of the non-commodity housing but lease, an amount of 6% of rental is payable in the form of land premium. In accordance with Article 8 of Notice No. 3 (2013) of the Shenzhen People's Government's Office (Appendix N), sale or transfer of renovated non-commodity industrial premises has to be approved by the government and the transfer is subject to

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

b. Development Cost Model (Cont'd)

iii. Land Premium – Transfer of Renovated Non-Commodity Industrial Premises (Cont'd)

land premium payment on the basis of public benchmark land price standard.

On the assumption of land premium payment for all the renovated non-commodity industrial premises facilitating sale or lease of the completed redevelopment, the relevant land premium is calculated as follows:

GFA upon Redevelopment x 72.8% x Land Price Standard
= 268,398.7m2 x 72.8% x RMB 349/m2
= 195,394.25m2 x RMB 349/m2
= RMB 68,192,593

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

b. Development Cost Model (Cont'd)

iv. Estimated Construction Cost and Consultants' Fees

The estimated construction cost and consultants' fees based on the proposed development mix amount to RMB 3,327 million broken down as follows:

	RMB Million	
Construction Cost		
Demolition	10.0	
Excavation, Lateral Support & Piling	166.0	
Basement & Superstructure	2,824.0	
Government Facilities	7.0	
Local Authorities Levies, Utilities Connection, etc.	80.0	3,087.0
Consultants' Fees		240.0
Total		3,327.0

v. Typical Development Programme

A typical development programme is enclosed as Appendix O. As shown, development consent is expected to take a further 1.5 years completing in the first quarter of 2015. Demolition of the existing buildings is to start in the second quarter of 2015 expecting to take four months. Construction will follow immediately taking approximately three years and three quarters with expected completion by the end of 2018.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

b. Development Cost Model (Cont'd)

v. Typical Development Programme (Cont'd)

Disbursement schedule of the construction cost and the consultants' fees based on the typical development programme is attached as Appendix P.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

c. Tax Implications

A comparison of the tax payment upon sale and rental is shown in the table below:

		Sale	Rental
i.	Business Tax	5% of sale revenue	5% of rental
ii.	Education Surcharge	3% of (i)	3% of (i)
iii.	Local Education Surcharge	2% of (i)	2% of (i)
iv.	Urban Construction & Maintenance tax	7% of (i)	7% of (i)
v.	Stamp Duty	0.05% of Revenue	0.1% of Revenue
vi.	Land Use Tax	-	RMB 5/m^2/year
vii.	Property Tax	-	1.2%/year on 70% of acquisition cost
viii.	Value Added Income Tax		See below Nil

In case of sale of the completed industrial redevelopment and in accordance with Article 14 of Notice No. 3 (2013) of the Shenzhen People's Government's Office (Appendix N), the owner is required to pay to the government a certain percentage of the value added income. The value added income refers to the following:

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

c. Tax Implications (Cont'd)

Calculation of Value Added Income

Transacted price of the relevant industrial premises
deduct:
Registered price of the relevant industrial premises, and
Taxes and fees involved in sale of the relevant industrial premises
Registered price is

Payment percentage of the value added income to the Government

i. If the value added income is less than 50% of the total deduction shown above, the payment percentage is 50%;
ii. If the value added income is more than 50% of the total deduction, the payment percentage is 60%;
iii. The payment of (i) and (ii) above have assumed no further transfer within the next 5 years. Should there be transfer within the next 5 years, the payment percentage is 100%.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

d. Cash Flow Analysis

Two cash flow analyses have been prepared based on the aforementioned costs and taxes (Appendix Q). One scenario assumes that the completed redevelopment is entirely for rental and the other scenario assumes that the residential units are to be sold with the remaining for rental. The relevant rental and sale price are as follows:

Rental	2013 Price in RMB
R & D Office	80/m^2/month
Retail	200/m^2/month
Residential	50/m^2/month
Rental Growth Rate	8% every 2 years
Occupancy	stable at 95% for office & residential and 100% rented for retail
Hotel	600/room/night
Room Rate Growth Rate	4%/year
Occupancy	stable at 80%
Residential Sale Price	20,000/m^2 , 50% sold 1 year before completion and 50% on completion

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

d. Cash Flow Analysis (Cont'd)

There are not many office comparables in Baoan at present and our view is taken from those information obtained mainly from Nanshan and take a discount to derive the above office rental. In light of the large quantity of office supply upon completion of the subject redevelopment, the office would take some time to fill up and a period of three years have been assumed.

