Future Land Development Holdings Limited
新城發展控股有限公司
(於開曼群島註冊成立的有限責任公司)
(股份代號：1030)

海外監管公告

本公告乃由新城發展控股有限公司(「**本公司**」)根據香港聯合交易所有限公司證券上市規則第13.10B條而作出。

茲提述本公司日期為2019年4月16日之公告(「**該公告**」)，內容有關新城控股於上交所網站刊發標題為「關於2018年年度報告事後審核問詢函的回覆公告」之公告(「**新城控股公告**」)。除文義另有規定外，本公告所用詞匯與該公告內所界定者具有相同涵義。

新城控股公告之英文翻譯已附於本公告之後僅供國際投資者參考。

承董事會命
新城發展控股有限公司
董事長
王振華

中國，2019年4月23日

於本公告日期，本公司董事包括執行董事王振華先生、呂小平先生及陸忠明先生，非執行董事章晟曼先生及王曉松先生，獨立非執行董事陳華康先生、朱增進先生及鍾偉先生。

Stock Code: 601155 Abbreviation of Securities: Seazen Holdings No.: 2019-033

Seazen Holdings Co., Ltd.*

ANNOUNCEMENT ON THE REPLY TO THE ENQUIRY LETTER ON POST-VETTING FOR THE 2018 ANNUAL REPORT

The board of directors of Seazen Holdings Co., Ltd (“the Company”) and all directors warrant that there are no false representations, misleading statements and material omissions in this announcement, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

Risk Warning:

1. Uncertainties on fair value gain or loss on investment properties of the Company

In 2018, fair value gain on investment properties of the Company was RMB2,809 million, comprising the gain generated from the completed projects at the beginning of the year of RMB685 million, the gain generated from the newly completed projects during the year of RMB1,464 million, and the gain generated from the projects under construction at the end of the year of RMB660 million. This fair value gain was generated mainly from the valuation of investment properties by the Company under fair value model based on the results of valuations, which was included in non-recurring gain or loss and does not relate to the operating activities.

As of 31 December 2018, balance of the investment properties of the Company was RMB40,758 million, representing 12.34% of the total assets; fair value gain on investment properties of the Company for 2018 accounted for 26.78% of the net profit attributable to the equity holders of the Company, mainly due to more investments in, larger scale of, and larger number of, Wuyue Plaza under construction and newly opened of the Company in 2018.

As there are uncertainties as to whether the scale and number of Wuyue Plaza in which we will invest in the future can keep growing and the assessment value of Wuyue Plaza is affected by various assessment parameters, there are also uncertainties as to the future fair value gain or loss on investment properties of the Company.

2. Uncertainties on investment income from changes in the scope of the consolidated financial statements of the Company

From year 2016 to 2018, the change of the Company's joint ventures and associates to subsidiaries resulted in investment income of RMB46 million, RMB262 million and RMB677 million, respectively, and the net profit attributable to the equity holders of the Company for each of the three years increased accordingly. The type of gains was not the profit generated from sales income but the income generated from investment re- measurement at the time point when joint ventures and associates were changed into subsidiaries and was included in non-recurring gain or loss. If there is difference between the value of sales realized by such companies at the time and the assessment value at the time point of transfer, it would have impact on the recurring gains or losses of the Company.

In addition, as the change of joint ventures and associates into subsidiaries is beyond the control of the Company unilaterally, there are uncertainties in the investment income from changes in the scope of consolidation as a result thereof and there may be a significant difference during a given year.

3. Risks related to the regional layout of the property development projects of the Company

As of 31 December 2018, inventories of the Company located in third and fourth tier cities accounted for 61.44%. In the first quarter of 2018 and the first quarter of 2019, the contracted sales of properties of the Company in third and fourth tier cities accounted for 50.72% and 59.51%, respectively. Continuously affected by the regulatory policy, the sell-through rates of the property projects of the Company in third and fourth tier cities decreased year on year from the second half of 2018 to the first quarter of 2019.

Given that the property development and sales business in third and fourth tier cities may experience major fluctuations due to the effects of risks including the overall lower growth of population and disposable income of residents in local areas as well as the adjustment of home purchase-related policies, there are uncertainties in the property development and sales of the Company in third and fourth tier cities in the future.

4. Capital and cash flow risks of the Company

As the business scale continued to expand, net cash inflows of the Company from financing activities from year 2016 to 2018 were RMB6,639 million, RMB18,970 million and RMB35,891 million, respectively; total net cash outflows from operating and investing activities were RMB610 million, RMB10,241 million and RMB16,196 million, respectively. As of 31 December 2018, the asset-to-liability ratio of the Company was 84.57%. The continuous higher cash flows from financing activities and the higher debt ratio will impose certain financial pressure on the sustainability of the Company.

The cash outflows of the Company from operating and investing activities were mainly used for expenditures on development and operation and newly acquired land reserves. If the existing projects of the Company are affected by the macro economy, the trends of the real estate market, etc., resulting in failure to collect sales payments in full, it will affect the operational and development expenditures of the Company and the repayment of borrowings, which in turn will have adverse impact on the operating activities of the Company.

5. The contents of this announcement do not constitute any undertaking of the Company to investors, and investors should have a full understanding of such risks.

6. Investors are advised to exercise reasonable judgments and to pay attention to investment risks.

On 2 April 2019, Seazen Holdings Co., Ltd.* ("Seazen Holdings" or the "Company") received the Enquiry Letter on Post-vetting for the 2018 Annual Report of Seazen Holdings Co., Ltd.* (Shang Zheng Gong Han [2019] No. 0410) (the "Enquiry Letter") issued by the First Listing Companies Supervision Department of Shanghai Stock Exchange. Upon receipt of the Enquiry Letter, the Company attached great importance to it and proactively organized relevant staff to verify the matters involved in the Enquiry Letter on a case-by-case basis, and now gives the reply to the relevant questions in the Enquiry Letter as follows:

I. INFORMATION ON PROFIT OF THE COMPANY

Fair value gain on investment properties and investment income from changes in the scope of the financial statements accounted for a relatively larger proportion in the profit structure of the Company for 2018. Meanwhile, the higher weight of the capitalized interest expenses, the lower expected credit loss rate and the application of new accounting standards are also the main reasons for the year-on-year growth of the profits of the Company. Please supplement the disclosure with the following contents.

1. The annual report shows that fair value gain on investment properties of the Company for 2018 was RMB2,809 million, representing a year-on-year increase of 209.02% and 26.78% of net profit attributable to the equity holders of the Company. Please disclose: (1) to explain the reasonableness of the significant growth of fair value of investment properties taking into account the investment properties by regional distribution and the development trends of the prices of real estate and land in 2018; (2) whether the rapid growth of the profit of the Company can be sustainable and to prompt the risks adequately.

<u>Reply from the Company:</u>

The investment properties involved in the commercial property development of the Company mainly represents the comprehensive shopping mall, namely "Wuyue Plaza". Wuyue Plazas are currently being operated under two operational models, namely the asset-intensive and asset-light models. The asset-intensive model refers to the fact that the Company invests with its own assets, develops, constructs and operates Wuyue Plazas, while the asset-light model refers to the fact that Wuyue Plazas are to be developed and constructed by other third parties, through which the Company charges commercial management service fees, or to the model under which the Company leases and operates commercial properties held by other third parties. The investment properties currently held by the Company is mainly Wuyue Plazas operated under the asset-intensive model.

(1) Investment properties held by the Company by regional distribution

As of 31 December 2018, the Company opened and reserved a total of 96 Wuyue Plazas, including 89 Wuyue Plazas operated under the asset-intensive model, the specific distribution of which is mainly as follows: 24 Wuyue Plazas in second tier cities, 45 Wuyue Plazas in third and fourth tier cities within the Yangtze River Delta and 20 Wuyue Plazas in third and fourth tier cities in other regions. Details of the above information are as follows:

City level / Status	Second tier cities	Third and fourth tier cities		Total
		Yangtze River Delta	Other regions	
Asset-intensive - opened	11	25	2	38
Asset-intensive - inactive	13	20	18	51
Total	24	45	20	89

(2) Development trends of the prices of commercial real estate and land in 2018

According to the 2018 Annual Report for China Commercial Real Estate Market (《2018中國商業地產市場年報》) released by China Index Academy and China Real Estate Index System in December 2018, the development trends of prices of investment properties belonging to commercial properties and land are mainly as follows:

	Transacted planned GFA (0'000 sq. m.)	YoY Growth	Transacted floor price (RMB/sq. m.)	YoY Growth
First tier cities	881.80	1.50%	13,707.60	-9.40%
Second tier cities	7,939.60	15.90%	2,396.30	-1.70%
Third and fourth tier cities	10,043.90	1.20%	1,293.60	12.10%

In 2018, the commercial land market heat in first tier cities reduced; the land demand in second tier cities remained growing; in third and fourth tier cities, with the accelerated progress of urbanization and the rising market attention, the commercial land market slightly picked up.

In addition to the transactions of land of commercial properties, gain or loss from changes in fair value of investment properties held by the Company for 2018 was mainly affected by actual rental income, expected rental income, term yield, development profit margin and other factors.

(3) Reasons for fair value growth of investment properties of the Company

According to Accounting Standards for Business Enterprises No. 3 - Investment Properties, all the investment properties held by the Company is measured at fair value on ongoing basis from the date on which the Certificate for the Use of State-owned Land is obtained, during the construction of projects and after completion and opening, and no depreciation or amortization is made. The carrying amount of investment properties is adjusted based on the fair value at the balance sheet date, and the difference between the fair value and the carrying amount is recognized in profit or loss for the current year.

For all investment properties that are measured by fair value model, the Company determined fair value of the investment properties based on the results of valuations done by independent professional qualified valuers. The fair value of the investment properties of the Company as of 31 December 2018 has been assessed by Cushman & Wakefield Limited (the "Appraisal Firm").

The fair value gain or loss on investment properties held by the Company for 2018 are mainly as follows:

Unit: RMB100 million

Classification	Fair value of investment properties at the end of 2018	Percentage	Fair value gain or loss on investment properties in 2018	Percentage	Gain-to-loss ratio of fair value changes
	A		B		C=B/A
Completed projects as of the end of 2017	176.53	43.31%	6.85	24.39%	3.88%
Newly completed projects in 2018	141.86	34.81%	14.64	52.12%	10.32%

Projects under construction at the end of 2018	89.19	21.88%	6.60	23.50%	7.40%
Total	**407.58**	**100.00%**	**28.09**	**100.00%**	**6.89%**

Compared with other comparable companies adopting fair value measurement[1], fair value gain or loss of the Company for 2018 was relatively higher, mainly because:

① Main reasons for fair value gain or loss of the completed projects of the Company for 2018 as of the end of 2017

Fair value gain or loss of the completed investment properties of the Company for 2018 as of the end of 2017 was RMB685 million. For completed investment properties, the Appraisal Firm applied the investment method to assess its fair value. The fair value was mainly affected by the rental income that is realizable during the full operating cycle of the projects. The basis on which rentals are calculated: the calculation of rental income from the investment properties within the lease term is based on actual rental income; for investment properties for which no lease is signed or the lease term of which expired, the calculation of rental income is made by reference to the rentals of the nearby markets in the region where it located and the previous realized rental income. Meanwhile, the valuation of projects is also assessed by other unobservable inputs including residual year and term and reversionary yields.

Fair value gain or loss of the completed projects at the end of 2017 that was realized in 2018 was mainly affected by the rising rentals of the projects in 2018. Based on rental and project management service income from commercial properties of Wuyue Plazas for 2018 and 2017 disclosed in Section IV, II (IV) 4 "Leasing of Real Estate During the Reporting Period" in the 2018 and 2017 annual reports of the Company, rental and project management service income from commercial properties in 2018 grew significantly compared with that in 2017. The main comparison is as follows:

[1] The comparable companies measured at fair value refer to the A-share listed real estate companies adopting fair value for measurement of investment properties which are included on the list of top 30 real estates in terms of annual sales disclosed by CRIC and have disclosed their 2018 annual reports as of 13 April 2019.

Unit: RMB10 thousand

No.	Project	Rental and project management service income from commercial properties		Annual growth rate
		2018	2017	
1	Changzhou Wuyue Plaza	17,941.85	14,500.41	23.73%
2	Changzhou International Plaza	13,453.09	11,512.90	16.85%
3	Wujiang Wuyue Plaza	5,519.75	3,556.83	55.19%
4	Zhangjiagang Wuyue Plaza	7,116.02	5,936.56	19.87%
5	Danyang Wuyue Plaza	7,881.39	6,012.88	31.08%
6	Haikou Wuyue Plaza	8,987.94	6,591.59	36.35%
7	Nanchang Wuyue Plaza	6,409.36	4,798.33	33.57%
8	Jintan Wuyue Plaza	7,345.19	5,213.85	40.88%
9	Anqing Wuyue Plaza	5,782.50	4,538.83	27.40%
10	Chengdu Wuyue Plaza	7,674.51	4,860.48	57.90%

Note: The scope of comparison covers Wuyue Plazas which have been operated for more than two full accounting years under the asset-intensive model.

As of 31 December 2018, the occupancy rate of Wuyue Plazas which the Company has opened was 98.83% compared with an occupancy rate of 97.91% as at 31 December 2017. The occupancy rate in the recent two years maintained stably. The main reasons for the income growth of the above Wuyue Plazas were due to the enhanced unit area-effectiveness (total rental income/leased area). Wuyue Plazas are mainly large-scale commercial complex projects that can enhance the overall commercial atmosphere in the region where they are located and have on-site flow of people effects. With the transition of Wuyue Plazas from the incubation phase to the maturity phase, the corresponding commercial, managerial and operating service capabilities and the bargaining power will increase accordingly, which in turn will drive the growth of revenue from Wuyue Plazas opened.

Risk warning: Although the rental and project management service income from commercial properties in 2018 grew significantly compared with that in 2017, the operation of the Wuyue Plazas opened by the Company is still affected by the factors including the evolving commercial competition landscape in the region where e-commerce and such projects are located. If the level of rental to be realized by the projects in the future years decreased, it may cause fair value loss on the investment properties held by the Company.

② Main reasons for fair value gain or loss of the newly completed investment properties projects of the Company for 2018 in 2018

There were a total of 18 Wuyue Plazas under the asset-intensive model that were newly completed in 2018, with fair value gain or loss of RMB1,464 million. The main reasons for the higher proportion of fair value gain or loss under this classification in the total fair value gain or loss of investment properties for 2018 were as follows:

i. As the investment properties projects newly completed in 2018 have not been opened at the end of 2017, the Appraisal Firm forecasted the realizable rental income of such projects at the end of 2017 with reference to the rental level of the nearby markets in the region where they are located. As these projects had been completed and lease was signed at the end of 2018, the Appraisal Firm adjusted the assessed value according to the actual rental level when conducting the assessment at the end of 2018. As Wuyue Plazas are large-scale commercial complex projects, their actual rental income was generally higher than the market rental previously forecasted, resulting in a growth of fair value at the end of 2018;

ii. The investment properties projects that were newly completed in 2018 were still under construction before completion. For the assessment of value for the projects under construction, the fair value of the investment properties under construction was arrived at based on the calculation of the value of the projects under construction after completion initially using the investment method less the uncommitted development cost, the expected development profit, etc. Therefore, higher total ongoing investment cost and the higher average cost-to-profit ratio of the property development and sales industry in that year will result in higher assessed value which was recognized in the fair value gain through assessment.

Risk warning: Although fair value gain of the newly opened investment properties were due to the above reasons, exceptions are that the number of newly opened Wuyue Plazas would decrease in the future or that the actual rental levels of newly opened Wuyue Plazas would be lower than that market rental level originally used in the assessment, which in turn would result in uncertainties in fair value gain or loss.

③ Main reasons for fair value gain or loss of investment properties projects under construction at the end of 2018

Wuyue Plazas under construction in 2018 included the projects that were acquired before 2018 and are still under construction and development and the ones that are newly acquired during 2018. As stated in ②ii above, fair value gain of investment properties under construction will be realized due to the increase in the continuous investment of the projects.

Risk warning: If the scale of the investment properties under construction of the Company and the investment costs for construction of investment properties decrease, it would result in decreases in such fair value gain.

As a result of the foregoing, in 2018, fair value gain of investment properties of the Company was RMB2,809 million. The type of gain was due to the fact that the Company chose the fair value model to account for the investment properties. Under the fair value model, such gains are not the income generated from operating activities but are determined based on the results of valuation, which was included in non-recurring gain or loss. A real estate company choosing the cost method to account for the investment properties will not generate such type of gains. Compared with other comparable companies adopting fair value measurement, the Company recorded higher fair value gain of investment properties for 2018, which was mainly due to more investments in, larger scale of, and larger number of, investment properties of the Company that were under construction and were newly opened in the year. As there are uncertainties as to whether the investment, scale and number of investment properties in which we will invest in the future can keep growing and the assessment value of investment properties is affected by various assessment parameters, there are also uncertainties as to the future fair value gain or loss of the Company's investment properties.

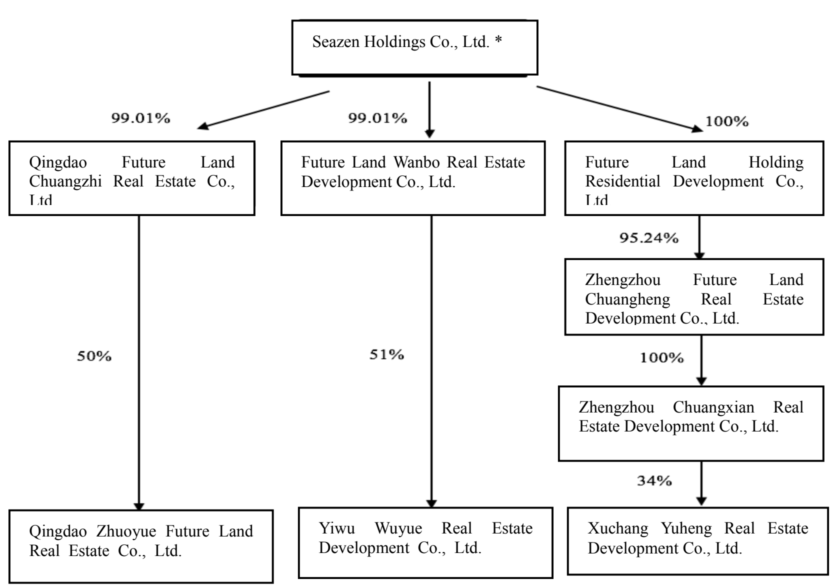
2. The annual report shows that in July 2018, the Company started to consolidate Qingdao Zhuoyue Future Land Real Estate Co., Ltd. with 49.51% shareholding and Yiwu Wuyue Real Estate Development Co., Ltd. with 50.50% shareholding into the consolidated financial statements upon entering into Act in concert agreements. By acquiring 1% equity interest in Xuchang Yuheng Real Estate Development Co., Ltd. ("Xuchang Yuheng") and with upon entering into Act in concert agreement, Xuchang Yuheng with 32.38% shareholding was consolidated into the consolidated financial statements. Meanwhile, the transformation from joint ventures into subsidiaries resulted in an investment income of

RMB677 million, representing 6.45% of net profit attributable to the equity holders of the Company for 2018 of the Company. Please further supplement the disclosure with following: (1) the specific contents of the above agreements, whether there are any agreements on decisions for operation and management and whether there are any agreements on term or relevant default terms; (2) whether the above agreement and changes in non-controlling shareholdings can guarantee the de facto control over the subsidiaries by the Company; (3) whether there are circumstances that profits are adjusted by changing the accounting methods of the subsidiaries through acquisition of non-controlling interests or the signing of relevant agreement(s).

Reply from the Company:

Cooperations in property development project is one of the main operation models of the Company for property development. Given the real estate development industry is a typical capital-intensive industry, featured with huge investments, long term and regional restriction, in order to decrease the investment amount of specific projects, acquire land resources and lower investment risks, the Company will select other matured real estate development enterprises in particular regions for project cooperation.

As of 31 December 2018, particulars of the interests of the Company in Qingdao Zhuoyue Future Land Real Estate Co., Ltd. ("Qingdao Zhuoyue"), Yiwu Wuyue Real Estate Development Co., Ltd. ("Yiwu Wuyue") and Xuchang Yuheng Real Estate Development Co., Ltd. ("Xuchang Yuheng") are as follows:



(1) Background of inclusion of Qingdao Zhuoyue, Yiwu Wuyue and Xuchang Yuheng into the consolidated financial statements of the Company

Qingdao Zhuoyue was established in December 2014 as a project company jointly established by Qingdao Future Land Chuangzhi Real Estate ("Qingdao Chuangzhi"), an indirectly controlled subsidiary of the Company, and the joint venture partner. Due to the large investments by both parties, Qingdao Chuangzhi and the joint venture partner decided to jointly develop and construct multiple land parcels owned by the project company and decide on the operating and development expenditures and sales policy of the project company jointly early at the inception of projects.

In the course of project development, as the joint decision-making has affected the decision-making efficiency of projects, some of the land parcels were still at the stage of construction in 2018, and the development and construction progress and the sales progress of the projects lagged behind the original development schedule. In order to promote the cooperation projects to meet the development schedule as soon as possible, after several rounds of negotiation between both parties, Qingdao Chuangzhi has taken the control of major operational decision making for the cooperation projects. Therefore, both parties signed a "Acting in Concert Agreement" to reach agreement on this matter.

Yiwu Wuyue was established in October 2015 as a project company jointly established by Future Land Wanbo Property Co., Ltd. ("Wanbo Property"), an indirectly controlled subsidiary of the Company, and the joint venture partner for development of commercial complexes. Due to the large investments by both parties, Wanbo Property and the joint venture partner jointly decided on the operating and development expenditures and the formulation of the sales policy of such commercial complex jointly early at the inception of projects.

Over recent years, with the advantages of the Company in developing and operating commercial complex projects becoming increasingly obvious, in order to further improve its development quality and the overall value of projects, after several rounds of negotiation and confirmation between Wanbo Property and the joint venture partner, the joint venture partner agreed on Wanbo Property's control over the major operational decision making for the cooperation projects in 2018. Therefore, both parties signed a "Acting in Concert Agreement" to reach agreement on this matter.

Xuchang Yuheng was established in March 2018. In order to improve the development efficiency of the projects, after several rounds of negotiation between Zhengzhou Chuangxian Real Estate Development Co., Ltd. ("Zhengzhou Chuangxian"), an indirectly controlled subsidiary of the Company, and other shareholders, other shareholders finally agreed that Zhengzhou Chuangxian exercises control on Xuchang Yuheng and signed a "Acting in Concert Agreement" to reach agreement on this matter. As of 31 December 2018, Zhengzhou Chuangxian was its largest shareholder and Xuchang Yuheng had been included in the consolidated financial statements of the Company.

(2) Salient terms of the "Acting in Concert Agreement"

① Terms of the "Acting in Concert Agreement" with Qingdao Zhuoyue

According to the "Acting in Concert Agreement" between Qingdao Chuangzhi and the joint venture partner, both parties reached agreements on the operating and management decision making of Qingdao Zhuoyue, term of the agreement and other matters, details of which are mainly as follows:

Save for the increase or decrease in registered capital, issue of corporate bonds, merger, division, dissolution, liquidation or change of company form, and amendments to the articles of association, the partner shall irrevocably authorize Qingdao Chuangzhi to exercise all the voting rights for resolutions of the general meetings and the board meetings on its behalf and undertake that it shall reach agreement with Qingdao Chuangzhi when exercising the rights to propose and the voting rights at the general meetings and the board meetings and shall not exercise the voting rights on its own but all by Qingdao Chuangzhi.

The parties to the agreement undertake that the acting in concert relationship shall not be terminated or canceled by either party, and all the terms stated in the agreement in relation to the acting in concert relationship shall be the irrevocable terms. Both parties shall ensure the full discharge of their own obligations under this agreement during the period in which they are shareholders of Qingdao Zhuoyue. The valid term of the agreement commences from the signing date and ending at the date on which Qingdao Zhuoyue is liquidated. All disputes arising from or in relation to the performance of the agreement shall be solved by the parties to the agreement through friendly negotiation; should both parties failed to reach mutual agreement, the disputes shall be submitted to the relevant arbitration committee for arbitration.

② Terms of the "Acting in Concert Agreement" with Yiwu Wuyue

According to the "Acting in Concert Agreement" between Wanbo Property and the partner, both parties reached agreements on the operating and management decision making of Yiwu Wuyue, term of the agreement and other matters, details of which are mainly as follows:

Save for the increase or decrease in registered capital, issue of corporate bonds, merger, division, dissolution, liquidation or change of company form, and amendments to the articles of association, the partner shall irrevocably authorize Wanbo Property to exercise all the voting rights for resolutions of the general meetings and the board meetings on its behalf and undertake that it shall reach agreement with Wanbo Property when exercising the rights to propose and the voting rights at the general meetings and the board meetings and shall not exercise the voting rights on its own but all by Wanbo Property.

The parties to the agreement undertake that the acting in concert relationship shall not be terminated or canceled by either party, and all the terms stated in the agreement in relation to the acting in concert relationship shall be the irrevocable terms. Both parties shall ensure the full discharge of their own obligations under this agreement during the period in which they are shareholders of Yiwu Wuyue. The valid term of the agreement commences from the signing date and ending at the date on which Yiwu Wuyue is liquidated. All disputes arising from or in relation to the performance of the agreement shall be solved by the parties to the agreement through friendly negotiation; should both parties failed to reach mutual agreement, the disputes shall be submitted to the relevant arbitration committee for arbitration.