Retail space is relatively on the low side in order to allow GFA for the residential and the hotel. To cater for the retailing needs of the completed future redevelopment, RLB is of the view that the retail element could demand a better price as indicated above.

The retail rental and sale figures are by reference to recent transaction completed in the Baoan District. Given the market conditions at present, sale of the retail accommodation should go smoothly but renting out completely may take approximately two years.

The average hotel room rate is relatively higher than those in the Baoan District as this will be run by an international rather than a local operator. However, it is substantially lower than the hotel room rates in the central commercial districts in Shenzhen given the existing location. The hotel cash flow is based on typical revenues and expenses of an international hotel.

B. Site Analysis (Cont'd)

3. Analysis of Redevelopment Scenario for the Site (Cont'd)

d. Cash Flow Analysis (Cont'd)

Comparables of the transacted property prices in the vicinity is enclosed as Appendix R.

Furthermore, there will be an amount equivalent to 3% p.a. of revenues for administrative expenses for the rental properties, Maintenance and repair is expected to cost 2.0% p.a. with legal expenses at 0.5% p.a. Marketing expenses is expected at 8% of revenues in the initial year, 3% subsequently two years and 1% thereafter.

The financial result is summarised below with detail cash flow projection attached as Appendix O.

Scenario	Internal Rate of Return (IRR)	Payback Period*
1. Total Rental	9.2%	10 years
2. Rental but Sale of Residential	10.1%	9 years

**counted from completion of the redevelopment.*

The IRR between the two scenarios do not differ substantially although the second scenario helps to ease initial cash flow. The value added income tax which is estimated to be approximately RMB84.5 million upon sale of the residential units is the main reason for not having a higher IRR in the residential sale scenario.

C. Likely Procedures for Redevelopment

1. Procedures to Obtain Development Consent

a. Planning Submission – Master Plan and Conceptual Design

Once the urban renewal application is approved, the next process is the planning submission to Urban Planning Land and Resources, Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會, 簡稱“規土委”). Planning submission will include a master plan providing conceptual design for the redevelopment's public facilities, green areas, block layout, height, façade, respective gross floor areas, internal circulation, external traffic, sun light, parking, basement, amenities, landscape, etc. The submissions to other relevant government departments, such as (i) Environment Department (環保局), (ii) Fire Department (消防局), (iii) Police (公安局) will be carried out in parallel. Meetings will be held between the relevant government departments and the owner together with the owner's consultants in order to sort out government comments and to meet their requirements.

The planning submission would generally be presented in a brochure to include, inter alia, the following:

i. Site Analysis

To provide an analysis of the subject site's location, its existing conditions, uses, relationship with the immediate developments, the vicinity and land uses in the area.

C. Likely Procedures for Redevelopment (Cont'd)

1. Procedures to Obtain Development Consent (Cont'd)

a. Planning Submission – Master Plan and Conceptual Design (Cont'd)

ii. Position of the Redevelopment

To analyse positioning of the redevelopment in the relevant markets of which it will be served. May include the redevelopment's conservation model and its value added design.

iii. Comprehensive Planning

Comprehensive planning concept with layout plans showing all components of the redevelopment, functional analysis, its traffic flows analysis, commercial activities analysis, view analysis, sunlight analysis, space analysis, etc.

iv. 3 Dimension Planning Concept

3 dimensional design conceptual drawings showing the perspective of the proposed development from different street fronts and aerial views.

v. Design of Individual Uses

To provide a description of the different uses of the redevelopment, e.g. commercial, hotel, office, residential with floor plans for each type of use at different levels.

C. Likely Procedures for Redevelopment (Cont'd)

1. Procedures to Obtain Development Consent (Cont'd)

a. Planning Submission – Master Plan and Conceptual Design (Cont'd)

vi. Environmental Impact Analysis

The impact analysis shall include a description of the existing air quality, noise, ecology situation, etc.; the contamination anticipated during construction period and during operation after completion of construction; the method to minimize the contamination and protect the environment.

The whole process will take about four to six months usually as there will be comments from the various departments on the submissions. These comments shall be reviewed and then amendments to the submissions shall be made as appropriate for re-submission. This process may have to be repeated until approval is granted by the various departments.