③ Terms of the "Acting in Concert Agreement" with Xuchang Yuheng

According to the "Acting in Concert Agreement" between Zhengzhou Chuangxian and the partner, both parties reached agreements on the operating and management decision making of Xuchang Yuheng, term of the agreement and other matters, details of which are mainly as follows:

In the circumstances that all parties cannot reach agreement through negotiation, the partner shall irrevocably authorize Zhengzhou Chuangxian to exercise all the voting rights for resolutions of the general meetings and the board meetings on its behalf and undertake that it shall reach agreement with Zhengzhou Chuangxian when exercising the rights to propose and the voting rights at the general meetings and the board meetings and shall not exercise the voting rights on its own but all by Zhengzhou Chuangxian.

The parties to the agreement undertake that the acting in concert relationship shall not be terminated or canceled by either party, and all the terms stated in the agreement in relation to the acting in concert relationship shall be the irrevocable terms. Both parties shall ensure the full discharge of their own obligations under this agreement during the period in which they are shareholders of Xuchang Yuheng. The valid term of the agreement commences from the signing date and ending at the date on which Xuchang Yuheng is liquidated. All disputes arising from or in relation to the performance of the agreement shall be solved by the parties to the agreement through friendly negotiation; should both parties failed to reach mutual agreement, the disputes shall be submitted to the people's court for hearing.

According to the above acting in concert agreements, the Company can ensure that other shareholders of Qingdao Zhuoyue, Yiwu Wuyue and Xuchang Yuheng will reach agreement with the Company in relation to the major operation decision making of the projects.

(3) Exercise control over Qingdao Zhuoyue, Yiwu Wuyue and Xuchang Yuheng by the Company

According to Article 7 of Chapter II of the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements, "Control exists when the investor has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect its returns."

According to the above acting in concert agreements and the articles of association of the project companies, the Company can decide the relevant activities of Qingdao Zhuoyue, Yiwu Wuyue and Xuchang Yuheng including development, construction and sales of properties, is entitled to distribution of profits according to the direct percentage of interest and achieves the economic returns to the Company.

In conclusion, the Company can exercise control over Qingdao Zhuoyue, Yiwu Wuyue and Xuchang Yuheng and therefore has them included in the consolidated financial statements.

(4) Impact of changes in the scope of the consolidated financial statements resulting from acquisition of non-controlling interests on net profit attributable to the equity holders of the Company for the year

The change from joint ventures and associates to subsidiaries included in the consolidated financial statements of the Company will have impacts on net profit attributable to the equity holders of the Company for the year as follows:

① According to the accounting treatment requirements in Article 48 of Chapter IV of the Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements, the Company will re-measure the investment and the identifiable assets and liabilities of the entities that are changed from joint ventures and associates to subsidiaries are stated at fair value at acquisition date.

The re-measurement gain of investment generated from this matter attributable to the Company for 2018 was included in investment income. The net profit attributable to the equity holders of the Company increased by RMB677 million compared with RMB42 million in 2016 and RMB262 million in 2017. This portion of income increased significantly. According to the requirements of the Interpretation Announcement No. 1 of Information Disclosure by Companies Issuing Public Securities, this investment income of RMB677 million was presented under non-recurring gains or losses in the 2018 annual report of the Company.

② As the subsidiaries included in the consolidated financial statements were all the project companies engaged in the property development, the re-measurement gain was mainly from the inventory appreciation of such projects. Towards the recognition of the revenue of the above companies, the amount of such inventory appreciation was also transferred to the cost of the principal businesses according to the proportion of GFA booked. In 2018, as some of the above inventory appreciation was already charged to cost of the principal businesses with revenue recognition, resulting in a decrease in net profit attributable to the equity holders of the Company of RMB292 million, representing a decrease in recurring gains or losses of RMB292 million.

In 2018, other shareholders of joint ventures and associates changed into subsidiaries were all non-related third parties of the Company. The acquisition of their equity interests by the Company or the signing of relevant agreements was due to the fact that in order to meet the needs for development and construction of projects, all partners reached mutual agreement thereon through negotiation and that was beyond the control of the Company unilaterally. According to the requirements of the accounting standards, the Company re-measured the investment and the identifiable assets and liabilities of the project companies were stated at fair value at acquisition date in the consolidated financial statements.

In conclusion, the acquisition of a small amount of equity interests or the signing of acting in concert agreements will have some impacts on the profits of the Company.

Risk warning: From year 2016 to 2018, the change of the Company's joint ventures and associates to subsidiaries resulted in investment income of RMB46 million, RMB262 million and RMB677 million, respectively, and the net profit attributable to the equity holders of the Company for each of the three years increased accordingly. The type of gains was not the profit generated from sales income but the income generated from investment re-measurement at the time point when joint ventures and associates were changed into subsidiaries and was included in non-recurring gain or loss. If there is difference between the value of sales realized by such companies at the time and the assessment value at the time point of transfer, it would have impact on the recurring gains or losses of the Company.

In addition, as the change of joint ventures and associates into subsidiaries is beyond the control of the Company unilaterally, there are uncertainties in the investment income from changes in the scope of consolidation as a result thereof and there may be a significant difference during a given year.

Comments from the Company's auditor:

During the course of the audit on the Company's financial statements for the year ended 31 December 2018, the auditor noticed that the Company converted Qingdao Zhuoyue with 49.51% equity interests and Yiwu Wuyue with 50.50% equity interests from joint ventures to subsidiaries upon entering into acting in concert agreement and converted Xuchang Yuheng with 32.38% equity interests from a joint venture to a subsidiary upon acquisition of 1% equity interest of Xuchang Yuheng and entering into acting in concert agreement.

Regarding this matter, the auditor performed, including but not limited to, the following procedures:

(1) examine the legal documents associated with investments, including investment contracts, investee company's articles of associations, acting in concert agreement and other relevant legal documents, to assess the key terms, with a particular focus on governance structure, rights of the investors, decision making mechanism, profit-sharing arrangements, exit and termination, etc.;

(2) seek for confirmation in written or via phone calls from the Company's cooperating parties to confirm key terms, including governance structure, rights of the investors, decision making mechanism, profit-sharing arrangements, exit and termination, etc.;

(3) consider the Company's accounting treatment, presentation and disclosures.

Based on the procedures performed, the conversion of Qingdao Zhuoyue with 49.51% equity interests and Yiwu Wuyue with 50.50% equity interests from joint ventures to subsidiaries upon entering into acting in concert agreement and converted Xuchang Yuheng with 32.38% equity interests from a joint venture to a subsidiary upon acquisition of 1% equity interest of Xuchang Yuheng and entering into acting in concert agreement are supported by the available evidence.

3. The annual report shows that several joint ventures (associates) in which the Company has more than 50% equity interests are not included in the consolidated financial statements. Please supplement the disclosure with the following: (1) present the assets, liabilities and profits of the joint ventures (associates) in which the Company has more than 50% equity interests; (2) explain the bases on a case-by-case basis on which the joint ventures (associates) in which the Company has more than 50% equity interests are not included in the consolidated financial statements; (3) whether there are considerations for the adjustment of profits in the above treatment.

Reply from the Company:

(1) Assets, liabilities and profits of the joint ventures (associates) in which the Company has more than 50% equity interests

The assets and liabilities as of 31 December 2018 and the profits for 2018 of the joint ventures (associates) in which the Company has more than 50% equity interests are as follows:

Unit: RMB10 thousand

Company name	Total assets	Total liabilities	Asset-to-liability ratio	Net profits or losses
Shanghai Jiapeng Real Estate Development Co., Ltd.	613,581.42	353,624.76	57.63%	-418.66
Shanghai Jiayu Real Estate Co., Ltd.	444,974.43	396,040.26	89.00%	-758.78
Foshan Dingyu Real Estate Co., Ltd.	816,249.14	773,026.44	94.70%	-4,869.88
Tangshan Juncheng Real Estate Development Co., Ltd.	223,791.56	225,398.68	100.72%	-1,607.05
Tianjin Junan Real Estate Development Co., Ltd.	168,434.48	163,312.53	96.96%	-535.90
Tianjin Dianxing Real Estate Development Co., Ltd.	408,020.63	370,278.62	90.75%	-2,245.53
Changzhou Future Land Chuangheng Real Estate Development Co., Ltd.	606,906.94	535,018.26	88.15%	-1,170.38
Changzhou Future Land Hongye Real Estate Development Co., Ltd.	372,421.71	342,614.41	92.00%	-43.45
Changzhou Future Land Zidong Real Estate Development Co., Ltd.	587,712.76	543,056.27	92.40%	226.89
Changshu Zhongzhi Real Estate Development Co., Ltd.	118,237.62	31,992.59	27.06%	23,377.10
Chengdu Xingqing Real Estate Development Co., Ltd.	175,668.38	174,924.23	99.58%	-922.52
Rizhao Yichang Real Estate Development Co., Ltd.	61,383.46	9,929.56	16.18%	-546.10
Kunming Future Land Yisong Real Estate Development Co., Ltd.	74,392.83	69,423.51	93.32%	-28.69
Yongqing County Future Land Real Estate Development Co., Ltd.	6.51	26.01	399.54%	-0.12
Yongqing Yintai Future Land Construction and Development Co., Ltd.	24,880.04	14,910.96	59.93%	-1.86

Suzhou Shengtian Real Estate Consulting Co., Ltd.	165,618.49	145,451.32	87.82%	-4,832.83
Suzhou Yusheng Real Estate Development Co., Ltd.	1,614,023.37	1,567,204.85	97.10%	-5,380.78
Ju County Yujuan Real Estate Co., Ltd.	46,705.71	11,820.96	25.31%	-115.25
Chongqing Kejue Enterprise Management Co., Ltd.	88,633.86	48,639.68	54.88%	-5.81
Jiangsu Huantaihu Wehua Yishucheng Real Estate Investment Co., Ltd.	269,852.11	264,997.71	98.20%	-29.57
Shaoxing Future Land Yijia Real Estate Development Co., Ltd.	156,771.55	142,587.40	90.95%	-101.56
Nanjing Future Land Wanbo Real Estate Development Co., Ltd.	395,108.70	362,304.09	91.70%	-548.81
Tianjin Jinnan District Future Land Wuyue Real Estate Development Co., Ltd.	436,836.03	389,888.85	89.25%	-4,207.96
Taiyuan Future Land Kaituo Real Estate Development Co., Ltd.	482,762.45	436,250.07	90.37%	-3,487.62
Total	**8,352,974.18**	**7,372,722.02**	**88.26%**	**-8,255.12**

(2) Bases for exclusion of the joint ventures (associates) in which the Company has more than 50% equity interests from the consolidated financial statements

As mentioned in this Reply 2, the cooperative development projects are one of the property development models of the Company. Although the equity interests of other shareholders of some of the cooperation projects are less than 50%, some joint venture partners or the original shareholders of the projects also want to jointly participate in the decision-making of operation and management of the cooperation projects given the large amount of property investments in . In the circumstances that the joint venture partners or the original shareholders of the projects are confident towards the profitability of the project companies in the future and have experience and capabilities in property development, in order to acquire land resources or reach a cooperative intention, the Company and the joint venture partners jointly participate in the decision-making of relevant activities in operation and management, and therefore, the Company cannot consolidate such real estate project companies. The basis for exclusion of the joint ventures and associates in which the Company has more than 50% equity interests from the consolidated financial statements are mainly as follows:

Company name	Basis for exclusion from the consolidated financial statements of the Company
Shanghai Jiapeng Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Shanghai Jiayu Real Estate Co., Ltd.	As the articles of association provide that major resolutions (including distribution of profits, etc.) proposed by shareholders of general meeting, the governing body, must be unanimously approved by the shareholders representing two-thirds of the voting rights, it was not consolidated.
Foshan Dingyu Real Estate Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Tangshan Juncheng Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Tianjin Junan Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Tianjin Dianxing Real Estate Development Co., Ltd.	As the articles of association provide that major resolutions (including distribution of profits, etc.) proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Changzhou Future Land Chuangheng Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Changzhou Future Land Hongye Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Changzhou Future Land Zidong Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by directors of board meeting, the governing body, must be unanimously approved by all directors, and our directors account for two-thirds, it was not consolidated.
Changshu Zhongzhi Real Estate Development Co., Ltd.	As the articles of association provide that major resolutions (including distribution of profits, etc.) proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.

Chengdu Xingqing Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Rizhao Yichang Real Estate Development Co., Ltd.	As there is no provision in the articles of association for the approval by shareholders of general meeting, the governing body, and there is an agreement in the cooperation agreement that all the resolutions proposed by shareholders of general meeting must be unanimously approved by all shareholders, it was not consolidated.
Kunming Future Land Yisong Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Yongqing County Future Land Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Yongqing Yintai Future Land Construction and Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Suzhou Shengtian Real Estate Consulting Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Suzhou Yusheng Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Ju County Yujuan Real Estate Co., Ltd.	As there is no provision in the articles of association for the approval by shareholders of general meeting, the governing body, and there is an agreement in the cooperation agreement that all the resolutions proposed by shareholders of general meeting, must be unanimously approved by all shareholders, it was not consolidated.
Chongqing Kejue Enterprise Management Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Jiangsu Huantaihu Wehua Yishucheng Real Estate Investment Co., Ltd.	As it is agreed in the cooperation agreement that the Company is only entitled to the income from some of the land parcels developed by this project company, it was not consolidated.

Shaoxing Future Land Yijia Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by more than two-thirds of shareholders, it was not consolidated.
Nanjing Future Land Wanbo Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Tianjin Jinnan District Future Land Wuyue Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.
Taiyuan Future Land Kaituo Real Estate Development Co., Ltd.	As the articles of association provide that all the resolutions proposed by shareholders of general meeting, the governing body, must be unanimously approved by all shareholders, it was not consolidated.

(3) Impact of measurement of the long-term equity investment of the Company in joint ventures and associates using equity method

According to the requirements of Article 9 in Chapter III of the Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment and the articles of association or agreements of or between the Company and other shareholders, the Company accounts for the long-term equity investments in the above joint ventures and associates using equity method, under which, the Company’s share of profit or loss is recognized as investment income in the Company’s consolidated financial statements. Compared with the accounting of consolidating the entities, it would have impact on certain financial ratios of the Company.

Risk warning: The Company accounts for the joint ventures and associates using equity method. Although such companies are not consolidated into the consolidated financial statements of the Company, the treatment that the Company recognized losses according to the equity interests or relevant agreements and included them in the investment income if such companies suffered losses will still have certain impact on the operation and financial ratios of the Company.

Comments from the Company's auditor:

During the course of the audit on the Company’s financial statements for the year ended 31 December 2018, the auditor noticed that the Company did not consolidate some entities in which the Company has more than 50% equity interests.

Regarding this matter, the auditor performed, including but not limited to, the following procedures:

(1) examine the legal documents associated with investments, including investment contracts, investee company’s articles of associations and other relevant legal documents, to assess the key terms, with a particular focus on governance structure, rights of the investors, decision making mechanism, profit-sharing arrangements, exit and termination, etc.;

(2) in case where there have been subsequent changes to the legal documents or governance structures, critically assessed whether these change the initial analysis;

(3) seek for confirmation in written or via phone calls from the Company’s co-operating parties to confirm key terms, including governance structure, rights of the investors, decision making mechanism, profit-sharing arrangements, exit and termination, etc.;

(4) consider the Company’s presentation and disclosures.

Based on the procedures performed, excluding the above entities in which the Company has more than 50% equity interests from consolidation is supported by the available evidence.

4. Higher proportion of the capitalized interest expenses of the Company. The annual report shows that the capitalized interest expenses of the Company for 2018 were RMB8,850 million, representing an increase of 428.99%; the amount of the capitalized interest expenses accounted for 94.58% and 84.36% of the total interest expenses and the net profit attributable to the equity holders of the Company, respectively, representing a significant growth from 77.45% and 27.75% in 2017. Please supplement the disclosure with the following: (1) the basis for the accounting treatment of the capitalized interest expenses; (2) whether there are material changes in the relevant accounting treatment from that in the previous years (if any) and explain the specific reasons.

<u>Reply from the Company:</u>

(1) Basis for the accounting treatment of the capitalized interest expenses

The financing borrowings of the Company are classified into special borrowings and general borrowings. According to the requirements of the Accounting Standards for Business Enterprises No. 17 – Borrowing Costs in relation to the accounting policy for the capitalized interests, for the special borrowings designated to be used in the construction of the property development projects, the Company capitalized all the financing interest expenses on special borrowings after deduction of unused interest income; for the general borrowings, the Company calculated the capitalized amount based on the accumulated actual expenses incurred for the investment properties and other properties for that year after deduction of the amount of the special borrowings and then multiplied by the weighted average effective interest rate of the general borrowings.

In 2018, the interest on the financing borrowings and bonds of the Company were RMB3,996 million, and the interests on proceeds from pre-sale to customers (significant financing component) were RMB5,360 million. The interests on proceeds from pre-sale to customers were determined according to the Accounting Standards for Business Enterprises No. 14 – Revenue (the "New Revenue Standards"), the business background, the basis of accounting treatment and the impact on the 2018 financial statements of the Company are as follows:

The New Revenue Standards provides that when there is a difference between the time when the control of goods was transferred by a company to a client and the time when the payment was actually made, if the parties have provided the client or the company with material financing component in respect of the transaction of transferring the goods at such time of payment explicitly (or otherwise implicitly) agreed in the contract, the contract contains the significant financing component.

For the pre-sale projects, the Company calculated the significant financing component during the period from the actual payment by clients from pre-sale to the transfer of the control of properties by the Company to clients. This type of interest for 2018 was RMB5,360 million and was capitalized in accordance with the requirements of the Accounting Standards for Business Enterprises No. 17 –Borrowing costs.

The interests on the significant financing component increased the amount of inventories and contract liabilities through capitalization. This type of capitalized interests was not generated from borrowings and therefore there is no cash outflows. As this type of interests was capitalized, it would have no material impact on the net profit attributable to the equity holders of the Company for 2018.

Risk warning: If the amount of borrowings of the Company increases significantly in the future, there will be risks that the financial expenses will increase and the net profit of the Company attributable to the equity holders of the Company will decrease as the asset expenditures that are qualified for capitalization will decrease and the interest expenses that cannot be capitalized will increase in the year given the fact that the development and construction scale of the Company did not grow correspondingly in the year.

(2) There are some changes in the relevant accounting treatment compared with that in the previous years

As stated above, as the Company applied the New Revenue Standards starting 1 January 2018, there are some changes in the relevant accounting treatment compared with that in the previous years: the above interests on the significant financing component in the contract liabilities of RMB5,360 million were capitalized according to the relevant requirements and resulted in a significant growth of the capitalized interest expenses of the Company in 2018.

Comments from the Company's auditor:

During the course of the audit on the Company's financial statements for the year ended 31 December 2018, the auditor paid sufficient attention to interest capitalization.

Regarding interest capitalization, the auditor performed relevant procedures during the audit. Based on the procedures performed, there is no discrepancy, in all material respects, between the Company's above reply regarding the accounting treatment on interest capitalization and the information the auditor obtained during its audit.

Compared with the accounting treatment on interest capitalization of the previous years, the adoption of the new Revenue Standard increased the Company's interest on proceeds from pre-sale to customers.

5. The annual report shows that the Company had several other receivables in a total amount of RMB44,868 million, among which amounts due from Suzhou Yusheng Real Estate Development Co., Ltd. and other debtors has an aging longer than one year. The provision made for bad debts was 0.1% and 1%, respectively, which was significantly lower. Please supplement the disclosure with the following: (1) the basis for determination of provision for relevant bad debts**;** (2) explain whether the provision for bad debts is sufficient or not according to the conditions of other comparable companies and the actual conditions of the Company.

Reply from the Company:

(1) Basis for determination of impairment provision for other receivables

The bad debt provision policy implemented by the Company in 2017: the impairment test shall be made separately for single receivables exceeding RMB3,000,000. The bad debt provision shall be made when there is objective evidence that the Company cannot collect the amounts according to the original terms of receivables; for single receivables with insignificant amount, the bad debt provision shall be made based on the actual loss ratio of receivables with similar risk characteristics in the previous years by reference to the present conditions.

The Company has adopted the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (the "New Financial Instrument Standard") published by the Ministry of Finance in 2017 from 1 January 2018. From 1 January 2018, the accounting policy of the Company for provision of bad debts has been changed to the following: the Company calculates the expected credit loss according to the exposure at default and the expected credit loss rate, and determines the expected credit loss rate based on the possibility of default and the loss at default.

The Company classifies other receivables into Stage I, Stage II and Stage III by analyzing the expected credit loss of other receivables as of 31 December 2018 and determines the provision of bad debts respectively. After the investigation, save for the other receivables of RMB17 million due from a thermal insulation and energy saving company that have been made bad debt provision on 100% basis due to the credit impairment loss incurred, the credit risk of the remaining other receivables did not increase significantly, the main results of which are as follows:

Unit: RMB100 million

	Analysis of bad debt provision for other receivables			**Basis recognized by the Company**
	Counterparty	**Carrying amount**	**Expected credit loss rate in the next 12 months**	
Stage I	Due from government related bodies	50.09	0.1%	The credit risks did not increase significantly. For example, the amounts were not past due or other credit risks did not increase significantly
	Due from related parties	242.45	1%	
	Due from non-controlling shareholders and property joint venture partners	156.14	1%	
Stage II	Nil	Nil	-	The credit risks increased significantly. For example, the amounts were partially past due or other credit risks increased significantly
Stage III	Due from a thermal insulation and energy saving company	0.17	100%	The credit loss had occurred. For example, the debtors had defaulted

Given that the Company has little or even no history of actual bad debts in respect of other receivables in the recent three years, after due and careful consideration of the current conditions and the forward-looking information, the Company determined the above expected credit loss rates based on the external data available to it, such as the historical default frequency of debentures issued by governmental financing vehicles and the historical default rate of real estate enterprises issued by the rating agencies.

Compared with the original bad debt provision policy implemented in 2017, due to the implementation of the above New Financial Instrument Standard, the Company's bad debt provision for other receivables as at 1 January 2018 increased by RMB258 million, the Company's impairment loss for 2018 increased by RMB154 million, and the Company's balance of the bad debt provision for other receivables as at 31 December 2018 increased by RMB412 million as at 31 December 2018.

(2) Whether the impairment provision for other receivables is sufficient

As of 31 December 2018, the ratio of overall provision for bad debt to other receivables of the comparable company[2] ranges from 0.43% to 4.98%, and the provision for bad debt of the Company is 0.94%, which falls within the above range.

Other receivables from joint ventures, associates and property partners of the Company are all related to property development projects and are usually recovered when the sales proceeds of those projects are received. The Company calculates the aging on the basis of the date on which other receivables are incurred. Despite of more than one year of age of such certain receivables as receivables from Suzhou Yusheng Real Estate Development Co., Ltd., the main reason is that the corresponding property project has been developed for more than one year and it is not the time for receiving the project proceeds. Therefore, although the aging of the above-mentioned other receivables exceeds one year, the Company believes that they should still be classified as stage I. Meanwhile, as of 31 December 2018, these property projects are operating well. The Company does not expect any serious bad debts.

In addition to the above-mentioned other receivables, the remaining other receivables are mainly the initial holding deposit and security deposit for reconstruction of villages in the city.

Except for a receivable of RMB17 million that cannot be recovered due to credit losses, the Company has not written off or incurred actual losses of other receivables in the past three fiscal years. To sum up, as of 31 December 2018, the Company's bad debt provisions are sufficient.

Risk Warning: As the Company expands, the amount of other receivables increases and the number of counterparties increases, the risk of bad debt losses will increase in the future. If the Company suffers from significant bad debt losses, the net profit attributable to the equity holders of the Company for the current year would be decreased.

[2] Comparable company refers to A-share listed real estate enterprises which are included on the list of top 30 real estates in terms of annual sales disclosed by CRIC and have disclosed their 2018 annual reports as of 13 April 2019.sic passim.

Comments from the Company's auditor:

During the course of the audit on the Company's financial statements for the year ended 31 December 2018, the auditor paid sufficient attention to impairment provision of other receivables.

Regarding impairment provision of other receivables, the auditor performed relevant procedures during the audit. Based on the procedures performed, there is no discrepancy, in all material respects, between the Company's above reply regarding accounting treatment on impairment provision of other receivables and the information the auditor obtained during its audit.

6. The new accounting standards have a great impact on the relevant entries in the annual report and financial statements for 2018 of the Company, and the affected operating revenue and net profit attributable to the equity holders of the Company are RMB3,420 million and RMB662 million respectively. Please explain in detail how the revenue recognition policy, recognition time and recognition basis are adjusted in comparison with previous years under the new accounting standards, and quantify and analyze the relevant impacts.

Reply from the Company:

(1) Reasons for the company adopting the new accounting standards

According to the provisions of the new accounting standards, enterprises listed both at home and abroad and enterprises listed abroad and preparing financial reports under international financial reporting standards or enterprise accounting standards shall implement the New Revenue Standards and the new Financial Instrument Standards from 1 January 2018; and other domestic listed enterprises shall implement the new financial instrument standards from 1 January 2019 and the New Revenue Standards from 1 January 2020, while enterprises are allowed and encouraged to early adopt these new standards.

Future Land Development Holdings Limited (HK.1030) ("Future Land Development"), the indirect majority holder of the Company, is a company listed on Stock Exchange of Hong Kong. According to Hong Kong financial reporting standards, Future Land Development shall implement HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contract with Customers” from 1 January 2018. Based on the regulations on the implementation period under the new accounting standards, with the approval in the second meeting of the Company’s second Board of Directors, the Company shall adopt the new accounting standards from 1 January 2018.

(2) Current accounting policy of the Company with respect to revenue recognition

According to the New Revenue Standards, the accounting policy of the Company with respect to recognition of the property sales revenue is as follows: for property sales that meet the conditions for obligations performance within a certain period of time according to the terms of the sales contract, and local laws and regulatory requirements, the Company recognizes revenue on the basis of the performance progress during such period of time; and for other property sales, realization of revenues from such sales shall be recognized when the property is completed and accepted, and complies with the delivery conditions stipulated in the sales contract, and when the customer obtains control over the relevant properties.