C. Likely Procedures for Redevelopment (Cont'd)

1. Procedures to Obtain Development Consent (Cont'd)

b. Schematic Design, Detail Design Development and Construction Drawing/Documentation

Once planning permission is obtained from the Urban Planning Land and Resources Commission of Shenzhen Municipality (規土委), the next process is the schematic design and detail design stage.

i. Schematic Design (方案設計)

The goal of the schematic design is to further develop a selected design option by incorporating feedback and update required by the land owner, planning authorities and other relevant institutions. The schematic design will include detailed site plan, architectural design, lighting design concept and detailed landscape design. Submission shall be made to the Urban Planning Land and Resources Commission of Shenzhen Municipality (規土委).

C. Likely Procedures for Redevelopment (Cont'd)

1. Procedures to Obtain Development Consent (Cont'd)

b. Schematic Design, Detail Design Development and Construction Drawing/Documentation (Cont'd)

ii. Schematic Design (方案設計) (cont'd)

Submissions to the following departments shall also be made during this period of time:

a. Anti-raid proposal to Anti-raid Department (人防辦).
b. Earthing design to Observatory (氣象局).
c. Fire services provisions proposal – Fire Services Department (消防局).
d. Traffic proposal to Traffic Police Department (公安局交警局).
e. Maintain ground water level and earth stability proposal, and Drainage proposal to Water Services Department (水務局).

The whole process will also take about four to six months usually as there will be comments from the various departments on the submissions. The same amendment and re-submission process as in the Planning submissions stage will usually occur again before approval is granted.

C. Likely Procedures for Redevelopment (Cont'd)

1. Procedures to Obtain Development Consent (Cont'd)

b. Schematic Design, Detail Design Development and Construction Drawing/Documentation (Cont'd)

iii. Detail Design Development (初步設計)

The goal of the detail design development is to further develop the schematic design and to prepare the initial construction documentation. The designer will provide the detailed design for all departments, in cooperation with other consultants, e.g. structural engineer, HVAC, electrical, water and other technical aspects of the redevelopment. Submissions to the same departments as in Schematic Design Stage will be required. The time taken may be one or two months shorter.

iv. Construction Drawing/Documentation (施工圖設計)

In the construction drawing/documentation stage, the initial construction documentation is further developed. The designer will provide detailed design for all relevant government parties as listed in item I above, working together again with the same consultants of the detail design for eventual submission and obtain relevant government department approvals. The drawings will need to be checked again by qualified independent drawing checking company (審圖公司) employed by the owner. The whole approval process will usually take about four to six months.

Construction can start on site once the aforementioned processes are completed.

C. Likely Procedures for Redevelopment (Cont'd)

2. Team Required for the Redevelopment

a. Suggested Type and Companies of Consultants

i. Suggested Type of Consultants

The suggested type of consultants includes:

- Architectural Design
- Structural Design
- M&E Design
- Landscape Design
- Facade Design
- LDI Design
- Fire Engineering Design
- Ecological Design & Leed Certification
- Traffic Engineering
- Interior Decoration Design
- Lighting Design
- Signage Design
- Acoustic Design
- Environment Impact Assessment
- Traffic Impact Assessment
- Shoring Engineering Design
- Fountain Specialist
- Pool Specialist
- Wind Tunneling Studies
- Construction Supervision
- Design Supervision / Audit

C. Likely Procedures for Redevelopment (Cont'd)

2. Team Required for the Development (Cont'd)

a. Suggested Type and Companies of Consultants (Cont'd)

i. Suggested Type of Consultants (Cont'd)

- Quantity Surveyor
- Project Management

ii. List of Suggested Companies of Consultants

The following is a list of Hong Kong and international architects worth considering for the implementation of the redevelopment.

a. Kohn Pedersen Fox Associates PC (KPF)
b. Skidmore, Owings & Merrill LLP (SOM)
c. Benoy
d. Gensler
e. TFP Farrells
f. Ronald Lu & Partners
g. Aedas
h. Wong Ouyang
i. Wong Tung

C. Likely Procedures for Redevelopment (Cont'd)

2. Team Required for the Development (Cont'd)

b. Typical Fee for the Consultants at Different Stages

It is envisaged that for a project of this scale, an estimated RMB 240 million is required to be paid at different stages as follows:

		RMB Mil.
Feasibility Study	1.250%	3.00
Land Lease Negotiation (Optional)	0.000%	0.00
Upon Signing of Service Agreement with Design Consultants	10%	24.00
Master Planning and Conceptual Design	10%	24.00
Schematic Design	15%	36.00
Detail Design	20%	48.00
Construction Drawing	20%	48.00
Excavation, Lateral Support & Piling Construction	5%	12.00
Basement & Superstructure Construction	18.75%	45.00
Total	100.000%	240.00

C. Likely Procedures for Redevelopment (Cont'd)

2. Team Required for the Development (Cont'd)

c. Sample Design Brief

A design brief for the purpose of providing the designer an idea of the issues and task at hand in undertaking design development for the project is enclosed as Appendix S.

C. Likely Procedures for Redevelopment (Cont'd)

3. Possible Issues upon the Redevelopment Process

The following issues are noted for this type of development in China:

a. Plot Ratio

There is no definite plot ratio for industrial site renewal project and is up to negotiation with the government to obtain the biggest benefits for the land owner. However, it must note that time is a concern in such negotiations trying to reach an agreement with the government.

b. Statutory Period

No statutory periods are set for most of the government approvals which could be lengthy. As such the land owner has to compromise when negotiating for what they want or defending what government requires, taking into consideration the time of the redevelopment and potential benefits to be obtained from government negotiations.

c. Initial Stage Manager

It would be advisable to engage an "initial stage" manager who is well-acquainted with government procedures and has good relationship with government officials as a middle man to take care of all applications in the initial stage of the development. The "initial stage" manager has been proven to be effective in many cases to save time and costs.

C. Likely Procedures for Redevelopment (Cont'd)

3. Possible Issues upon the Redevelopment Process (Cont'd)

d. Verbal Approval not Trustworthy

It has been seen in many occasions during project implementation that verbal advice or approval given by even the regularly contacting government officials may not be relied on. If time allows, it would be better to wait for their written approval before moving any further.

e. Infrastructure/Utilities for the New Development

As the area and the uses of the new development are different from the existing ones, it is advisable to assess the basic infrastructure/ utilities requirements. Once the development mix is confirmed, the developer should commence discussion with the relevant utility companies/government departments such as Power Bureau, Fire Fighting Department, Anti-raid Department (人防辦), etc. as soon as possible. These can be time consuming and costly and may affect the critical path of the development.

f. Design Submission

For a typical land mark project, there will be deemed to be some innovative designs which may not comply with the existing building code/design standard in China. A special expert panel is usually required to debate and approve these non-compliances. Repeated discussions and substantiation may prolong the design submission process and shall be monitored closely during the design submission stage.

D. Recommendations and Conclusion

With continuous economic growth in Shenzhen which is the fourth largest city in China in terms of gross domestic product, it is believed that the city will continue to be important in China in the area of high-tech industry. It is the understanding that the Shenzhen government intends to make further advancement in the city's development and one of the plans is to build a high-tech/science park in Xixiang. As the Site is located in the centre of the planned high-tech/science park area, the local government is seen to be enthusiastic and to offer assistance in the Site's redevelopment, making it a landmark in the area so as to act as a catalyst in promoting redevelopment of similar properties in the vicinity.

Given support from the government, it would be an opportune moment for the Site to be redeveloped at this time in accordance with the proposed development mix as follows:

Use		Area	%
R&D office		187,879.1m^2	70%
Other uses			
Hotel (~250 rooms)	20,000.0m^2		7.5%
Retail	20,000.0m^2		7.5%
Residential	40,519.6m^2		15.0%
		80,519.6m^2	30%
		268,398.7m^2	100%

Such a development mix of office, hotel, residential and retail is believed to be the optimal under current market conditions as well as complying with existing government regulations.

D. Recommendations and Conclusion (Cont'd)

The proposed redevelopment is expected to provide reasonable internal rate of return (IRR) of 9.2% with a payback period of about 10 years based on a total rental scenario. If the residential accommodation is for sale with the other gross floor areas remain for rental, the IRR would be 10.1% with a payback period of about 9 years.

Should the proposed redevelopment is to proceed at present, demolition of the existing building is expected to take place in the second quarter of 2015 after completion of the planning and design requirements. Construction would commence immediately in the second half of 2015 with completion by the end of 2018 taking approximately three and a half years.

It is believed that this is a viable redevelopment proposal worth pursuing.