In 2018, all property sales revenues of the Company were recognized when the properties were completed and accepted, and complied with the delivery conditions stipulated in the sales contract, and when the customer obtained control over the relevant properties. There was no revenue recognized over period of time. There was no significant adjustment in the time and basis for recognition of property sales revenue compared with previous years.

(3) Impact of the implementation of the new accounting standards on the net profit of the equity holders of the Company

The Company increased net profit attributable to the equity holders of the Company by RMB662 million due to the adoption of the New Revenue Standards. Due to the implementation of the new financial instrument standards, the Company recorded RMB155 million more of impairment loss of receivables in 2018, which was included in the “credit impairment loss” item in Consolidated Statement of Income.

(4) Impact of the implementation of the New Revenue Standards on the Company

① Impact of contract cost

According to Article 28 of the New Revenue Standards:

"If an enterprise expects to recover the incremental costs incurred in obtaining the contract, it shall be recognized as an asset as the contract cost"; "Incremental cost refers to the cost (such as sales commission, etc.) that would not occur if the enterprise did not obtain the contract."

According to the above standard, the Company capitalizes incremental costs such as commissions and stamp duties incurred in the pre-sale of commercial housing for the signing of pre-sale contracts as contract costs, which are included in other current assets. When the sales revenue of the relevant commercial property is recognized, it will be charged to the Company's statement of income. The Company adopts the same accounting policy for joint ventures and associates, and the amount of its impact is included in long-term equity investment and investment income. The movement of contract cost in year 2018 can be illustrated below:

Unit: RMB100 million

	Contract cost balance
1 January 2018	4.88
Increase in current year	13.23
Carry-over from current year	-5.82
31 December 2018	12.29
Net increase this year	7.41

As shown in the above table, the net increase in contract cost in 2018 consolidated statement of income is RMB741 million. After deducting deferred income tax and the effect of non-controlling interest portion, the impact on the 2018 net profit attributable to the equity holders of the Company is RMB490 million. In addition, the capitalization of incremental costs of joint venture increased RMB172 million in net profit attributable to the equity holders of the Company in 2018. The above two items increased net profit attributable to the equity holders of the Company in 2018 by RMB662 million.

To sum up, the adjustment related to the contract cost under the New Revenue Standards will not affect the revenue of the company for the year ended 31 December 2018, but increase the net profit attributable to the equity holders of the Company by RMB 662 million.

② Impact of significant financing component

As mentioned in this Reply 4, the Company took into account the significant financing component in the contract when determining the transaction price. Under the New Revenue Standards, the Company recognized RMB1,245 million of the balance of contract liabilities at the beginning of 2018 and RMB5,360 million for 2018. As the sales revenue is recognized, the corresponding RMB3,420 million of contract liabilities was recognized as revenue from principal businesses. As of 31 December 2018, the balance of significant financing component in contract liabilities was RMB3,185 million. The significant financing component was RMB5,360 million for 2018, which was capitalized and included in the inventory amount pursuant to the rule of interest capitalization. Relevant inventory was debited to the cost of principal business as sales revenue was recognized.

Unit: RMB100 million

Significant financing component of contract liabilities	**Amount**
1 January 2018	12.45
Additional significant financing component recognized	53.60
Recognized as revenue from principal business	-34.20
31 December 2018	31.85

To sum up, under the New Revenue Standards, the adjustment of significant financing component led to an increase of revenue of 2018 of the Company by RMB3,420 million, but no significant impact on the net profit attributable to the equity holders of the Company in 2018.

<u>Comments from the Company's auditor:</u>

During the course of the audit on the Company's financial statements for the year ended 31 December 2018, the auditor paid sufficient attention to the Company's adoption of the new Revenue Standard.

Regarding the Company's adoption of the new Revenue Standard, the auditor performed relevant procedures during the audit. Based on the procedures performed, there is no significant inconsistency between the Company's above reply regarding the impact caused by the adoption of the new Revenue Standard to the Company's consolidated financial statements and the auditor's understanding of the new Revenue Standard.

Except for the impact of contract cost and significant financing component mentioned in the above reply, the adoption of the new Revenue Standard does not have significant impact on the Company's consolidated financial statements for the year ended 31 December 2018.

II. ON FUND TRANSACTIONS WITH RELATED PARTIES AND PARTNERS

During the reporting period, the receivables and payables between the Company and its related parties and partners increased dramatically and rapidly. The Company should make the following disclosures in respects of higher borrowing rate, necessity of transaction, risk of fund recovery and connection relationship with the transaction counterparty.

7. By the end of 2018, the interest-bearing amount the Company shall pay to Future Land Development Holdings Limited, indirect majority shareholder of the Company, and its subsidiaries amounted to RMB2,222 million, with an interest rate of 8%, which was higher than the benchmark loan interest rate and 6.47% higher than the average financing cost of the Company in 2018. The Company should further disclose: (1) the decision-making procedures and relevant information disclosure obligations performed for borrowing from related parties; (2) the reason why the interest rate on borrowings from the related parties is higher than the average financing cost, and whether there is any act infringing on interests of the Company; and (3) the necessity of borrowing from indirect majority shareholder and its subsidiaries while the Company has a book balance of RMB45,409 million.

<u>Reply from the Company:</u>

(1) Decision-making procedures and relevant information disclosure obligations performed for borrowing from related parties

Decision-making procedures and information disclosure obligations performed by the Company to make borrowing from Future Land Development Holdings Limited and its subsidiaries in 2018 are mainly described as follows: on 13 March 2018, the Company convened the 35th meeting of the first Board of Directors, and 5 non-related directors deliberated and approved the “Proposal on Borrowing from Related Parties”, in which the borrowing interest rate was confirmed to be no more than 8%. The 12th meeting of the Audit Committee of the first Board of Directors of the Company also deliberated and approved this proposal and issued written audit opinions. Independent directors of the Company issued prior approval on this proposal.

The Company has disclosed “Related Party Transaction Announcement of Seazen Holdings Co., Ltd. on Borrowing from Related Parties” (2018-019) on 14 March 2018 in China Securities Journal, Shanghai Securities News and the website of Shanghai Stock Exchange. On 4 April 2018, the Company held the annual general meeting of shareholders for 2017, and this related party transaction was approved by more than half of the voting rights held by non-related shareholders present at the meeting.

(2) Reasons why the interest rate on borrowings from the related parties is higher than the average financing cost

In 2018, the interest rate on the Company’s borrowings from non-related parties ranged from 4.50% to 10.54%, and the borrowing rate given to the Company by Future Land Development Holdings Limited and its subsidiaries falls within the above interest rate range. Borrowing from related parties by listed companies has the advantages of no mortgage guarantee, and flexible use of funds, etc. Under the same conditions, interest rate on the borrowings from related parties is equivalent to the external borrowing rate, and there is no act that infringes the interests of the listed company.

Since the Company is still expanding, it needs to reserve sufficient funds to ensure long-term operation and the realization of strategic objectives. This related party transaction meets the actual business development needs of the Company and also reflects the support of the majority shareholder for the listed company.

(3)Necessity of borrowing from indirect majority shareholder and its subsidiaries

As of 31 December 2018, RMB45,409 million of cash and cash equivalents retained in the Company was mainly for paying land transfer price and daily operating and development expenses. The property development industry in which the Company is engaged is capital intensive. In 2018, total borrowings of the Company increased by RMB30,041 million.

As mentioned in this question (2), the underway expansion of the Company calls for increasing external financing, therefore, the Company has to enrich its financing channels so as to reserve sufficient funds to provide assurance for its long-term operation and the realization of strategic objectives. Financing through the borrowing from the majority shareholder is also one of the financing channels of the Company. Compared with other financing channels, financing through the borrowing from the majority shareholder does not require credit enhancement measures such as mortgage guarantee, and is flexible in the use of funds, which facilitates the stability of cash flow of the Company.

As of 31 December 2018, the balance of borrowings of the Company was RMB72,705 million, and the borrowings from Future Land Development Holdings Limited and its subsidiaries accounted for 3.1% of such balance. Financing through borrowing from majority shareholder is a supplement to meet the Company's daily operating and development expenses.

8. Amount of other payables of the Company was large and increased rapidly. According to the annual report, the other payables of the Company in 2018 were RMB 47,922 million, representing a year-on-year increase of 33.50%. Amounts payable to related parties and to non-controlling shareholders accounted for a relatively large proportion. Please further explain: (1) the reason why the Company has large amount of other payables and its main business background, and whether there is commercial substance; (2) whether there is a connection between the majority shareholder and non-controlling shareholders of the Company.

<u>**Reply from the Company:**</u>

(1)Reason why the Company has large amount of other payables and main business background of the Company

According to the breakdown of other payables disclosed in the Note IV (25) of Section 11 of the annual report for 2018 of the Company, as of 31 December 2018, the balance of the Company's payables to related parties was RMB33,638 million, accounting for 70.19% of the balance of other payables. See Note VIII (6)(b) of Section 11 of the annual report for 2018 of the Company for details of payables to related parties, and such payables are RMB2,222 million, of which RMB1,314 million is payable to Future Land Development Holdings Limited and RMB908 million is payable to Hong Kong Prosperity Development Limited. These amounts were borrowed from the majority shareholder and its subsidiaries. For details, see this Reply 7. The Company's RMB337,300 payable to Changzhou Future Land Duoqimiao Business Management Consultancy Co., Ltd. and the RMB1,500 payable to Jiangsu Xingyi Cinema Management Co., Ltd. are operating funds, and the remaining payables to related parties are all payables to the joint ventures and associates. As of 31 December 2018, the balance of the Company's payables to non-controlling shareholders was RMB5,811 million, accounting for 12.13% of other payables.

Large amounts of payables to related parties and payables to non-controlling shareholders were incurred when the Company was cooperating with other companies to develop projects. In the early stage of project development cooperation (stage 1), the project company needs to pay operating expenses such as land premium and project operating funds, which are invested by shareholders in the form of capital and prepaid funds, i.e. other receivables of the Company to the joint ventures, and other payables of non-wholly-owned subsidiaries to their non-controlling shareholders.

After the project sale proceeds are obtained, the project company will, based on the fund arrangement and the project progress, reserve the necessary funds for the payment of project funds and other operating expenses, and then pay the temporary funds to the shareholders. The funds paid by the project company to other shareholders beyond the original prepaid funds (stage 2) will form other payables of the Company to the joint venture, as well as other receivables of non-wholly-owned subsidiaries to their non-controlling shareholders which are summarized as follows:

Stage of project **Transaction counterparty**	**Stage 1**	**Stage 2**
Joint venture and associate of the Company	Resulting in "receivables due from related parties"	Resulting in "payables to related parties"

Non-controlling shareholders of the Company	Resulting in "payables due to non-controlling shareholders"	Resulting in "receivables from non-controlling shareholders"

These receivables and payables are all formed due to the characteristics of cash flow of cooperative project development and property development projects. They are related to the property development business of the Company and therefore, there is a commercial substance.

Large amounts of payables other than the above payables to related parties and to non-controlling shareholders are mainly as follows:

Unit: RMB100 million

Nature	Amount	Commercial background
Interest payable	12.09	As of 31 December 2018, the interest expense that has been determined according to the loan agreements before the payment terms
Amounts received for potential investments in property projects	16.79	Funds received by the Company from the potential investors under its agreement with the potential investors when the Company reaches a cooperation agreement with other companies before bidding
Payable for acquisition	12.15	Balance of payable for acquisition that has not been paid after the Company has completed the acquisition
Deposits for construction buildings	11.89	Project construction deposits paid by the suppliers to the Company to ensure they continuously perform the agreement under their contracts with the Company
Accrued expense	11.47	As of 31 December 2018, the Company made provision for expenses that has been incurred by the Company, attributable to 2018 but has not become payable, on an actual business basis

In conclusion, large amounts of other payables are incurred mainly due to the operating cash flow characteristics of cooperative property projects. The above other payables were derived with commercial substance.

(2) Whether there is a connection between the majority shareholder and non-controlling shareholders of the Company involved in the other payables.

The Company verified that, as of 31 December 2018, the non-controlling shareholders involved in other payables were all the relevant partners and they had no connection with the other enterprises controlled by controlling shareholder of the Company.

9. Amount of other payables of the Company was large and increased rapidly. According to the annual report, in 2018, the Company's other receivables amounted to RMB45,326 million, representing an increase of 58.93% over the same period of last year. Amounts due from related parties, non-controlling interest and joint venture partners accounted for a large proportion. Please supplement the disclosure with the following: (1) the reason and time for the formation of the above-mentioned other receivables; (2) when carrying out business cooperation, whether there is any other agreement that caused the Company to bear lending obligations to other shareholders; (3) the connection between the Company and the above-mentioned counterparties; (4) most of the above receivables are unsecured, and interest-free accounts without fixed repayment period. Please explain their aging distribution, and whether there is any risk of recovery, and whether sufficient provision for bad debts has been made; (5) when the Company incurred other receivables from the joint venture and the associate, whether there is any connection with other shareholders of these joint ventures and associates, whether other shareholders jointly provide funding according to the equity interest proportion, and whether there is any possession of funds.

Reply from the Company:

(1)Reason and time for the formation of the other receivables

As mentioned in this Reply 2, cooperative development is one of the mainstream operating modes of real estate enterprises, and in the industry, there are a large number of cases in which two or more parties jointly hold shares and cooperate in development.

As of 31 December 2018, included in the balance of other receivables of the Company is the balance of receivables due from related parties of RMB24,245 million, accounting for 52.99% of total other receivable. As mentioned in this Reply 8, the reasons for formation of other receivables are: when the joint venture and associate of the

Company are in the early stage of investment, the project company needs to pay land transfer price and project operating expenses, which are invested by shareholders in the form of equity and temporary funding, with temporary funding forms other receivables to the Company. These other receivables will be gradually refunded to the Company after the sales proceeds from the cooperative project are obtained.

As of 31 December 2018, included in other receivable is the balance of the Company's receivables from non-controlling interest of RMB9,977 million, accounting for 21.80% of total. As mentioned in this Reply 8, reasons for formation of receivables due from non-controlling shareholders are as follows: the non-wholly-owned subsidiary controlled by the Company will pay the temporary surplus funds to the shareholders according to their equity interest proportion or the agreement entered into by all parties on the basis of the overall capital arrangement and project progress of the cooperative project after the sales proceeds are obtained in the later stage of project development. The amount paid by the project company to other shareholders in excess of the original prepaid funds is counted as the receivables due from non-controlling interest, and such funds shall be recovered from non-controlling interest when these funds are needed subsequently by the project companies.

As of 31 December 2018, included in other receivable is the balance of the Company's receivables due from joint venture partners of RMB5,637 million, accounting for 12.32% of total. The reason for formation of receivables due from joint venture partners is as follows: before the Company increased its investment in the cooperative project, and after the Company signed a cooperation intention agreement with other shareholders, the Company made external payments on behalf of the project for the operating expenses of land and project funds. These funds will be converted into the Company's investment in the project company after the Company becomes a shareholder in the cooperative project.

(2) Whether there is any other agreement that caused the Company to bear lending obligations to other shareholders

Except for the receivables from joint venture partners and non-controlling interest that the Company has recorded as other receivables, the cooperation agreement and the articles of association of the project company signed by the Company and the joint venture partners or non-controlling shareholders did not contain any other agreement that caused the Company to bear lending obligations to other shareholders.

(3) Connection relationship between the Company and each transaction counterparty

In the above transactions, the receivables due from related parties are the receivables of the Company to related joint ventures and associates. These joint ventures and associates are not controlled by the Company's Controlling Shareholder or its controlled entities. For details, please refer to the Note VIII (3) of Section 11 of the annual report for 2018 of the Company. In addition, the transaction counterparties in the receivables due from non-controlling interest and receivables due from property joint venture partners are not related parties of the Company.

(4) Aging distribution of receivables and whether there is risk of recovery

The aging distribution of the above receivables as at the end of 2018 is as follows:

Unit: RMB100 million

	Within 1 year	**1-2 years**	**Total**
Receivables due from related parties	154.85	87.60	242.45
Receivables due from non-controlling interest	73.39	26.38	99.77
Receivables due from property joint venture partners	56.37	-	56.37
Total	**284.61**	**113.98**	**398.59**

The Company believes that the above receivables are all related to property investment projects. As of 31 December 2018, these property projects are in good operation and the Company does not expect any serious bad debts.

In addition, as mentioned in Reply 5, the Company, on the basis of the historical default rate of the Company's receivables and considering the external data such as the above-mentioned expected credit loss rate determined according to the historical default rate of real estate enterprises and issued by rating agencies, made provisions for bad debts at 1% with respect to the above receivables due from related parties, non-controlling interest and property joint venture partners. As of 31 December 2018, the balance of provision for bad debts accrued by the Company for the above receivables was RMB399 million.

In addition, in the past cooperative development operations, the Company did not have any bad debts due to unrecoverable receivables arising from cooperative development. Therefore, the Company believes that the bad debt provision has been sufficiently accrued.

(5) The above-mentioned receivables are mainly land costs, project development costs, and daily operating funds paid by the Company on behalf of the joint ventures and associates. These joint ventures and associates are not enterprises controlled by the Company's Controlling Shareholder or its controlled entities. All shareholders jointly provide funding in accordance with the agreement and equity interest proportion. There is no possession of funds.

Comments from the Company's auditor:

During the course of the audit on the Company's financial statements for the year ended 31 December 2018, the auditor paid sufficient attention to the Company's other receivables.

Regarding impairment provision of other receivables, the auditor performed relevant procedures during the audit. Based on the procedures performed, there is no discrepancy, in all material respects, between the Company's above reply regarding accounting treatment on impairment provision of other receivables and the information the auditor obtained during its audit.

The auditor issued an assurance report on the Company's Statement on Possession of Funds by Controlling Shareholder and Other Related Parties as of and for the year ended 31 December 2018. Based on the procedures performed and evidence obtained, nothing has come to the auditor's attention that causes it to believe that the Company's Statement on Possession of Funds by Controlling Shareholder and Other Related Parties is not consistent, in all material respects, with the accounting records the auditor obtained during its audit or the relevant disclosures in the financial statements.

10. According to the annual report, the Company's prepayments amounted to RMB14,634 million, and the balance of the top five prepayments totaled RMB4,434

million, accounting for 30.30%. Please supplement the disclosure with the following: (1) transaction counterparty and background of transaction involving the top five prepayments; (2) whether there is any connection relationship between the prepayment object and the Company.

Reply from the Company:

(1) As of 31 December 2018, the transaction counterparties and backgrounds of transactions involving the top five prepayments are shown in the following table:

Unit: RMB100 million

Transaction counterparty	Amount	Transaction background
Beihai Real Estate Trading Center	10.99	The land has been acquired through bidding invitation, auction or listing, but the land certificate has not been obtained as at the end of 2018.
Wenzhou Administrative Approval and Public Resource Transaction Service Management Center	9.80	The land has been acquired through bidding invitation, auction or listing, but the land certificate has not been obtained as at the end of 2018.
Dongguan Public Resources Trading Center	9.07	The land has been acquired through bidding invitation, auction or listing, but the land certificate has not been obtained as at the end of 2018.
Cangzhou Public Resources Trading Center	7.90	The land has been acquired through bidding invitation, auction or listing, but the land certificate has not been obtained as at the end of 2018.
Finance Bureau of Baotou	6.58	The land has been acquired through bidding invitation, auction or listing, but the land certificate has not been obtained as at the end of 2018.
Total	**44.34**	

The Company has paid RMB980 million to Wenzhou Administrative Approval and Public Resource Transaction Service Management Center, and will obtain the State-owned Land Use Certificate after payment of the remaining land transfer price at the time specified in the contract. Other than that, the above remaining prepayment has been paid before 31 March 2019, and has been booked to properties under development due to obtaining the State-owned Land Use Certificate.

(2) The above prepayment are all prepayments for leasehold land paid by the Company through bidding, auction or listing, and are not connected with the Company.

III. ON THE CASH FLOW AND CASH AND CASH EQUIVALENTS OF THE COMPANY

During the reporting period, balance of cash and cash equivalents of the Company was relatively high and increased rapidly, but long-term borrowings and short-term borrowings also increased significantly, while cash flow of the Company was relatively tight during the reporting period. The Company should, based on the utilization efficiency and security of capital, supplement the disclosure with the following contents.

11. The essence of the operating and investing activities of the Company is to carry out property development. Considering the sum of net cash flow of the operating activities and the investing activities of the Company, it is found that net cash flow for 2016, 2017 and 2018 are all negative, amounting to RMB-610 million, RMB-10,241 million and RMB-16,196 million respectively. Please supplement the disclosure with the following: (1) cash flow of each property development segment business of the Company; (2) the main reasons for cash flow shortage in operating activities and investing activities; (3) whether production and operation of the Company are affected; (4) countermeasures to be taken by the Company in the future.

Reply from the Company:

(1) Cash flow of each property development segment business of the Company

From year 2016 to 2018, the Company's net outflow of operating activities and investing activities increased year by year, and the cash flow of property development business of the Company was as follows:

Unit: RMB100 million

Year / Segment business	2018	2017	2016
Property Development and sales	-67.56	-60.16	19.13
Construction of investment properties	-101.91	-44.54	-26.59
Rental and management of commercial properties	7.51	2.29	1.36
Total	**-161.96**	**-102.41**	**-6.10**

(2) Main reasons for cash flow shortage in operating activities and investing activities

From year 2016 to 2018, the whole (including 100% projects of subsidiaries, joint ventures and associates, the same below) contracted sales of the Company continued to increase, reaching RMB65,060 million, RMB126,472 million and RMB221,098 million respectively. However, the Company is still in the steady expansion, and more capital expenditures were incurred in operating and investing, resulting in negative cash flow of operating and investing activities in the last three years. From year 2016 to 2018, the whole land bank of the Company was RMB53,581 million, RMB89,355 million and RMB111,217 million respectively. 5, 10 and 18 Wuyue Plazas were newly opened and operating in asset-intensive model respectively, with area of 8.5002 million square meters, 20.6626 million square meters and 49.7534 million square meters respectively. The business scale continued to grow. As of 31 December 2018, the whole land bank of the Company increased by 74.2088 million square meters compared with the end of 2016. The negative cash flow of the Company's operating activities and investing activities is mainly caused by the continuous increasing of the scale.

(3) Impact of tight cash flow of operating and investing activities on production and operation of the Company

The Company is still in the steady expansion and there are plans and arrangements for large-scale capital expenditures. Overall, the Company is sufficient in capital, strong in risk resistance, abundant in financing channels and stable in cash and cash equivalents balance. The Company will continue to take measures to prevent the cash flow of operating activities and investing activities from exerting adverse influence on the production and operation.

Cash outflows from operating and investing activities of the Company are mainly used for development and operating expenses and new land reserves. If existing projects of the Company are affected by macro-economy and the property market situation, and full sales proceeds are not realized, it would affect operating and development expenditures and repayment of loans of the Company, adversely affecting operating activities of the Company.

Risk warning: As the business scale continues to expand, the net cash inflow from financing activities of the Company from year 2016 to 2018 is RMB6,639 million, RMB18,970 million and RMB35,891 million respectively. Net cash outflows from operating activities and investing activities totaled RMB610 million, RMB10,241 million and RMB16,196 million respectively. As of 31 December 2018, asset-liability ratio of the Company was 84.57%. The continuous increase in cash flow from financing activities and the high level of debt ratio will put the Company under certain financial pressure for sustainable development.

(4) Countermeasures to be taken by the Company in the future

The Company will continue to take the following measures to meet the demand for funds arising from scale development:

① Optimize property investment projects. The property regulation policies and macro-situation vary greatly in different cities. It is necessary to conduct research on property investment projects in different regions on a city-by-city and a policy-by-policy basis to avoid adding new investment projects in regions where inventory reduction is difficult. Proper size, good marketability and relative location advantages are taken as the basic conditions for project investment;

② Maintain a reasonable amount of cash and cash equivalents, and ensure that the cash and cash equivalents can meet the short-term operating expenses and short-term debt repayment needs on the premise of carefully considering sales proceeds and new financing;

③ Continuously improve the sales of existing projects and collection of sales proceeds, and continuously improve the ability of the Company to acquire operating cash flow by improving the sales system and optimizing incentives;

④ Determine the expenditures based on revenues. The land transfer price paid for acquiring new lands is the largest cash flow expenditure of the Company in past three years. The Company will continuously enrich the financing channels based on the amount and scale of the subsequent new projects according to the cash inflow. Avoid excessive reliance on a single channel, optimize the debt structure and increase the proportion of long-term borrowings;

⑤ Further improve the internal control of cash flow forecast and management, forecast the short-term and medium and long-term operating expenses, financing repayment demand and sales proceeds of the Company, and plan the fund arrangement in advance to continuously meet the fund payment requirements;

⑥ Constantly enrich financing channels. Avoid excessive reliance on a single channel, optimize the debt structure and increase the proportion of long-term borrowings.

12. According to the annual report, cash and cash equivalents of the Company as at the end of 2018 was RMB45,409 million, up 106.90% year on year, of which bank deposits accounted for 88.10%. Meanwhile, the long-term and short-term borrowings of the Company amounted to RMB25,939 million. Please supplement the disclosure with the following: (1) restrictions on the use of cash and cash equivalents; (2) reason why the interest income of the Company increased from RMB154 million in 2017 to RMB187 million in 2018, an increase of only 21.43%, against the background of a large increase in cash and cash equivalents dominated by bank deposits; (3) in terms of the ending balance of cash and cash equivalents and interest income data estimate, the relevant interest rate level is only 0.47%. explain the rationality of the low interest rate and show the average monthly balance of cash and cash equivalents in 2018; (4) explain the rationality of large interest-bearing borrowings while the balance of cash and cash equivalents is relatively high on the basis of the operating mode of the Company.

Reply from the Company:

(1) Restrictions on the use of cash and cash equivalents

As of 31 December 2018, balance of restricted cash of the Company was RMB5,400 million, which are detailed as follows:

Unit: RMB100 million

	31 December 2018
Deposits for letters of guarantee issued for project construction and deposits as security for property purchasers' mortgage loan	38.86
Margin deposits for notes issued	14.46
Deposits pledged for borrowings	0.68
Total	**54.00**

In addition to the above-mentioned restricted cash, some of the cash and cash equivalents obtained from the Company's sales return shall be preferentially used for payment of construction in accordance with the local measures for supervision of advances from pre-sale of properties, and such advances have not been occupied by the controlling shareholder and its related parties.

(2) Reasons why the interest income of the Company increased by 21.43% against the background of the large increase in bank deposits

① In 2018, the Company continued to grow, and the balance of cash and cash equivalents also continued to increase. The monthly average balance of cash and cash equivalents in 2018 increased by 59.62% compared with 2017, which was lower than the increase calculated by the balance of cash and cash equivalents at the end of the year;

② Funds of the Company are used from time to time to pay land deposit and participate in land bidding, auction or listing, therefore, sufficient liquidity has to be maintained. Deposits of the Company are mainly current deposits and time deposits at call with interest rates of 0.35% and 1.15% respectively. The deposits held in various project companies are mainly applicable to current deposit interest rate of 0.35%. With the expansion of the Company in 2018, the number of subsidiaries of the Company increased from 357 to 576, and the proportion of deposits in the project company increased, resulting in an increase in the proportion of time deposits. And although time deposit interest rate is applied in certain projects, the interest rate is lower than 1.15% due to the first cooperation with local financial institutions.

③ As of 31 December 2018, the balance of deposits for letters of guarantee issued for project construction and deposits as security for property purchasers' mortgage loan was RMB3,886 million, an increase of RMB 2,638 million over the balance as of 31 December 2017. These deposits are mainly demand deposits, which reduced the comprehensive interest rate in 2018 to a certain extent.

To sum up, the balance of monthly average cash and cash equivalents of the Company in 2018 was RMB24,900 million, up 59.62% from 2017.Affected by the decline in the comprehensive interest rate of cash and cash equivalents and the increase in the average monthly balance, the interest income of the Company in 2018 increased by 21.43% compared with 2017.

(3) Rationality of low interest rate

The average monthly balance of cash and cash equivalents of the Company in 2017 and 2018 is shown in the following table:

Unit: RMB100 million

Year / Month	2018	2017
July	133	130
February	129	126
March	168	121
April	190	131
May	210	152
June	248	202
July	200	129
August	211	198
September	324	182
October	363	166
November	360	116

Month \ Year	2018	2017
December	454	219
Average monthly balance of cash and cash equivalents	**249**	**156**
Annual interest income	**1.87**	**1.54**
Comprehensive interest rate	**0.75%**	**0.99%**

Due to the expansion of the Company, the cash and cash equivalents of the Company continued to grow. In 2018, the average monthly balance of cash and cash equivalents was RMB24,900 million, and the comprehensive interest rate calculated according to the average monthly balance of cash and cash equivalents is 0.75%.

Deposit interest income of the Company is mainly derived from current deposit interest and time deposit interest, with interest rates of 0.35% and 1.15% respectively. The comprehensive interest rate calculated according to the average monthly balance of cash and cash equivalents is within a reasonable range.

According to the characteristics of the real estate industry, the Company needs to continue to pay large sums of money as security deposit for land bidding auction or listing, which does not generate interest income and also reduces the overall comprehensive interest rate of cash and cash equivalents to a certain extent.

(4) Rationality of large interest-bearing loans amid high balance of cash and cash equivalents

The property development industry in which the Company is engaged is a capital-intensive industry. In 2018, the total cash outflow from operating activities of the Company was RMB103,260 million, the total cash outflow from investing activities was RMB128,604 million, indicating RMB19,322 million of average monthly cash outflow from operating activities and investing activities, all of which were used for the development and operating expenses of the Company’s existing projects and the acquisition of new projects. In order to ensure the smooth operation of the Company and meet the demand for funds for new projects, the Company should ensure sufficient reserves of cash and cash equivalents while giving careful considerations to the sales proceeds. In addition, according to industry payment practice, a large amount of project funds have to be paid before the Spring Festival each year, resulting in relatively a large balance of the cash and cash equivalents at the end of each year.

IV. PROPERTY DEVELOPMENT BUSINESS OF THE COMPANY

Property development business of the Company grew rapidly in 2018, significantly higher than the industry average, but the gross profit margin of property rental and management service business declined. Please disclose the following additional information on matters related to the property development business.

13. Revenue of the Company in 2018 was RMB54,133 million, up 33.58% year on year. Net profit attributable to the equity holders of the Company was RMB10,491 million, representing an increase of 74.02% year on year. At the same time, inventories of the Company as at the end of 2018 was RMB145,573 million, representing an increase of 90.59% year on year. Please supplement the disclosure with the following: (1) the regional distribution characteristics of the reduction and maintenance of property inventory; (2) on the basis of the situation of comparable companies in the industry and the real estate policy, explain the time of recognition, basis for recognition, reasons for rapid growth and sustainability of property development business income.

Reply from the Company:

(1) Regional distribution characteristics of the reduction and maintenance of property inventory

Property development projects of the Company are available for sales after the Pre-sale Permit for Commercial Housing, resulting in the saleable value (saleable value = saleable area × sales unit price). The full saleable values and the contracted value of the Company by region in 2018 are as follows:

Unit: RMB100 million

2018	Tier-1 city	Tier-2 city	Tier-3 and tier-4 cities		Total
			Yangtze River Delta Region	**Non-Yangtze River Delta Region**	
Total saleable value	**212.49**	**1,407.08**	**1,372.05**	**386.39**	**3,378.00**
Contracted value signed in the first half of the year	48.05	457.68	366.11	81.28	953.11
Contracted value signed in the second half of the year	64.77	519.05	535.26	138.79	1,257.87
Cumulative contracted values	**112.82**	**976.73**	**901.37**	**220.06**	**2,210.98**
Contracted value/total saleable value	**53.09%**	**69.42%**	**65.70%**	**56.95%**	**65.45%**

In the first quarter of 2019, the Company launched 18 new property projects, with an average sell-through rate of 54.45% in the month of opening of the new projects. Considering the unsalable value at the beginning of 2019, the total saleable values of the Company in the first quarter of 2019 are as follows:

Unit: RMB100 million

2019 Q1	Tier-1 city	Tier-2 city	Tier-3 and tier-4 cities		Total
			Yangtze River Delta Region	**Non-Yangtze River Delta Region**	
Total saleable value	131.79	547.09	617.54	222.85	1,519.27
Contracted value signed in the first quarter	30.29	158.84	206.55	71.46	467.14
Contracted value/total saleable value	**22.98%**	**29.03%**	**33.45%**	**32.07%**	**30.75%**

Under the continuous influence of regulation policies, from the second half of 2018 to the first quarter of 2019, sell-through rate of property projects of the Company in the tier-3 and tier-4 cities decreased year on year.

Inventories of the Company mainly consist of leasehold land to be developed, properties under development and properties held for sale. The leasehold land to be developed refers to the purchased leasehold land that has been decided to be developed into properties held for sale; and properties under development refer to properties that have not yet been completed and are for the purpose of sale; and properties held for sale refer to completed properties for sales.

As of 31 December 2018, balance of inventories of the Company was RMB

145,573 million, including RMB4,230 million of completed and unsold properties held for sale, accounting for 2.91% of the inventory balance. The regional distribution characteristics of the inventory are as follows:

Unit: RMB100 million

	Tier-1 city	Tier-2 city	Tier-3 and tier-4 cities		Total
			Yangtze River Delta Region	Non-Yangtze River Delta Region	
Leasehold land to be developed	-	30.72	39.91	41.24	111.87
Properties under development	11.14	492.46	549.67	248.29	1,301.56
Properties held for sale	7.24	19.82	12.92	2.32	42.30
Total	**18.38**	**543.00**	**602.50**	**291.85**	**1,455.73**
Percentage	**1.26%**	**37.30%**	**41.39%**	**20.05%**	**100.00%**

Risk warning: As of 31 December 2018, the percentage of inventory of the Company located in tier-3 and tier-4 cities was 61.44%. In 2018 and the first quarter of 2019, percentage of contracted sales of property of the Company in the tier-3 and tier-4 cities accounted for 50.72% and 59.51% respectively. Under the continuous influence of regulation policies, from the second half of 2018 to the first quarter of 2019, sell-through rate of property projects of the Company in the tier-3 and tier-4 cities decreased year on year. Given the fact that the property development and sales business in tier-3 and tier-4 cities may fluctuate greatly due to factors such as the growth rate of local population, the relatively low overall per capita disposable income, and the adjustment of purchase policies, there are uncertainties for property development and sales business of the Company in tier-3 and tier-4 cities in the future.

(2) Time of recognition, basis for recognition, reasons for rapid growth and sustainability of property business income

① Accounting policy of the Company for revenue recognition from sales of properties

As mentioned in the Reply 6, all revenue from sales of properties of the Company were recognized at point in time when the control of the property is transferred, which is when the properties were completed and accepted or deemed as accept according to the sales contract. There was no revenue recognized overtime for the property sales.

As of 13 April 2019, the revenue recognition policies of other comparable A-share real estate enterprises that have announced the annual reports for 2018 and implemented the New Revenue Standards are as follows:

Other Company A: for property sales that if it meets the control of the sales contract for performance obligations is transferred overtime according to the terms of the sales contract, as well as relevant laws and regulations, the Group recognizes revenue over the period of the contrast; and for other property sales, revenue shall be recognized when the customer obtains control over the relevant goods or services, which is when the property is completed and accepted, and complies with the delivery conditions according to the contract.

Other Company B: for property sales contracts in which control is transferred at point in time, the Group makes judgments for the time when control of the properties is transferred to the purchaser. In most cases, the control is transferred to the purchaser is the accepted or deemed accepted by the purchaser.

② Real estate policy

In 2018, the government work report of the two sessions and the two important meetings of the Political Bureau of the CPC Central Committee set the policy tone for real estate regulation for the year, emphasizing the orientation of “houses are for living, not for speculation”, continuing to implement differentiated regulation and resolutely curbing the rise in house prices. At level of local governments, the regulation style of “implementing targeted policies” in 2016 and 2017 was continued. While deepening regulation on the demand side, more attention was paid to strengthening market supervision, resolutely curbing speculation in real estate and ensuring reasonable housing demand. In this context, cities have successively issued relevant policies on limitations on purchase, loan, sale or price of house. Affected by these regulation policies, sell-through rate of certain property projects in tier-3 and tier-4 cities declined in the second half of 2018.

As of the end of 2018, limitations on purchases, loans, sales or prices in the cities the Company has been present are as follows:

No.	City	Province	House-purchasing limitations for local people	House-purchasing limitations for non-local people	Loan limitation	Sale limitation	Price limitation
Tier-1 city							
1	Beijing	Beijing	√	√	√		√
2	Shanghai	Shanghai	√	√	√		√
Tier-2 city							
3	Kunming	Yunnan		√		√	√
4	Changchun	Jilin				√	√
5	Taiyuan	Shanxi	√	√	√	√	√
6	Shenyang	Liaoning	√	√	√	√	√
7	Zhengzhou	Henan	√	√	√	√	√
8	Ningbo	Zhejiang	√	√	√	√	√
9	Jinan	Shandong	√	√	√	√	√
10	Chengdu	Sichuan	√	√	√	√	√
11	Tianjin	Tianjin	√	√	√	√	√
12	Hangzhou	Zhejiang	√	√	√	√	
13	Fuzhou	Fujian	√	√	√	√	√
14	Changsha	Hunan	√	√	√	√	√
15	Qingdao	Shandong	√	√	√	√	√
16	Nanjing	Jiangsu	√	√	√	√	√
17	Nanchang	Jiangxi	√	√	√	√	√
18	Xi ' an	Shaanxi	√	√	√	√	√
19	Wuhan	Hubei	√	√	√	√	√
20	Suzhou	Jiangsu	√	√	√		√
21	Hefei	Anhui	√	√	√		
22	Chongqing	Chongqing				√	√
23	Wuxi	Jiangsu	√	√	√	√	√
24	Haikou	Hainan		√	√	√	√
25	Guiyang	Guizhou				√	
26	Nanning	Guangxi			√	√	√
Tier-3 and tier-4 cities							
27	Ezhou	Hubei	√	√	√	√	√
28	Wenzhou	Zhejiang					√
29	Beihai	Guangxi		√		√	
30	Xiaogan	Hubei		√	√		
31	Liaocheng	Shandong				√	√
32	Quanzhou	Fujian		√		√	√
33	Xiangyang	Hubei				√	√
34	Shaoxing	Zhejiang				√	
35	Dezhou	Shandong				√	√
36	Guilin	Guangxi				√	
37	Taizhou	Jiangsu				√	√

38	Xuzhou	Jiangsu				√	√
49	Huaian	Jiangsu	√	√			
40	Zhongshan	Guangdong	√	√	√		√
41	Foshan	Guangdong	√	√	√		√
42	Dongguan	Guangdong	√	√	√	√	√
43	Zibo	Shandong					√
44	Linyi	Shandong					√
45	Zhenjiang	Jiangsu			√		√
46	Huizhou	Guangdong				√	
47	Changzhou	Jiangsu				√	√
48	Yangzhou	Jiangsu	√	√		√	√
49	Jiaxing	Zhejiang		√	√	√	
50	Tangshan	Hebei	√	√	√		√
51	Nantong	Jiangsu					√
52	Cangzhou	Hebei	√	√	√		√
53	Langfang	Hebei	√	√	√		√
54	Chuzhou	Anhui			√		√

Note: This table only contains cities where the Company has been present by the end of 2018 and there are limitations on house purchase, loan, sale or price for natural persons. The data is sourced from the relevant research reports of GF Securities Company Limited.

In 2019, the relevant departments have stated that the government "remains determined to regulate the real estate". It is expected that the stability of real estate market as a whole will be maintained. Land price stability, house price stability and expectation stability are the objectives of regulation, and stable development is the keynote of this year. For some tier-3 and tier-4 cities supported by factors such as industry and population, the initiation of "Demonstration Zone for the Integrated Development of Yangtze River Delta Region", release of the "Key Tasks of New Urbanization Construction in 2019" by the National Development and Reform Commission, and the loosened restrictions of one hundred cities on household registration, which will lead a large number of labor forces to cities to certain extent, will bring new vitality to the rapid development of the cities.

③ From year 2016 to 2018, contracted values of the Company was RMB65,060 million, RMB126,470 million and RMB221,100 million respectively, with growth rate of 94.39% and 74.82% respectively. According to the data disclosed by CRIC, the average growth rate of the contracted values of comparable companies during the same period was 59.14% and 35.19% respectively.

From year 2016 to 2018, revenue of the Company was RMB27,970 million, RMB40,530 million and RMB54,130 million respectively, with growth rate of 44.91% and 33.56% respectively. According to the data disclosed in the annual report, the average growth rate of the contracted values of comparable companies during the same period was 10.68% and 26.88% respectively. The rapid growth of the revenue of the Company in 2018 is mainly due to the increase in the value of sales under contracts signed in the previous year. In the past three years, increase in the sales under contracts of the Company was mainly from the following sources:

i. Saleable value growth. In the past three years, the Company has adopted a strategy of scale expansion. Annual increase in the value of goods exceeds the contract sales amount, which is the basis for the rapid growth of the contract sales amount;

ii. Good real estate market in Yangtze River Delta as a whole. More than 60% of sales value of the Company has been distributed in the Yangtze River Delta region, where the population continues to flow in, the economy is developed, and the real estate market is good, and the Company attained good sales in the Yangtze River Delta region in the past years;

iii. Operating efficiency improvement. The Company has continuously improved the standardization of construction, and has established standardized models for product positioning, house design and construction standards so as to sell the new projects as soon as possible after they are acquired. Operating efficiency of the projects has been significantly improved in the past three years. With the expansion of the Company, and the improvement in brand premium, product quality and sales ability, the Company continued to improve its sales of project;

iv. Thanks to the commercial and residential complexes, the supporting apartments of Wuyue Plaza usually maintained a leading position in terms of sales results in the area where they are located;

v. In the past year, the Company mainly operated its business in the tier-3 and tier-4 cities in economically developed areas, with good sales performance. Despite of the overall low population growth and urban per capita disposable income in the tier-3 and tier-4 cities, these cities have the advantages of relatively low land price and housing price-income ratio and relatively high property-land ratio.

Risk warning: The sales growth factors of the Company will be uncertain in the future, and affected by the real estate policy regulation, the domestic real estate market tends to cool down, which may have an impact on the sales and profit rate of projects of the Company. Subsequent revenue and profit margin levels from the relevant main business are affected by real estate policies, economic environment, market conditions and operation of the Company, and there is uncertainty about the sustainability of the rapid growth of revenue and net profit.

14. The annual report shows that the property rental and management business of the Company closely relies on Wuyue Plaza. In 2017 and 2018, its revenue increased by 131.05% and 117.24% year on year respectively, but its gross profit margin decreased by 10.20% and 1.74% respectively. The Company mainly operates the Wuyue Plaza business in the asset-intensive model, but several Wuyue Plazas are operated in the asset-light model. Please supplement the disclosure with the following: (1) the reasons and considerations for choosing different operation models for commercial properties of the Company; (2) the reason for the decline in gross profit rate of property rental and management business, and whether it is affected by the urban layout characteristics of Wuyue Plaza.

Reply from the Company:

(1) Reasons and considerations for choosing different operation models for commercial properties of the Company

As mentioned in the Reply 1, Wuyue Plaza operates in two models: asset-intensive model and asset-light model. For projects acquired through bidding auction or listing, the Company generally operates these projects in asset-intensive model. For existing projects owned by other third parties in the market, the Company generally operates them in asset-light model. In the asset-intensive model, the Company makes significant investments, but will receive all the future value-added benefits and rental returns of the project. In the asset-light model, the Company makes less investments, but the Company can only receive the operating revenue of commercial property but not its value-added benefit.

(2) Main reasons for the change in gross profit margin of the property rental

and commercial management business of the Company from 2016 to 2018

Income of the Company from property rental and commercial management consists of income from property rental and commercial management of Wuyue Plaza, as well as from office buildings and other properties. From year 2016 to 2018, the rental and commercial management income of office building and other properties of the Company were RMB73 million, RMB88 million and RMB135 million respectively, and the rest were all from Wuyue Plaza.

Main reasons for the change in gross profit margin of the property rental and commercial management business of the Company for 2017 compared with 2016

① Since 2017, the Company has stated the asset-light model to operate Wuyue Plaza. The revenue and cost of asset-light operation model were RMB59 million and RMB57 million respectively. The gross profit margin in the asset-light model is low because the rental cost has to be borne and the project is still in the initial cultivation stage with less revenue. This factor led to a decrease of 4.05 percentage points in gross profit margin in 2017 compared with 2016.

② The gross profit margin of other properties such as office buildings was relatively high due to the less of commercial management supporting services. With the increase in the number of opening of Wuyue Plaza, the proportion of rental and commercial management income from office buildings and other properties in the annual property rental and commercial management income decreased from 17% in 2016 to 9% in 2017. This factor led to a decrease of 1.39 percentage points in gross profit margin in 2017 compared with 2016.

③ Other reasons for the decline in gross profit margin include: more Wuyue Plazas were opened in 2017, while the gross profit margin of new Wuyue Plaza was low as a result of the low rent at the beginning of the opening. In 2017, as the overall scale of Wuyue Plaza business expands, some expenditures will be further divided in cost and expense.

The gross profit margin of the property rental and business management business of the Company in 2018 decreased slightly compared with 2017, which is mainly because the rental income of the Company in the asset-light model increased from RMB59 million to RMB225 million, indicating the proportion increase from 6% to 10%. Due to the low gross profit margin in the asset-light model, the gross profit margin declined in 2018.

V. MISCELLANEOUS

15. The Company's other receivables due from related parties for 2018 which amounted to RMB1,480 million with an age of two years and is due from Huizhou Zhongyi Real Estate Development Co., Ltd., was not included in the other receivables for 2017. Please supplement the disclosure of the causes and backgrounds for the above receivables, and explain the reasons for the inconsistency of the above information.

Reply from the Company:

The Company acquired Huizhou Zhongyi Real Estate Development Co., Ltd. (hereinafter referred to as "Huizhou Zhongyi") in 2017, which holds a parcel of land located in Huizhou City, Guangdong Province, with a total site area of 223,100 square meters. The Company acquired the development rights of this parcel of land by acquiring equity interest in Huizhou Zhongyi and provided funding to the project, which generated the receivable.

Huizhou Zhongyi was a subsidiary of the Company at the end of 2017 and was included in the consolidated financial statements set out in the Company's 2017 annual report. Therefore, the relevant receivables due from Huizhou Zhongyi were not included in the consolidated financial statements for 2017 due to the elimination under consolidations. In 2018, Guangzhou Dinghong Real Estate Co., Ltd. (hereinafter referred to as "Guangzhou Dinghong"), the parent company of Huizhou Zhongyi, had a new investor, and the Company lost its control on Guangzhou Dinghong, which resulted in Guangzhou Dinghong and its subsidiaries, including Huizhou Zhongyi, being excluded from the Company's consolidation at the end of the Reporting Period, and in turn the relevant amount was accounted for as a receivable due from Huizhou Zhongyi. The difference in disclosure is due to changes in the consolidation scopes of the two years.

16. The Annual Report shows that the Company bought a three-year put option with a value of RMB150 million for purchase of equities when it sold the entire equity of

Shanghai Diyu Commercial Management Co., Ltd. in 2016. Please provide additional explanations on: (1) the trading background of the put option and its rationality in pricing; (2) the main considerations for buying the put option, and whether the corresponding decision-making procedures and disclosure obligations were fulfilled; (3) the relevant accounting treatment for the put option and its basis.

Reply from the Company:

（1）Trading background and rationality in pricing

Shanghai Diyu Commercial Management Co., Ltd. holds a Wuyue Plaza in Qingpu, Shanghai. The Company obtained funds from the sale of Qingpu Wuyue Plaza by disposal of the entire equity interests of Shanghai Diyu Commercial Management Co., Ltd. While the Company considered that Qingpu Wuyue Plaza would continue its capital appreciation in the future, it bought an option when it conducted the disposal so as to obtain the right to purchase the project in the future at a determined price. The option is a call option which is disclosed as a put option due to a typo in the preparation of the annual report.

Shanghai Diyu Commercial Management Co., Ltd. is principally engaged in holding and the leasing of Qingpu Wuyue Plaza. In 2016, Shanghai Orient Asset Management Co., Ltd. initiated and set up an asset backed securities (“ABS”) scheme named “Orient Securities Management-Qingpu Wuyue Plaza” with Qingpu Wuyue Plaza as its underling asset, which was issued to domestic qualified investors with a scale of RMB1,050 million including senior tranch A, senior tranch B and junior tranch. In 2016, the Company sold its equity interests and creditor’s rights in Shanghai Diyu Commercial Management Co., Ltd. to the ABS scheme with a total consideration of RMB1,050 million. As mentioned above, in order to retain the right to purchase the Huiyue Plaza in the future, the Company bought a preemptive right at a price of RMB150 million to purchase the equity interest in Shanghai Diyu Commercial Management Co., Ltd. at a price of RMB1,100 million at the third anniversary of the launch of the ABS scheme.

The option price was determined after commercial negotiation between the Company and Shanghai Orient Asset Management Co., Ltd. The pricing was reasonable and mainly based on the analysis report with respect to the fair value of the financial instruments issued by the valuer, Avista Business Consulting (Shanghai) Co., Ltd.

（2）The main considerations for buying the option, and the corresponding decision-making procedures and disclosure obligations

Considering the potential long-term capital appreciation of Qingpu Wuyue Plaza, the Company bought the option so as to retain the right to purchase the project at a fixed price in the future. The Company decided to buy the preemptive right and retain the right to purchase the Qingpu Wuyue Plaza in the future after it obtain approvals at all necessary levels in accordance with the business management system.

The Company disclosed the above transactions on the China Securities Journal, Shanghai Securities News and the website of the Shanghai Stock Exchange on 23 June 2016 after fulfilling the internal decision-making procedures. Please refer to the *Asset Sales Announcement of Seazen Holdings* (2016-059) for details,

（3）The relevant accounting treatment for the option and its basis

The option is a derivative, and is measured at fair value under the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments. The fair value of the option had been evaluated by a professional valuer we engaged and recorded accordingly on each balance sheet date. As of 31 December 2018, the book value of the option was RMB139 million, which was presented as "Derivative" in the consolidated statement of financial position, while the fair value gain or loss of the option for 2018 were included in the "Fair Value Gain or Loss" in the Statement of Income.

<u>Comments from the Company's auditor:</u>

During the course of the audit on the Company's financial statements for the year ended 31 December 2018, the auditor paid sufficient attention to the three-year call option bought by the Company when it disposed its entire equity interests in Shanghai Diyu Commercial Management Co., Ltd. in year 2016.

Regarding the call option, the auditor performed relevant procedures during the audit. Based on the procedures performed, there is no discrepancy, in all material respects, between the Company's above reply regarding the accounting treatment on the call option and the information the auditor obtained during its audit.

Yours faithfully,

the Board of

Seazen Holdings Co., Ltd.

17 April 2019